

Tackling financial exclusion in Europe: The market response

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Introduction

The European financial services industry has been experiencing an intense wave of deregulation, liberalisation and globalisation over the last decades. In addition to technological and financial innovations, the imperative of value creation and the introduction of the Euro, the adoption of most measures under the Financial Services Action Plan (FSAP) since its inception in 1999, the European Commission's extended financial services policy for 2005-2010 towards completing the integration of European financial markets have put further pressure on the financial industry to adapt to the new regulatory framework and to adopt the most economic strategic means to cut costs and enhance revenues.

In this context where the majority of financial institutions are racing to increase capitalisation and profits, financial exclusion⁴ emerges as a critical issue and deserves a careful independent assessment. The apparent dichotomy between "free competition" model and the "public good" aspect of basic financial services is at the heart of the policy debate to tackle financial exclusion. In Europe, there are large variations in terms of levels, reasons and consequences of financial exclusion. The policies and market responses are the results of a defined interaction between governments (as legislators or facilitators) and the financial industry (market structure, individual and/or collective actions).

This paper focuses the central role played by the financial services industry in the policy debate on financial inclusion. Particularly it explores the extent to which the institutional structure of different countries' banking and financial sectors has an important bearing on the nature of financial exclusion and how it is tackled. The remainder of the paper is as follows: a first section examines the relationship between institutional diversity of the European banking sector and financial inclusion, a second section investigates the market response including individual and collective actions to promote financial inclusion, a third section concludes.

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⁴ Financial exclusion refers to the definition agreed in the project.

Diversity and financial exclusion

Financial exclusion appears to be a growing problem in the EU. According to Eurostat (2005), around 16% of the EU population lives on less than 60% of the median national income, the low-income threshold set to measure relative poverty. However, the picture of financial exclusion levels in Europe is rather heterogeneous. The Eurobarometer survey (2004) offers an indication of the extent of the phenomenon, for example: Benelux, Scandinavia, Germany, Austria, Spain⁵, UK⁶ and Ireland display relatively low levels of financial exclusion while in Italy, Portugal and Greece, financial exclusion levels are rather high. Clearly, the Eurobarometer indicators are only a mere indication of the phenomenon⁷ and should be assessed with care since all surveys suffer from sample selection, definitions⁸ and methods of interviews used.

As already mentioned, the dichotomy between “free competition” model and the “public good” aspect of basic financial services is at the heart of the policy debate to tackle financial exclusion. The role of the financial services industry is a key in this respect since it is the provider of these services either voluntarily because of self imposed social responsibility objectives or required by government legislative actions. Financial inclusion is essential in today’s market reality. Indeed, access (to) and use of financial services is increasingly becoming a necessary step towards inclusion into the labour market and social life in general.

The recent regulatory developments in financial services in Europe introduced by the Financial Services Action Plan (FSAP) to foster market integration coupled with actions taken by Directorate General Competition to enforce European competition policy in the financial services sector, intensified competitive forces and put greater emphasis on efficiency, risk management and value creation. Basic and unprofitable financial services which were previously cross-subsidized by other more profitable activities may not longer exist with the rise of highly sophisticated risk management techniques partly fostered by the introduction of the risk-sensitive banking and insurance regulations. The increasing use of technology (particularly in distribution channels) and the subsequent branch closure for cost reduction motives may also be an obstacle to vulnerable consumers to access to basic financial services notably in rural and remote areas.

Within a context of market liberalisation, increased competition and integration and technological development, *“the general economic interest missions” are means by which a balance may be struck between competition and protecting more vulnerable consumers*⁹. In this regards, the financial services industry has an important role to ensure the access and use of basic financial services to every citizen. Obviously, this role depends on the country in question, the interaction between several factors including the market structure, the financial institutions’ business models and the role of the government at national and regional levels. Clearly, there is a need to consider the possible friction between the race for economic efficiency and social cohesion. Indeed, many financial institutions face imperatives of value creation and shareholders’ satisfaction. This pressure not only requires them to opt for programs of cost reductions (including branches closure in remote areas) but also may result in poor incentives to supply unprofitable basic financial services etc...). In Europe, the picture is rather complex since there is no a homogeneous business model for all Member States. Indeed, flexibility attributed to multiple legal and

⁵ According to the Banco de Espana (2005), 97,7% of all households have a current account, and 98,5% holds some type of financial assets. This implies a low exclusion from bank account, related transactions services and savings.

⁶ According to a research commissioned by the FSA (2006), a large number of consumers do not have basic financial services: also according to the Family Resources Survey, a periodic survey undertaken by the Office for National Statistics (ONS), around 1.9 million households in Great Britain (around 8 per cent of the total number of households) were without access to a bank account of any kind in 2002–03. Source: House of Commons Treasury Committee (2006).

⁷ Complementary national surveys report lower levels of financial exclusion as compared to the Eurobarometer.

⁸ Generally the definition of financial exclusion is restricted to not having and not using financial services (for example a current account, a saving product, a credit...). Extending the definition to a broader one for example “not accessing to fair and affordable financial products” would change the picture.

⁹ Carbó et al. (2005).

ownership structures is one of the cornerstones on which the European financial industry is founded and therefore allowing institutional diversity¹⁰ to emerge.

Building on diversity, the intrinsic institutional characteristics of financial players, the degree of competition and level of access within the relevant market may play an important role in analyzing the financial inclusion phenomenon. The argument is that basic market structural aspects are important prerequisites to tackle financial exclusion.

Competition and level of access are closely related to institutional diversity. The diversity of the European financial services sector has created wide and deep markets which in turn are expected to facilitate more competition between financial services providers, foster wider access and thus serve all segments of the population. When analysing the relationship between the competitive structure of the European financial services sector, institutional diversity and financial inclusion, it is important to consider economic efficiency (cost and profit) and social efficiency. Practical experience reveals that economic (and social) efficiency does not necessarily stem from a growth in size, but rather from a reorganised general administration, a refocus of industrial and commercial strategies and an adequate corporate governance system and (if necessary) government intervention.

In Europe, financial institutions can be classified according to their legal statute, ownership structure and business model. Commercial banks operate in almost the majority of Member States (See Table 1). They coexist with co-operative and savings banks in Germany, Austria, Italy¹¹, France, and Spain, with credit unions and building societies¹² in the UK and Ireland and with postal banks in many of these countries although their original role is progressively changing due to liberalisation and increase of competition. These institutions are either profit or non-profit oriented. According to Llewellyn (2006) classification, they can follow a shareholder value (SHV) or a stakeholder value (STV) business model. Institutions operating under STV are generally not subject to capital market pressure as compared to those operating under SHV. In general commercial banks follow the SHV model and the other groups such as savings, cooperatives follow the STV model.

Table 1 Structural analysis of the European financial services sector

Country	Market shares ^{a),c)}				Concentration ratios - CR3 (approximation) ^{b),d),e)}	Inhabitants per ATM ^{a)}	Inhabitants per employee ^{b)}	Inhabitants per branch ^{b)}
	Commercial and foreign owned banks	Cooperative banks	Savings banks	Other financial institutions				
<i>Austria</i>	35%	29.8%	18.6%	8.4% - special purpose credit institutions and 7.8% - mortgage credit institutions	60%	1078	112	1875
<i>Belgium</i>	85.5%	na	na	13% - collective investment	80%	1468	146	2154

¹⁰ This diversity of legal structures is simply a corollary of the right to ownership as provided for in the EU treaties that guarantee respect for the different configurations protecting national rights. Article 295 of the EU Treaty clearly states that it by no means undermines the norms by which ownership is governed in the different Member States.

¹¹ During the last two decades, savings banks (84 institutions holding approximately 25,1% of total assets) and public banks (9 institutions holding 34,7% of total assets) in 1990 disappeared gradually to become SH commercial banks holding 79,% of total assets in 2002. The changes were triggered by “Amato-Carli”(Act No. 218 of 30.7.1990 and Regulation No. 356 of 20.11.1990) and “Ciampi” (Regulation No. 153 of 17.5.1999) legislative reforms since the end of the 1980s. The key feature of the Amato-Carli legislation was that it made it possible for all public banks to convert to stock corporations. It enabled savings banks in particular to do so by converting their banking division into such a stock corporation. This change meant that two units emerged from the savings bank originally run as a public-law corporation: 1) a “foundation”, representing the original legal entity, and 2) the “stock corporation”, entrusted with the task of conducting banking business. The foundation held the stock and was barred from conducting banking business, so that it could pursue aims of public and national interest, mainly in the fields of scientific research, education, art and health. In the same lines, the Ciampi legislation underlined the principle that foundations had to shed their controlling interest in banking institutions, with a few exceptions for foundations with assets not exceeding €200 million and those based in special-status regions.

¹² It is important to mention that the UK banking market does not have the same plurality of financial services provision since most of the major building societies converted to banks. Building societies tend to operate on lower net margins (difference between interest charged on loans and interest paid on deposits) since they are not pressured to pay dividends to shareholders. The majority of savings and loans used to be held by mutual building societies. Now this position is reversed.

				institutions and 1.5% - securities dealers				
<i>France</i>	58%	26%	na	1.3% - specialised financial institutions; 0.1% - municipal credit institutions and 14.5% - finance companies	60%	1460	146	2358
<i>Germany</i>	47%	12%	22%	19% - mortgage credit institutions	20%	1613	114	1813
<i>Italy</i>	79%	14%	na	7% - leasing and factoring companies, consumer credit, securities firms and other financial institutions	40%	1490	173	1882
<i>Netherlands</i>	69%	25%	na	6% - mutual funds	90%	2151	141	4468
<i>Spain</i>	54%	4%	37%	2% - development credit institutions and 3% - specialised credit institutions	40%	785	173	1050
<i>UK</i>	94%	na	na	5% - mortgage credit institutions and 1% - finance companies	50%	1277	117	4287

Source: Own analysis, OECD (2004), ECB (2005) and EC (2006).

Notes:

a) Data for 2003.

b) Data for 2004.

c) Market shares are calculated on the basis of total asset of each group.

d) CR3 concentration ratio is an approximation of retail banking market share of 3 leading banks in a country. This measure of the CR3 uses (intra-sample) shares based on total retail income, which are then extrapolated to market size according to the sample coverage ratio estimated with customer deposit data. For details of the methodology see EC (2006).

e) CR3 average for EU15 (weighted by population) is 47%.

In what follows, the explanation derived from the links between competition and diversity is examined. Institutional diversity is expected to foster competition (low prices and fair services quality) and therefore may serve as a ‘natural’ background to tackle financial exclusion. For banking services (current account and transaction services), the cost issue is very important for all customers not only to open a current account and to use it but also when it is closed. For vulnerable groups, high charges may be a major impediment to open and use an account. Other aspects which could also be considered but not easily monitored are the lack of differentiated products targeting low-income groups (e.g. suitable services associated to the account, lack of appropriate products...).

Clearly, Austria, France, Germany and Spain are characterized by a diverse financial services industry where savings, cooperatives and commercial banks operate in the market (particularly in banking, credit and savings). These countries have a mixed system of SHV- and STV-based banks. Their retail banking business¹³ is moderately concentrated at a national level and the access to financial services is rather high thanks to a wide branch network. As indicated above, these countries display low levels of financial exclusion. However, it should be mentioned that the relationship between diversity and financial inclusion is far from being straight forward. There are other aspects such as government intervention (the existence of ceiling interest rates (which prevents the development of alternative financial providers), taxation incentives, laws to provide basic bank accounts and others such as collective actions that should be examined together with the market structure to allow drawing a more comprehensive picture.

In **Austria**,¹⁴ the emergence of relatively large groups (Erste bank and RZB) in a tiered structure with smaller banks (Raiffeisen, savings banks¹⁵ and Volksbank) has generated several ties. For example, through the solidarity association, individual Raiffeisen banks, Raiffeisen regional banks and RZB provide mutual assistance to protect the interests of creditors and ensure the continued existence of troubled institutions. Other ties relate to the cross-guarantee system between the savings banks.¹⁶ These

¹³ Approximated by retail income extrapolated with deposits.

¹⁴ IMF (2004a).

¹⁵ Savings banks are independent companies and have private legal status (58 entities in 2005). They were founded either by associations of savings banks (in the case of 23 banks) or by the municipalities (in the case of 35 institutions). The First Bank for the Austrian Savings Banks Inc. (Erste Bank der oesterreichischen Sparkassen AG) is the leading bank of the sector (ESBG, 2005 and ERSTE Sparkasse, 2007).

¹⁶ This is a voluntary membership which commits participating savings banks to be jointly liable for all deposits and liabilities of member banks up to a limit established by a formula.

ties may result in anti-competitive behaviors¹⁷ from a competition policy perspective. However, they may be considered differently if these are pursued for social objectives. In terms of costs,¹⁸ where in most European countries, there are no closing charges for current accounts, these charges vary from 1.5 and 15€ in Austria. Moreover, Austria suffers very high cost to income ratio and low profitability as compared to the European average. When looking at these facts, we wonder about the conditions to be met to qualify for a truly diverse and competitive market.

In France,¹⁹ the financial sector is dominated by six vertically integrated universal banks (controlling three quarters of the market) and their nonblank subsidiaries. These banks include four mutual groups: each has a central body that provides overall management and determines the overall commercial strategy; the members are linked through solidarity systems that effectively pool solvency and liquidity within the group;²⁰ and these banks have created or acquired commercial corporate affiliates, some of which are quoted on the stock exchange.²¹ A few government-owned institutions remain including La Poste²² and CDC.^{23,24} La Poste collects about 8% of bank deposits in France through its branch network, while strengthening its lending activities. The CDC, which in 2004 merged its commercial activities with la Caisse d'Épargne, is mainly engaged in managing certain specific funds, including a large part of the savings collected through government regulated savings schemes. It also holds stakes in a number of companies and financially supports government policies. The government continues to influence strongly the mobilization and allocation of savings through differentiated tax provisions, some controls on interest rates and fees and the administration of several savings schemes. These schemes tend to compress the banks' interest margins, while the popularity of PEL (Plan Épargne Logement) has provided banks with abundant resources that they can invest only in specific products such as mortgage loans, mortgage backed securities, and loans for investment in energy savings projects (see box 1). To adapt to this government-directed context, French banks opted for an aggressive pricing²⁵ for current accounts and mortgage loans to attract long term customers, while relying for their profitability on cross-sales of high margin products (such as mortgage insurance and fees and commissions). When examining the case of France, diversity fostered by a number of players and government intervention result in low prices and hence has ensured a competitive financial services supply to all segments of the population including the vulnerable ones. However, the question of fair competition should be addressed in accordance to the European state aid rules, notably, the accepted threshold of social cohesion principles which is not against a fairly competitive market.

Box 1. Taxation and the Allocation of Savings

Because the tax treatment varies significantly across savings instruments, tax minimization is a very important consideration in French savers' portfolio allocations. In general, interest income is subject to a 10 percent social charge, as well as to the regular income tax. However, taxpayers can in most cases opt to pay a 15 percent tax that allows them to keep interest income out of their general taxable income, which in practice caps the maximum taxation of interest income at 25 percent. Dividend income is subject to the social charges and the regular income tax, with a general EUR1,220 exemption and after a correction, which is meant to compensate for the corporate tax paid by the disbursing company. This correction, the "avoir fiscal," which is put at 50 percent of the net dividend, is first added to the net dividend income, and subsequently subtracted from the taxes due. In case the subtraction leads to a negative figure, the taxpayer receives a return. However, because the "avoir fiscal" is a relatively complex system that discriminates against foreign (including non-French) companies, it will be phased out in 2005. Instead, dividends, whether from French or foreign sources, will be taxed at half the regular income tax rate, subject to a EUR1,220 exemption and a EUR75 tax credit. However, there are numerous exemptions and exceptions to these basic tax rules. Among bank products, most of the administered savings schemes benefit from favorable tax treatment. Interest income from livrets A, bleu,¹ and jeune, as well as from the Codevi and LEP (Livret Épargne Populaire), are totally exempt from taxes, while interest on the PEL (Plan Épargne Logement) and CEL (Compte Épargne Logement) are only subject to the 10 percent social charge. The PEL and CEL also benefit

¹⁷ Recent decision of the Austrian Competition Court ruling that certain elements of the cooperation between Austrian savings banks infringed Article 81(1) and did not fulfill the criteria of Article 81(3).

See http://www.bwb.gv.at/BWB/Aktuell/haftungsverb_070706.htm.

¹⁸ EC (2006).

¹⁹ IMF (2005).

²⁰ To avoid moral hazard, the solidarity system relies on the central body's power to regulate and supervise the members of the group.

²¹ This has allowed them to raise funds in capital markets to finance expansion and acquisitions and increase the range of financial services they offer.

²² Which is under the responsibility of the ministry of finance.

²³ Which is under the responsibility of the Parliament.

²⁴ Both are audited by the government audit office but are currently not subject to prudential supervision.

²⁵ According to the European Commission (2006), the costs of annual account management and per payment transaction are the lowest as compared to the European average. Mortgage rates are also consistently below those in the rest of the Euro area. In January 2004, for example, the average mortgage rate in France was 21 basis points lower than the Euro area average.

from interest subsidies. There are also various savings schemes that provide tax breaks for investments in shares, the most important of which is the PEA, which provides favorable tax treatment for up to EUR132,000 invested in shares.

¹ One third of the interest on the livret bleu is taxed, but the tax is paid by Crédit Mutuel.

Source: IMF (2005)

In **Germany**,²⁶ the financial landscape is complex and highly diversified: the banking sector accounts for approximately 78% of the total gross assets and structured around three pillars (commercial banks, public sector savings banks and Landesbanken and cooperative banks). In 2006, 457 savings banks²⁷ were operating with a total balance-sheet of over 1€ billion together with 8 “Landesbanken” with a total balance sheet of €1,809 billion²⁸: a total market share of 35.3% in terms of total balance-sheet. The majority²⁹ (450 savings banks) had a full legal status under public law, owned by municipalities, rural districts and municipal associations with special purpose of running these institutions. Their profits or a part of their profits are allocated to social funds serving the general interest³⁰. The structure of savings banks in Germany is based on the cooperation system and joint liability scheme. This system supports non-profitable savings banks in less developed areas, and consequently, it promotes economic and social cohesion. The cooperation implies a highly concentrated back office. Savings banks also operate under regional principle, which means that every savings bank carries out its activities in the reserved local territory. The special ownership structure and mandates of the public sector and cooperative banks have effectively precluded cross-pillar mergers. This three-pillar structure has allowed a high level of financial services provision mainly due to an extensive network of branches. The extensive branch presence did not prevent a downward trend of the cost to income ratio of savings banks, amounting 62.4%, which is well below large German banks with 85.5% in end 2004. However, in terms of costs related to current accounts management, German banks are well above the European average (accounting for 40€ per year as compared to 16€), while unit costs related to payment transactions are close to zero.³¹ The German case is also a confirmation that diversity does not necessarily mean a competitive supply of services (particularly in terms of costs).

In **Spain**,³² the financial sector is considered to be competitive: high degree of financial intermediation, efficient allocation of savings, wide and competitive access to financial services and low intermediation margins. Generally, efficiency measured by average cost to income ratio³³ is the lowest in Europe (totaling 57% at end 2005 as compared to 60% in the US and 63% for major European countries). In terms of costs of annual account management and per payment transaction, the former (10€) is lower and the latter (0.30€) is higher than EU25 averages (respectively 16€ and 0.12€)³⁴. Along with commercial banks, savings banks have been a major force in extending services and contributing to a highly competitive market. They have ties with communities and support social, cultural and educational projects. In recent years, about 30% of profits have been devoted to social projects. They also have a large network of branches and a strong regional identity and have increased their share of customer deposits from one third in 1980 to more than one half in 2005. Savings’ banks total credit to the private sector has also been increasing and is concentrated in lending to individuals and to small and medium sized enterprises. Commercial banks dominate the investment and pension fund businesses and have a larger portfolio of corporate loans. As a result of a fierce competition in mortgage lending, commercial and savings banks offer terms up to 50 years, while the average duration of outstanding mortgage loans is 25 years. It is however important to notify that access or use difficulties may occur in the future. This is owing to increases in bank charges, interest rates and house prices³⁵. Notwithstanding these concerns, the

²⁶ IMF (2003a).

²⁷ (DSGV, 2007b and 2007c).

²⁸ In practice, the landesbanken are partners of savings banks. They support them in guiding and counselling their SME customers in their foreign activities; they also support them at local level in industrial settlements, infrastructure measures and the promotion of SME and housing construction.

²⁹ Seven savings banks have the so-called “free” status. ‘Free’ savings banks are owned by institutions under private law with a public utility mandate or by entities under public law. They conduct the “free” commercial policy of savings banks, with not-for-profit orientation.

³⁰ In 2004, the Sparkassen-Finanzgruppe committed to an approximate amount of 353 million € for social projects (social care (25%); sport (17%); scientific research (6%); environment (2%); culture (34%) and others.

³¹ European Commission (2006).

³² IMF (2006c).

³³ Measured for commercial banks, savings banks and cooperatives.

³⁴ European Commission (2006).

³⁵ Spain Report (2007).

case of Spain is a confirmation of a positive links between diversity and competition and the positive impact of this relationship on financial inclusion.

Conversely, Belgium and the Netherlands display a homogeneous system where commercial SHV banks largely share the market and where the concentration of retail business is high. In the UK and similarly in Ireland, commercial SHV are the main players operating in a moderately market concentration. In Italy, despite a long-lasting structural change towards a gradual homogenous commercial SHV- banking industry,³⁶ levels of concentration in the retail banking business are yet relatively low. As noted above, financial exclusion is rather low in Belgium, the Netherlands, UK and Ireland and high in Italy.

In **Belgium**,³⁷ following a series of mergers and acquisitions, the financial industry is largely dominated by a few internationally active ‘bancassurance’ conglomerates, which in 2004 accounted for over 80 percent of bank assets and 82,1 percent of total deposits. These are Fortis, Dexia, KBC and ING Belgium, which market shares were amounting 32.3%, 15.6%, 20.6%, 13.6% respectively in 2004. There is a little presence of co-operative (BKCP-Crédit Professionnel - network of 9 regional banks) and savings banks. The Postal Bank (50% state owned and 50% owned by Fortis bank) offers service at rates similar to commercial banks. There are also money transfer organisations like Western Union and small part of payments carried out by cash checking. “Sub-prime” lenders did not develop as a result of the usury ceiling rate. Despite high levels of concentration, low overall net-interest margins suggest potential effective competition in the loan and deposit markets. The number of small and medium sized banks provides a dose of competition in savings deposits and mortgage market. The market for savings products is also exposed to foreign competition. This may be a factor contributing to price competition, which in turn would drive prices down in the medium run. Indeed, current account management and banking transactions fees are among the lowest in Europe.³⁸ This confirms that prices levels do not constitute an impediment to access financial services.

The financial scene in the **Netherlands**³⁹ has changed since 2007 with the acquisition of ABN Amro by a consortium constituted by RBS Santander group and Fortis. The “bancassurance” market will be shared between ING Bank, Fortis Bank, SNS Bank and Rabobank. The concentration level is expected to increase further but with no apparent potential anti-competitive effects.⁴⁰ It remains to be seen however, whether the competitive fees of current accounts and transactions will continue to be below the European average in the next years.

In the **UK**,⁴¹ the financial sector is a large contributor to domestic economic activity and has a major international orientation. The four major UK owned commercial banks (Lloyds/TSB, NatWest, Barclays and HSBC including all subsidiaries) detain more than 24% of the resident banking activities in the UK in 2001. Banking⁴², credit⁴³ and savings⁴⁴ markets are shared with the 65 remaining building societies⁴⁵, 700 credit unions and a postal bank together holding more than 10% of the total assets of UK resident commercial banks.

³⁶ In Italy, in 1990, a new banking act was passed (Law 218 of 30 July 1990). It was called the Amato Law and was aiming at restructuring the banking system in Italy. Before 1990, the old banking act was authorising seven different types of banks to function (national, commercial, savings, public, state-owned etc.). Since 1990 only two types of banks have been authorised by law: co-operatives and banks in the form of joint stock companies.

³⁷ IMF (2006a).

³⁸ European Commission (2006).

³⁹ IMF (2004b).

⁴⁰ The European Commission’s Directorate General Competition required Fortis to divest of ABN Amro’s Dutch factoring subsidiary and part of its commercial banking business in the Netherlands (European Commission, 2007).

⁴¹ IMF (2003b).

⁴² According to Cruickshank Report (2000), the big four banks detained around 68% of current account market and 61% in credit cards market in 1998.

⁴³ According to Cruickshank Report (2000), the big four banks detained 46% of personal loans market; while they only have 17% as compared to 48% detained by the converted building societies of the mortgage market in 1998.

⁴⁴ According to Cruickshank Report (2000), the big four banks detained 19% of the savings accounts market as compared to 42% detained by the converted building societies in 1998.

⁴⁵ According to the Cruickshank report (2000), only 4% of the current account market belongs to this type of banks in 1998.

In terms of effective competition, the Cruickshank Report (2000) showed that competition problems were found in services to personal customers. Problems are acute in the current accounts market where concentration is high and cost is not reflected in the pricing (See Table 2).

Table 2. Competition assessment of services to personal customers

	Concentration (HHI)	Cost reflective pricing?	Extent of shopping around?	Median time product held years	Effective competition?
Current a/c	High	No	Low	11.1	No
Credit cards	Fairly high	Varies	Low but increasing	8.1	Moving in that direction
Personal Loans	Low	Probably no	Low	n/a	Not clear
Mortgages	Fairly high	Probably yes	Low but increasing	7.5	Moving in that direction
Savings	Acceptable	n/a	Low	9.9	Some recent improvement

Source: Cruickshank report (2000)

In 2007, the European Commission retail inquiry showed that banks in the UK report the highest income per customer (137€) on credit cards while prices of managing current accounts and transactions are lower⁴⁶ as compared to European average, although a bit higher than prices in the Benelux⁴⁷. This is an indication that problems still persist particularly in the credit cards market.

In **Italy**,⁴⁸ competition has intensified but not fully reflected in the pricing and the quality of core services. For example, closing charges for current accounts are the highest in Europe falling between 15 and 60 €⁴⁹. The high costs of banking services are also due to the government stamp duties. Ineffective competition and its harmful consequences on access, customer mobility and tying... have been confirmed in the enquiry carried out by the Italian antitrust Authority in 2006.

In sum, allowing for a cross-country structural analysis of the financial services industry to examine the links between diversity and financial exclusion, it clearly appears that this relationship is far from uniform for all countries examined. Other qualitative aspects such as individual/collective actions and government interventions are to be considered and examined to allow a drawing of a more complete picture on the financial exclusion phenomenon.

⁴⁶ It is important to mention cross-selling of other products which are linked to the current accounts but may be priced separately. These products although sometimes unnecessary may increase substantially the cost for the customers.

⁴⁷ These results are confirmed in Oxera (2006).

⁴⁸ IMF (2006b).

⁴⁹ European Commission (2006).

Market response on how to tackle financial exclusion

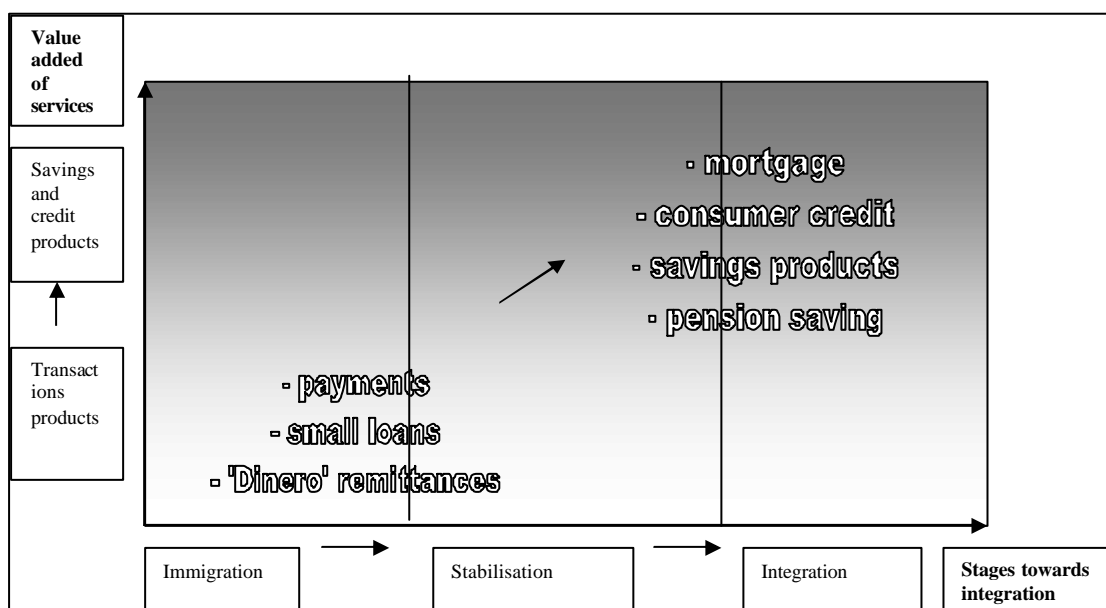
To tackle financial exclusion in Europe, financial players can undertake **individual** and/or **collective actions**. Both types of actions depend on the level of diversity of the market, the involvement of other players and the government.

Individual actions

In Europe, **commercial banks** which follow the SHV model have a significant participation in domestic financial markets. Generally, they operate under the universal banking model offering a variety of financial services. Being private, they are owned by shareholders, who have the right to dividends and, consequently, require banks to yield a maximum of profits. Hence, these institutions may not be inclined to serve non-profitable disadvantaged populations intentionally. However, they develop tailored services or specific strategies and deploy technology (for cost reduction purposes) to meet the needs of (potentially) excluded populations, when driven, for instance, by market competition and social responsibility (case of BBVA, Spain) or a strategic choice to serve the public sector (case of Dexia, Belgium).

In **Spain**,⁵⁰ for example, commercial banks, driven by competition and similar actions of other groups (savings banks), develop long-term strategies to include migrants into the financial system. Initially, they provide basic financial services (e.g. money remittances or basic bank account, microcredit and small loans) and gradually, when these populations become more financially and socially included other financial services such as consumer credit, savings, pension savings or mortgage facilities are provided. For example, Banco Bilbao Viscaya Argentaria (BBVA)⁵¹ offers remittance services for immigrants 'DineroExpress' since 2002. In March 2007, 123 offices of 'Dinero Express' were operating in Spain providing for a geographical coverage of 75% of the immigrants population. In 2006, €6.800m was transferred via 'Dinero Express' service and future growth is expected. BBVA also provides other 'more advanced' products for immigrants: easy credit (up to €18.000 'within a minute', of repayment period up to 60 month and with payroll as the only required document), credit cards (with free of charge revolving credit) and 'easy' universal mortgages (Figure 1).

Figure 1 Financial inclusion and integration of immigrants from a commercial perspective



Source: BBVA, 2007

⁵⁰ Spain Report (2007).

⁵¹ BBVA (2007).

Commercial banks (similarly to other banking groups)⁵² also benefit from modern technology (e.g. electronic transactions), in order to open new distribution channels – such as Internet, ATMs and mobile phones - and to diminish the costs and risks. The technology standardisation and possessing automatisations render financial products more accessible to low-income populations. Money transfers via cell phones are an example of the application of technologies to facilitate access to financial services. For example, as around 90% of immigrants use mobile phones, in 2007, BBVA developed a new channel of distribution of ‘Dinero Express’ remittances via mobile phones, the so called ‘Mobipay’.⁵³

Commercial banks also offer specialised financing services to local authorities and develop products for the public sector. Some of these products can be targeted at unbanked populations. In **Belgium**,⁵⁴ Dexia⁵⁵ launched a ‘social bank account’ in 2000. Other banks were not involved in this initiative. The Dexia’s social account is provided to populations served by the majority of CPAS (Public Centre of Social Action). In 2007 more than 50 000 accounts were active, out of around 80 000 CPAS beneficiaries. The account and related services (management of the account, transactions, card withdrawals and account statements) are free of charge for a beneficiary and are available for the duration of the financial assistance received from the CPAS. Seizures are not possible. The account and services are available even to persons without any identification document or with a ‘negative’ record in a credit register. A CPAS beneficiary pays a fixed amount of €1.86 yearly per account. Next to the ‘social bank account’ Dexia is also involved in “social credit” initiative carried out together, among others, with public authorities and (until recently) with the Postal Bank.

In many countries such as Austria, Germany, Spain and France where the financial services sector is characterised by a high diversity, several actions are undertaken.

Where **savings banks** operate, they have a mission to promote savings among the low income populations. They often have a large network of branches, which can lower geographical exclusion of populations living in low density areas or in disadvantaged urban and rural zones. Savings banks also often provide tailored products for low income and deprived communities, e.g. unemployed.⁵⁶

In **Austria**,⁵⁷ the saving banks and the Raiffeisenbanken (co-operative bank) cover the rural areas.⁵⁸ In 2006, a new Austrian savings bank, named Zweite Sparkasse, was founded by ERSTE Foundation⁵⁹ and supported by Erste Bank AG (within the framework of the corporate social responsibility - CSR), to offer bank accounts for people experiencing financial difficulties who have no other access to banking services. The «Zweite Sparkasse» initially offered a current account limited to three years with a bank customer card without overdraft possibility for people experiencing financial distress and therefore do not dispose of an access to financial services anymore. The purpose of this limitation is that the offer is not supposed to be a permanent solution, but rather to function as a basis for building up normal banking relations in the future. Experience has shown that private customers are usually able to consolidate their financial situation within three years. The current account bears an interest of 0.5 per cent and is free of charge. Every three months a security deposit amounting to 9 Euros has to be paid in order to finance partly the costs for bank statements, transfers, standing orders and bank customer card as well as internet banking. This amount is returned to the customers at no interest. The precondition for opening such an account is an ongoing counselling relationship with and a recommendation from Caritas or the debt advice organisation. The Zweite Sparkasse, in cooperation with these organisations, provides a comprehensive

⁵² For instance, La Caixa (a savings bank) offers remittances via the mobile phone. This service is called ‘CaixaGiros by SMS’. The cost is € 0.30 + VAT. The service requires previous registration in the Branch office or via Internet (see http://portal1.lacaixa.es/Channel/Ch_Redirect_Tx?dest=3-23-10-00000034).

⁵³ Anderloni & Carluccio (2007).

⁵⁴ Belgium Reports (2007).

⁵⁵ Dexia, (2007).

⁵⁶ Anderloni & Carluccio (2007).

⁵⁷ Austria Reports (2007).

⁵⁸ Grohs, (2007).

⁵⁹ Andreas Treichl, General Director of the ERSTE Foundation explained “Savings banks were originally founded as an institution dedicated to serving the public welfare. The ERSTE Foundation has taken this original idea of the savings bank and transposed it to the social realities of our current day and age to support people responsibly by providing simple financial services” (ESBG, 2006).

package of financial and often psychological advice to the customers. Moreover, there is the possibility to call upon gratuitous legal advice every three months. The online-banking is also included in the offer. The «Zweite Sparkasse» is run by voluntary and retired staff of the «Erste Bank». The Project is limited to Vienna and Tyrol (Innsbruck). An Expansion to other federal States (Salzburg, Carinthia (Klagenfurt) and Styria (Graz)) is planned for 2008. The «Zweite Sparkasse» had more than 300 customers (as of February 2007). To compare, the Chamber of Working Staff assumes that 300.000 people do not dispose of a current account in 2004. The debt advice centres estimate that about 12.000 of their clients do not have access to a current account in 2006. The existing national data indicate that 98% of the Austrian population in the age from 15 years had a relationship with a bank and 93% possessed some form of an account. However, the Austria Reports (2007) inform that there are no reliable figures regarding the issue of exclusion from access to an account.

Moreover, in Austria there is no law regarding the access to a basic banking account. The Austria Reports (2007) do not mention any self-regulatory initiative either. In this context, the Erste Bank initiative is particularly important. However, this is currently a project covering only a part of the country. The debt counselling organisations continuously emphasise their political claim for a basic bank account. Additionally, there is not a legislative approach to responsible lending. Nevertheless, the law for the protection of consumers obliges the lenders to inform the borrowers and guarantors about the risk and their duties concerning the credit and related costs. The usury law has existed in Austria since 1949. Apart from banks, loans in Austria can be received from pawnbrokers.

In **Germany**,⁶⁰ due to their public mandate under public law, savings banks⁶¹ serve all the inhabitants of the local areas (including rural and vulnerable ones) through a dense branch network, finance SMEs and carry out an efficient financial intermediation to enhance economic growth and cohesion in the regions. For example, around 80% of all social benefit beneficiaries possess their current account with a savings bank. These institutions are under the regulation of the 16 federal states' Savings Banks Acts.⁶² The legal requirement to accept savings deposits and to offer a current account exists in 10 federal states, annexed or included in the respective regional law. However, savings banks are free from this obligation in such cases as the abuse of services by the customer. Such regional legislation does not apply to commercial banks.

In **Spain**,⁶³ savings banks have a major contribution to prevent exclusion from current accounts, transactions, savings and credit. They are privately owned, even if the public sector has a significant participation in their governing bodies. Given their foundational nature, savings banks do not pay dividends, but rather designate an important percentage of their profit to community welfare project, e.g. microcredit programmes.⁶⁴ Savings banks still have a strong local presence, with a special focus on retail financial services, which give them preventive role against geographical exclusion. They open offices and install ATMs in low population density zones. Additionally, enhanced competition induced savings and commercial banks to attribute more importance to all types of customers, including low income populations and immigrants.⁶⁵ For example, they provide specific products and schemes for immigrants (savings accounts, particular money transfer services, micro-credit products and other targeted services), prepare targeted marketing strategies, in particular as regards communication and distribution (See box 2). These targeted commercial strategies led to significant participation of savings banks in remittance markets. Savings banks are also active to prevent credit exclusion. For instance, Microbank, a subsidiary

⁶⁰ Germany Reports (2007).

⁶¹ (DSGV, 2007a).

⁶² As public institutions, savings banks are not only subject to general banking supervision, which applies for all credit institutions and is exercised by the Federal Financial Supervisory Agency (BaFin) in cooperation with Deutsche Bundesbank, but also to special State supervision by the Länder.

⁶³ Spain Report, (2007).

⁶⁴ For example, "la Caixa" mission's is to provide a wide range of financial services to the largest number of customers. It serves the society to cover its basic financial and social needs. "La Caixa" fulfills its mission also through the activities of its private foundation (Obra Social Fundación la "Caixa"), to which it devotes a substantial sum of its profit, 302.5 million euros in 2006. This contribution accounts for 25% of "la Caixa" group's income (La Caixa, 2007a and 2007b). In 2007, la "Caixa" plans a substantial increase in its allocation for social work to 2000 million euros over 2007-2010.

⁶⁵ In this context, according to Carbó et al. (2005), Spain is probably among the leading countries in tackling financial exclusion via "private market" means.

institute established in 2007 by “La Caixa”, is entirely dedicated to start-up finance for the self-employed or disadvantaged individuals (e.g. unemployed and migrants) who do not have access to traditional bank loans or micro-credits. The most active are Caixa Catalunya, Caja de Granada and Caixa Galicia. Since 2004 several institutions have started to offer current and deposit accounts and related services (cards and transfer services) for a fixed price which is charged e.g. once a month. For instance, Caixa Galicia⁶⁶ offers “Flat Rate Account, Solutions for New Residents”. Certain banks also offer products free of charge under the condition that the customer develops a closer link with the bank, for example, by arranging that the salary is paid directly into the account offered by this bank (Anderloni and Carluccio, 2007). In 2005, 32 savings banks launched a new remittance service called «Bravo, envío de dinero». Its creation was encouraged by CECA (Confederacion Espanola de Cajas de Ahorros - Spanish Confederation of Savings Banks). This service competes on prices and the execution time with money remittance companies. It is based on the agreement with banks from 14 countries of Latin America and is supported by a joint platform for money transfers via Swift and Internet. Savings banks are also the main institutions that offer “*cuentas vivienda*” which are house purchase savings accounts. The deposits are designated to facilitate access to low-rate mortgage loans and are accompanied by a fiscal incentive. Traditionally these accounts are willingly used by low and moderate income populations. The principal aims of “*cuentas vivienda*” are to support home ownership and to encourage savings and bank deposits. The active involvement of savings and commercial banks in providing services to low-income populations and the anti-usury regulation⁶⁷ leave little room for alternative financial intermediaries’ actions (money lenders, cash chequers, pay-day lenders, etc.).⁶⁸ Official statistics do not exist yet.

Box 2. La Caixa strategy towards migrant customers

In 2002, “la Caixa” took a strategic decision to get involved in the remittances business. This decision reflects the bank’s general philosophy which is based on three main pillars: first, to serve all clients including the migrant community as a target market; second, to adapt to the needs of the client with tailor made financial products and other services; and third, to integrate the client into the banking system. This last goal is probably the most important part of the strategy since it reflects “la Caixa”’s interest in including migrants in their client base with full access to all banking products and services.

In Spain, as in many other European countries the migrant population is growing and in 2015 it is expected to be more than a quarter of the entire population. Out of the 2.4 million migrants (2003) it is estimated that around 1.5 million have a bank account in Spain. Although not all these people are actively banked, the numbers are significant. These trends, and their day-to-day experiences operating within the community, convinced “la Caixa” of the opportunities involved and the need to respond to the basic requirements of migrants.

For “la Caixa”, responding to the demand for remittance services is seen as a way to gain access to a market segment which the bank is keen to serve in Spain, and the flow of remittances into the receiving country presents opportunities to reach out to populations previously unbanked. The profiles and financial needs of those people make them potential clients, even though in the first instance it is the remittances service that attracts them to the bank on both the sending and receiving side.

Product proposal

REMITTANCES: The collaboration agreements signed by “la Caixa” and several financial institutions allow immigrants from different nationalities (customers and non-customers) to send money to their countries of origin (quickly, efficiently, economically and with personalized services demonstrating high quality standards)

INTERNATIONAL TRANSFER CARD: specifically designed for the immigrant community which allows remittances to be sent from “la Caixa’s” extensive ATM network (over 7,000), as well as other regular banking transactions.

SAVINGS ACCOUNTS:

- “Star” Savings Account: allows withdrawals and deposits at all times, operating as a checking account but earning interest as a savings account.
- “Project” Savings Account: savings plan aimed at building capital, within a pre-set time frame, that will allow the acquisition of future goods or investments.

DIRECT DEBITS: to electronically pay any sort of monthly bills (utilities).

“STAR” PAY ROLL: Medium or short-term loan, with personal guarantee, or savings deposit collateral for the financing of personal or family-related needs.

TELEPHONE CARDS: issuance and recharging of telephone cards linked to “la Caixa’s” loyalty program.

⁶⁶ Caixa Galicia (2007).

⁶⁷ In Spain, anti-usury regulation does not fix interest rates ceilings: it only establishes that if a loan has an interest rate significantly above the average, the agreement is null and void. “Ley de repression de la usura de 23 julio de 1908”, modified in 2000 (Ley 1/2000 de 7 enero, de Enjuiciamiento Civil Usury is sanctioned with penalties and with the registration on the Central Register of Loan Agreements Declared Nulls and Voids held by the Spanish Ministry of Justice. So far, there are no evidences of the above mentioned Register; this may means that the law is not really effective. In the last few months there has been an increasing debate on anti-usury. On 20 February 2007 the Government approved a motion with the aim to enhance transparency and to prevent usury on consumer credit market by creating a register, under the supervision of Bank of Spain, where all private lenders firms have to be registered and by introducing standardized rules on contract, interest rates and fees applied to consumer credit. Moreover, consumer associations are asking for a new anti-usury regulation where interest rate ceilings are established (Spain Report, 2007).

⁶⁸ Anderloni and Carluccio, 2007; Carbó et al., 2005; and Anderloni L., E. Aro and P. Righetti, 2005.

INSURANCE: SegurCaixa Repatriation Insurance (in case of death), all types of family and home insurance and “Seviam abierto” (mortgage repayment insurance in case of death).

“START” CARD: credit card with a weekly settlement.

VISA CLASSIC CARD: Regular credit card offered to immigrant customers who have shown a good average balance and a positive payments record for at least 12 months.

VISA GIROSCARD: It allows immigrants in Spain to transfer money directly into the beneficiary’s debit card (“Visa electron”).

PERSONAL LOANS: with a specific purpose. Average of 3,000 Euros, and usually for customers who have been with “la Caixa” for at least 18-24 months. They must have a payroll, direct debits and a minimum average balance.

MORTGAGE LOANS: for the acquisition of a home (usually for customers with a minimum of 36-48 months with “la Caixa” and already established in “la Caixa’s” geographical area of operations).

MICRO-CREDITS: smaller loans aimed at financing projects led by citizens with financial barriers attributed to social issues. These projects must be approved and monitored by special purpose institutions, such as IAS (Social Assistance Institute), MITA (Center for the Development of Business Initiatives) and CCPE (Peruvian Chamber of Commerce in Spain). The maximum amount is 15,000 Euros.

Experience shows that migrant customers generally send 3 to 4 remittances before opening a bank account. After 6 to 8 months (or transfers) they tend to apply for a credit card. About a year after having opened a bank account, clients start requesting personal loans and after 2 years a number of them apply for mortgages.

Implementation deployment

The program has been highly successful. The number of clients has been increasing at a 30% rate on the last two years. In 2004 Caixa has acquired 450.538 clients; in 2005 this figure grew to 582.415 clients. The number of remittances transactions has also grown rapidly: From 296.189 remittances transactions in 2003, la Caixa has recorded 802.988 remittances transaction in 2005. La Caixa is now sending remittances to 18 countries and has built an extranet where migrant costumers can have information on their language not only about “la Caixas” products but also about particular topics of interest to their community.

Source: La Caixa (2007c)

Where **cooperatives banks**⁶⁹ operate, they serve their members by offering cost-effective and easily accessible services. Similarly to savings banks, co-operative banks’ decentralised structure reinforces access and involvement in local communities.

In **France**,⁷⁰ co-operative banks,⁷¹ which have an important market share – 26% of total assets in 2003, strive to serve potentially excluded populations. They have undertaken actions to improve access to microcredit, the quality of the banking relationship with customers, and to provide affordable savings opportunities.

For example, Groupe Crédit Mutuel ensures the access to finance through a dense branch network, in unprivileged or problem areas (rural zones and suburbs with low income and weak economic activity). At the end of 2005, Crédit Mutuel had 5,020 branches and 6,750 ATMs, covering 72% of the problem areas. In comparison, commercial banks had less than 5% of their total branches in rural areas and very few branches in problem areas.

The social microcredit⁷² has been one of the main initiatives introduced to widen the access to credit.⁷³ This was an inspiration of the successful deployment of professional microcredit. A pilot scheme was launched in 2001 by Credit Mutuel Midi-Pyrénées in partnership with Secours Catholique. The state has been involved in these activities as facilitator since 2005. The social microcredit is in 50% guaranteed by the public ‘Social Cohesion Fund’⁷⁴ and managed by the Caisse des Dépôts et Consignations, a public financial institution that has a legal obligation to tackle financial exclusion since 2001 (Law 2001-420). The amount of these loans varies from €300 to €4000, but in exceptional circumstances it can reach

⁶⁹ ‘The International Cooperative Alliance (ICA, 1995) defines a cooperative as “an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise”. In practice and in general, the main features of cooperatives (see, for example, European Commission, 2001) are: (i) free association (of qualifying persons) and withdrawal, resulting in a variable cooperative capital base; (ii) the non-transferability of membership, implying the absence of a market for member shares; (iii) a democratic structure usually giving each member one vote regardless of his or her investment; (iv) profit distribution that is often restricted and is not necessarily proportional to members’ shareholdings; (v) ownership rights that are in effect limited to the nominal cooperative capital represented by member shares (and therefore do not extend to the reserves and the total economic value of the cooperative); and (vi) the pursuit of specific member interests rather than profit maximization. Several categories of cooperatives exist, depending on their purpose and the nature of their members (producer cooperatives, consumer cooperatives, worker cooperatives, etc.). Financial sector cooperatives are usually consumer cooperatives (IMF, 2007).

⁷⁰ France Reports (2007).

⁷¹ OECD (2004).

⁷² Social microcredit is a loan to finance the so called ‘personal projects’ e.g. car purchase, education, health care, moving house, or unexpected events requiring expenses.

⁷³ Social microcredit is provided by financial institutions in partnership with social assistance of non – governmental organisations (NGOs) that assess the risk of potential borrower and assists her/him in the credit reimbursement. The social microcredit actions also allows for amelioration of the overall financial inclusion as the banks open an account for the borrower and progressively give him/her access to other financial products.

⁷⁴ The goal of this fund is to facilitate banks to lend to borrowers with more risky profiles.

€1200. The length of repayment usually cannot exceed 48 months but it can be extended to 60 months exceptionally. Their cost differs depending on the partners: usually the annual percentage rate (APR) amounts to between 4 and 8 % with no administration fees. Some pilot schemes charge less than 3.5 % and others repay the interest at the end (Regional Council of Poitou-Charente).

Nowadays, social microcredit initiative is extended to all co-operative banks (as well as the postal bank, municipal pawnbrokers and some credit card issuers, e.g. Cofinoga, Cetelem and Codifis), but not to commercial banks. Crédit Agricole through 'Points Passerelle' and Caisse d'Epargne through Parcours Confiance are examples of co-operative banks that provide social microcredit.

As to the effectiveness of the social microcredit, 1345 loans of €3 millions were granted between 2005 and 30 June 2007, according to the Social Cohesion Fund. However, the microcredit initiative has not covered the whole country yet. Moreover, people who are in extreme poverty and who are over-indebted are excluded from access to microcredit guaranteed by Social Cohesion Fund (this is the rule of the fund). Nevertheless, some pilot projects lend to over-indebted persons with the agreement of the Banque de France which is already supervising their debt repayment schedule.⁷⁵

Regarding the engagement of the co-operative banks to improve the quality of the banking relationship to encourage savings and consequently to promote financial inclusion, the examples of Crédit Agricole and Caisse d'Epargne can be given. "Points Passerelle" were established by Credit Agricole on the voluntary basis. These "Points" are located in independent branches and provide social microcredit and 'crédit solidaire' as well as free of charge personalised direct advice, and mediation services concerning the relationship not only with Crédit Agricole but also with other banks. This pilot project of 1998 turned out to be effective and is being spread to all regions. "Point Passerelle" were also an inspiration for Caisse d'épargne to create Parcours Confiance.

With respect to la Caisse d'Epargne, which became a co-operative bank and received a legal obligation (French Law 99-532 of 25 June 1999) to mitigate the problem of financial exclusion, this institution provides Livret A, a saving account which is a savings account tied by law to a public interest mission. The customers can store savings up to €15 300 which will be remunerated with an interest rate fixed by the state (currently 3%). These revenues are tax exempted (See Box 1). Since 2006, it has been also progressively introducing a structure designated to improve the quality of banking relationship and to find solutions to financial difficulties of the customers. It is called 'Parcours Confiance' and provides direct personalised advice, social microcredit and other financial products of Caisse d'Epargne. These services are not available to customers of other banks. On 9 July 2007 around 10 Parcours Confiance structures were created and active.

Regarding the effectiveness of Points Passerelles and Parcours Confiance there are no figures currently available on the number of persons who became financial included thanks to these initiatives.

In **Spain**,⁷⁶ credit cooperatives ("Sociedades Cooperativas de Crédito), serve local markets and facilitate financial inclusion of populations that live in rural zones or need very basic services.

In many countries⁷⁷ such as in France and Belgium, although a rapid changing of their business model due to the opening of this market to competition, **postal banks** contribute to social cohesion and financial inclusion through their usually unprofitable presence in rural and sensitive urban areas. They provide a wide range of universal services such as pensions cashing, bill payments to socially disadvantaged populations.⁷⁸

⁷⁵ Gloukoviezoff and Guérin, (2002); and Gloukoviezoff and Lazarus (2007).

⁷⁶ Spain Report, (2007).

⁷⁷ According to NERA report (2004) postal financial providers operate in Belgium, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, UK and Spain.

⁷⁸ Riva and Pollin (2002).

For instance, La Poste⁷⁹ plays an important role in the prevention of financial exclusion in **France**. This institution became a public law corporation in 1990 and is charged with the mission of regional development (including public interest mission) and officialised in the French Law 90-586 of 2 July 1990 on postal and telecommunication services. With regard to the situation in 2004, the French government required La Poste to consult with local authorities on the changes operated to the postal network and demanded that 10% of new offices to be located in deprived areas. In 1997, in municipalities with fewer than 2000 residents, La Poste had 10 526 contact points, while Credit Agricole and the Caisses d'Epargne had respectively 1 365 and 500 branches. La Poste is also present in sensitive urban areas, while does not impose selection on its customers.

Since July 2005, La Poste offers the Adispo Essentiel (a postal current account) for 3 euros per month. This includes a Postal Current Account, a debit card with systematic authorisation, Alliatys insurance for payment facilities and appropriate legal protection assistance. This account has been created for population in precarious financial situation in order to enable them to establish or re-establish a suitable and lasting banking relationship. At the end of 2006 more than 300 000 person opened such an account.

Moreover, in 2005 and 2006 La Poste signed two agreements with Union National des Centres Communaux d'action sociale (UNCCAS) to ameliorate the information and advice provision to the financially excluded.

On 2 January 2006 La Poste channelled all its financial services to La Banque Postale,⁸⁰ which is based on a network of 17 000 outlets and remote banking channels, e.g. 4 955 ATMs being France's 3rd largest network. Currently La Banque Postale also offers several products that provide opportunities for disadvantaged customers to integrate into the financial system.

La Banque Postale, similar to Caisse d'Epargne, offers Livret A (See Box 1). It also offers several services related to Livret A: counter deposits and withdrawals, ATM withdrawal card and account statements. The account and related services are free of charge. However, a minimum amount of €1.50 has to be maintained at the account. The 2006 Annual Report of La Poste informs that almost 1,5 million financially fragile customers visit regularly the post offices and several hundred thousand people use the Livret A as their only everyday banking tool. La Banque Postale also offers money order services that allow carrying out payments and transfers without having a current account.

In **Belgium**,⁸¹ the Postal Bank was created in 1995 by Fortis and the State. On the one hand the Postal Bank declares to develop banking products available for everyone on particularly favourable conditions. On the other hand, currently, the Postal Bank offers basic banking account (imposed by the law of Sept. 2003 on all banks) and current account and related banking services at rates similar to the other main commercial banks. The Postal Bank has been also involved, till recently, in the pilot social credit initiative to offer appropriate small loans for basic needs, e.g.; training mobility to persons with a low income not having access to a commercial bank credit. The Postal Bank has been providing lending and back office services. The project is carried out in the partnership with the Walloon Region (since 2003) and the Brussels Region (since 2005) which offer an operating subsidy and loans guarantees. Dexia foundation has been offering funding and voluntary staff. "Crédal Plus" (a non-for-profit co-operative of alternative credit) ensures the coordination and operation of the initiative and acts as a lender (after the withdrawal of the Postal Bank from the social credit initiative. The Belgium Report Stage II (2007) informs that the repayment rates were high and social impact quite important, but after 4 years fewer than 400 loans were granted and the project is still in the pilot phase. The challenge that still remains is to convince financial institutions to participate in the project and to bear a significant part of the default risk.

Finally, in countries such as UK⁸² and Ireland,⁸³ along with the post offices⁸⁴, other institutions such as credit unions and building societies contribute to alleviate the financial exclusion problem.

⁷⁹ La Poste (2005a, 2005b, 2005c, 2006a, 2006b).

⁸⁰ La Banque Postale (2007).

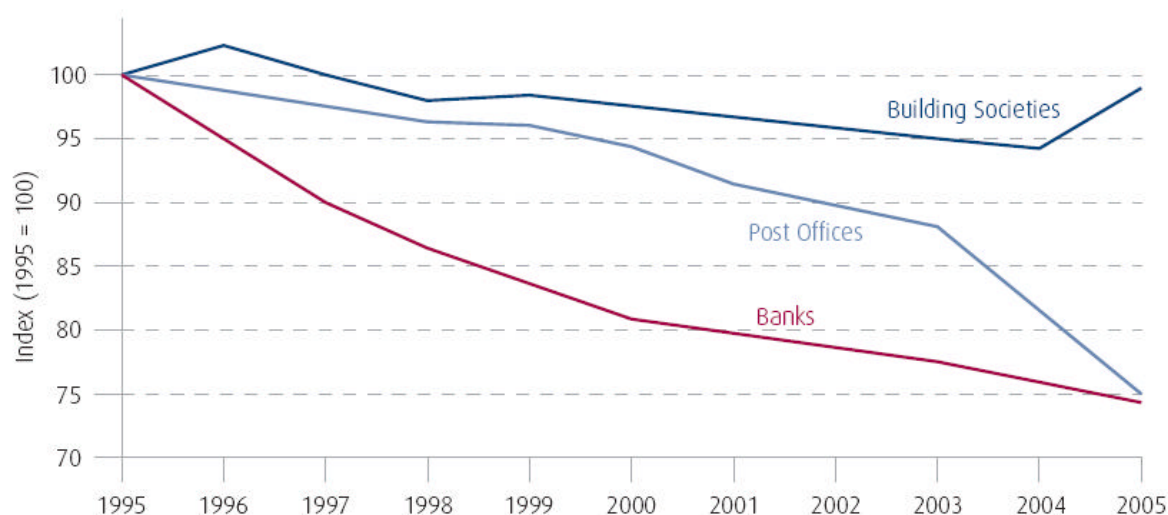
⁸¹ Belgium Reports (2007).

⁸² UK Reports (2007).

Credit unions⁸⁵ are mutual financial organisations that provide low-cost services geographically accessible, while preventing low-income households to rely on illegitimate credit sources often imposing excessive interest rates burden. Credit unions also facilitate access to other than low-cost financial services by taking advantage from their geographical presence and partnerships with other financial institutions.⁸⁶ In Ireland, for example, credit unions are considered to be one of the most important sources of low-cost credit. However, several studies inform that the low-income customers can experience difficulties in accessing and using credit unions.⁸⁷

Building societies are also mutual institutions providing mortgages and personal finance services. In the UK,⁸⁸ according to BSA (2007), much of the core business of building societies is geared to promote financial inclusion. This can be seen in simple savings products, many of which can be accessed by passbooks.⁸⁹ Moreover, it was showed that building societies had a much better record than banks in maintaining a branch presence (Figure 2), particularly in areas of social deprivation.⁹⁰

Figure 2 Branches of building societies, post offices and commercial banks in the UK



Source: BSA (2007).

In Ireland building societies are one of the most important providers of financial services.⁹¹ For instance, EBS Building Society offers a savings account where wages or social welfare payments can be paid electronically.⁹²

Finally, there is also a great variety of other institutions that also serve potentially financially excluded communities. For instance, in many European countries commercial providers of remittances (e.g.

⁸³ Ireland Reports (2007).

⁸⁴ In the UK, the Post Office established a universal service in April 2003 called "The Post Office Card Account" (POCA). This service is a simple account that can be used to receive benefits, State pensions and tax credit payments. No other money can be paid into the account and it cannot be used for the receipt of wages from employment. Money can only be withdrawn over-the-counter in Post Office branches. The account does not offer standing orders or direct debits. According to the House of Commons Treasury Committee (2006), many observers argued the limited functionality of the account and therefore a limited impact on financial inclusion. The report recommended the review of the content of this account towards greater functionality.

⁸⁵ ABCUL (2002) and CSFI (2005).

⁸⁶ For example Barclays Bank is a major supporter of credit unions as a source of affordable credit and has contributed over £500,000 to their development. Barclays has also supported the introduction of a financial monitoring and business planning tool. This support has broadened membership of credit unions, increasing both savings and loans to members and reducing credit union reliance on grant funding. High street banks have also supported the Money Advice Trust to expand availability of face-to-face money advice services through Citizens Advice Bureaux (New Philantropy Capital, 2006 and Barclays Bank, 2007).

⁸⁷ Byrne et al.(2005); Quinn and NiGhabhann (2004).

⁸⁸ Many building societies went through the process of demutualisation, meaning they became institutions operating under the Banking Act of 1987.

⁸⁹ Passbook (bankbook) is a book held by a depositor in which his or her deposits and withdrawals are recorded by the bank.

⁹⁰ Leyshon et al. (2006).

⁹¹ 17.7% of deposits were placed within building societies in Ireland in 1998 (Office of the Comptroller and Auditor General, 1999).

⁹² Corr (2006) and EBS (2007).

Western Union), offer access to money transfer services for those who do not have or do not use a traditional current account. In the UK, not-for-profit Community Development Finance Institutions (CDFIs) supply loans and investments to deprived, under-invested or underserved communities. CDFIs also provide financial advice to excluded households and thus connect them to banking financial services.⁹³

Collective actions

Financial players can also be involved in **collective actions**. These actions can be imposed by the legislation and/or regulation and/or involve the government and other organisations as promoters.

Voluntary charters, codes of conduct, consortia are common market responses to tackle financial exclusion. Their aim is to increase accessibility and transparency of banking services, e.g. 'basic' bank accounts, remittances and loans. These voluntary initiatives were first introduced in France in 1992, and later on in Germany (1995), Belgium (1996), UK (2001), Italy (2003) and Spain (2004, 2005) (Table 2).

Table 2 Voluntary charters and codes of conduct in the EU-15

Country	Year of first introduction	Name
Belgium	1996	Charter for a minimum banking services, Belgian Banking Association
France	1992	Charter for basic bank services, French Banking Association
	1997	Le label qualité-crédit (Quality credit label), Credit Providers Association
	2004	'Les clés de la Banque', French Banking Federation
	2004	'Banking made easier for all'
	2006	'Access for all to financial services'
Germany	1995	Recommendation for 'Girokonto für jedermann' (a 'Current Account for Everyone'), banking associations
Italy	2003	'PattiChiani' Consortium of banks (Basic Banking Service and other initiatives including Standard Basic Account)
Netherlands	2001	'Convenant' pakket primaire betaaldiensten' (Basic payment services package agreement)
Spain	2004	Tarifa plana (Flat rate)
		Free of charge services linked to loyalty programmes
	2005	"Bravo, envío de dinero", Spanish Confederation of Savings Banks
United Kingdom	2001 (with updates)	Banking Code, British Bankers' Association, the Association for Payment Clearing Services and the Building Societies Association
		Finance and Leasing Code

Source: Overview Paper; and Belgium, France, Germany, Italy, Netherlands, Spain and UK Reports (2007).

The earliest of the voluntary charters was introduced in **France**.⁹⁴ In 1992, the Comité Consultatif (currently Financial Services Consultative Committee - CCSF)⁹⁵ established, and the French Banking Association signed a charter for basic bank services. This charter aimed at enhancing the right to account enshrined in the French Banking Law of 1984⁹⁶ and required banks to open 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.

⁹³ CDFA (2007).

⁹⁴ France Reports (2007).

⁹⁵ The Banking Law of 24 January 1984 established, in the article 59, the institution of Consultative Committee charged with (1) examining the problems arising from the relation between credit institutions and their clients, and (2) proposing all necessary measures to improve accessibility and quality of financial services. Comité Consultatif of that time was created within the Conseil National du Credit, now the Financial Services Consultative Committee (CCSF). CCSF consists of representatives of banks and consumer associations as well as public authorities (CCSF 2004).

⁹⁶ French law n° 84-46 of 24 January 1984

According to Anderloni and Carluccio (2007), one attraction of the charter was the fact that it added a voluntary dimension to the right to an account established by the Banking Law. Indeed, rather than having the exact content of this right enshrined in law, the banks signed a voluntary agreement, which allowed them for discretion and flexibility in terms of who exactly would benefit from the basic service as well as the exact nature of the services. This stance introduced in the charter was considered to be vague and therefore inappropriate. Its application was challenged by consumer associations. For instance, the 'Association Consommation Logement et Cadre de Vie' and carried out a survey in 1999 showed that bank branches do not inform customers about the charter.⁹⁷ The charter turned out to be ineffective. Over the period 1995-1997 only around 3000-3500 basic accounts were opened.⁹⁸

Consequently the government took several legislative actions (1998 and 2001) to ensure wider enforcement of the 'right-to-an-account'. These actions resulted in an increase of the yearly number of opened basic bank account (from 4 329 in 1998 to 14 784 in 2003). However, as mentioned in the France Reports (2007), the lack of public awareness of the right to a basic bank account may be a reason why the increase was not as expected.

In order to deal with this issue, in 2004 and 2006, under CCSF co-ordination, two action plans have been undertaken: 'Banking made easier for all' of 9 November 2004 and 'Access to financial services for all' of 30 January 2006. These plans brought a list of commitments that banks should respect in relation to the accessibility of basic bank accounts and other areas of customer-bank relationship. Accordingly, banks started to inform customers about the 'right-to-an-account', which has brought a significant improvement in terms of basic banks accounts opened (25 000 yearly average over the period 2004-2006). However, the action plans' commitments have been insufficient to solve the problem of access to basic bank account and therefore as was explained previously, Crédit Agricole Nord Est, Caisse d'Épargne and La Banque Postale have implemented pilot projects that, among others, try to tackle this issue.

Finally, there are other market initiatives for education purpose and may not be targeted to vulnerable populations in France, namely 'Le label qualité-crédit' signed between Credit Providers Association (Établissements de Crédit Spécialisés), consumer associations and public authorities in 1997. The aim of this action is to ensure that credit providers transmit all necessary information to their customers. However, the effectiveness of this action is highly correlated to public awareness. Other actions involve supporting associations (e.g. Finance et Pédagogie, Cresus) or special services (such as, Les clés de la Banque). The associations have independent status and the service declares to be free from commercial labelling, but all of them maintain close relationship with financial institutions. Such type of partnership can involve individual banks or collective undertakings. For example, the French Banking Federation created 'Les clés de la Banque'⁹⁹ service, which provides information, through a website and various leaflets, about crucial questions related to banking relationship.

In **Germany**,¹⁰⁰ there is no right to a current account provided by the law. During the 1990s, welfare organisations, individual political parties and trade unions demanded to establish such a right.¹⁰¹ As a result, in 1995, the Central Credit Committee (*Zentraler Kreditausschuss*, ZKA), representing overall interests of the leading associations of the credit institutions sector,¹⁰² recommended its members to provide each citizen, independently from the level of her/his income, with a current account, namely the

⁹⁷ Riva and Pollin (2002).

⁹⁸ Banque de France (1990-2006).

⁹⁹ FBF (2007).

¹⁰⁰ Germany Reports (2007), Deutsche-Bank (2007) and ZKA (2007).

¹⁰¹ AG SBV (2004), p. 2.

¹⁰² Members of ZKA include: (1) Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e. V. (cooperative banking group), (2) Bundesverband deutscher Banken e. V. (The Association of German Banks, which represents the interests of the private commercial banks), (3) Bundesverband Öffentlicher Banken Deutschlands e. V. (The Association of German Public Sector Banks, it represents 61 member institutions including the regional banks (Landesbanken) as well as the development banks owned by the federal and state governments), (4) Deutscher Sparkassen- und Giroverband e. V. (DSGV - German Savings Bank Association, which is the umbrella organisation of the Sparkassen-Finanzgruppe and its 477 savings banks, 11 Landesbanken, 11 Landesbausparkassen, 13 public insurance companies and many more financial service providers) and (5) Verband deutscher Pfandbriefbanken e. V. (VDP - Association of German Pfandbrief Banks, whose members provide financing for properties, public sector and shipping industry. The members of VDP come from all German banking groups. VDP is former German Mortgage Banks Association - Verband deutscher Hypothekenbanken e. V.)

so called „Girokonto für jedermann“ (the Current Account for Everyone).¹⁰³ The Germany Reports (2007) assess that these recommendations were implemented insufficiently. For example, banks still refuse individuals with a negative credit history and accounts may be closed in case of garnishments. Since 1995, the Government has delivered four reports on the implementation of the „Girokonto für jedermann“ recommendations. The evidence on the effectiveness of the recommendations has been mixed. In September 2006, the German Federal Cabinet reformed the garnishment protection act (*Pfändungsschutzgesetz*). The aim of this reform is the prevention of the current accounts cancellations due to garnishment blocking.¹⁰⁴ The non-statutory welfare services, debt counseling bodies and the Federation of German Consumer Organisations recognise the importance of this act but are concerned with the possibility that the law will not be enforced effectively if banks refuse to open garnishment protected accounts. As a result, the need for a right to a current account could be still a valid discussion issue despite the reform of the garnishment protection act.¹⁰⁵

In **Belgium**,¹⁰⁶ a voluntary charter for a minimum banking services was adopted on 20 December 1996 by the Belgian Bankers Association (ABB/BVV) following a report¹⁰⁷ commissioned by the Ministry for Economic Affairs (The Co-operative Centre for Consumption, 1996). The charter provided for current account with several types of operations possible: money transfers, payments, deposits, withdrawals and bank statements. The “usual tariff conditions” applied. The banks that subscribed to the charter committed themselves to provide basic bank services to everyone with a legal domicile in Belgium and without a current account in another bank. Initially, the National Consumer Council apprehended this formula. In 1999, the consumer organisation “Test Achats” (Test Shopping) carried out a mystery shopping survey, which highlighted that unemployed populations may still have difficulties or denials when requesting the opening of a bank account.¹⁰⁸ In fact, the banks rarely implemented the charter. There has also been some concerns regarding the tendency of opening accounts, not by potentially financially excluded, but by persons taking advantage of a service that is cheaper even though its functions are more limited. After the publication of Réseau Financement Alternatif’s (RFA) study (2001), the National Consumer Council stated the failure of self-regulation and the law¹⁰⁹ on basic banking services of 24 March 2003 was established and concerned all retail banks providing accounts for individuals. The 2006 RFA study¹¹⁰ showed that all banks were providing the service, 10 000 accounts have been opened since September 2003 and 5 000 were active in December 2005, the basic bank account law had a preventive and curative role, the unbanked population decreased to maximum 10 000. The basic bank account law is important, as in Belgium the account is the channel to access savings services. However, certain parts of population still have been experiencing exclusion from basic banking account and related services.¹¹¹

¹⁰³ This account serves to receive credits, make cash deposits, and carry out withdrawals and transfers. Overdrafts are not allowed. The bank is not obliged to run the account when: (1) customer misuses the banking services, provides false information or makes a serious nuisance, (2) it is not possible to use the account to make payments or remittances, for instance due to the fact that the account is frozen as a result of debt enforcement measures, and (3) it is not ensured that the bank will receive the customary fees agreed for operation and use of the account. If a bank wrongly refuses to open a current account, the concerned customer can bring a complaint to relevant offices of the four major German banking associations.

¹⁰⁴ BMJ 2(007).

¹⁰⁵ BAGFW, BAG-SB, VZBV (2007).

¹⁰⁶ Belgium Reports (2007) and Disneur (2007).

¹⁰⁷ The report showed that dozens of thousands of persons with low income do not have access to bank services.

¹⁰⁸ The Ministry of Economic Affairs then commissioned to Réseau Financement Alternatif (Alternative Financing Network - RFA) a study on banking exclusion. The study revealed that there were still around 40.000 unbanked persons in Belgium in spite of the fact that the charter was adopted. The study also indicated that population having low income, low level of education and receiving social benefits are excluded. Certain additional problems were also identified: minimal guaranteed income not longer protected from seizures once transferred on bank account and the application of money laundering regulation excluded people with administrative status problem.

¹⁰⁹ This law provided for a similar package of services as the charter, but the price was defined - €12 per year. To be entitled to basic bank account the consumer living in Belgium have to fulfil several conditions, like do not have transaction bank account or certain linked products, e.g. savings account. The enforcement measures include the creation of a non-judicial and independent claim organism, fines (of €500-€20.000) for banks not respecting the law, the possibility for the consumer, consumer organisation or Minister of Economic Affairs to bring a complaint before the commercial court.

¹¹⁰ It is important to notice that the surveys prepared by RFA in 2001 and 2006 on basic banking services exclusion, were largely based on data of CPAS (Public Social Action Centres of municipalities), meaning covered the population benefiting from CPAS’ services (social welfare providers, debt counselling etc.).

¹¹¹ They are linked, e.g., to the need for identification documents to open an account (related to anti-money laundering law), publicity of the basic bank account, monitoring and transparency of the information on account openings and denials, denials experienced by over-indebted population and possibility of seizure. The last three of these issues have been addressed by the law in 2007.

In 1998, The Belgian Bankers' Association also adopted the Code of Conduct defining the rules of conduct in relations of banks with private customers.¹¹² Among others, the Code contains provisions on payments, savings and investment, loans, insurance and tele-banking. The Code reiterates the commitment to offer basic bank account to every citizen irrespectively of his/her income. With regard to loans, the Code commits to inform customers about the loan refusal and to notify the customer if the refusal is based on the information from Central Office for Credits at the Banque Nationale de Belgique or the Union Professionnelle du Crédit. The Code states that loan advertisements should not 'specifically and deliberately' target minors and persons in a difficult financial situation. As for savings, a few general remarks explaining characteristics of these services are made. Regarding investments the Code says that if a customer desires, banks 'are able to provide personalised advice'. The impact of this code on financial inclusion is to be assessed.

In the UK,¹¹³ a Banking Code¹¹⁴ covers good practice standards in general relations with customers. The British Bankers' Association, the Association for Payment Clearing Services and the Building Societies Association signed the Code. This Code is underpinned by a detailed set of Guidance to subscribing companies (regarding its interpretation). The updated version of the Code requires institutions to make 'basic bank accounts' available to people who will potentially benefit from the service. A clear definition of a basic bank account is provided in the Glossary of the Code: "A basic bank account has normally the following features:

- Employers can pay income directly into the account;
- The government can pay pensions, tax credits and benefits directly into the account;
- Cheques and cash can be paid into the account;
- Bills can be paid by direct debit, by transferring money to another account or by payment to a linked account;
- Cash can be withdrawn at cash machines;
- There is no overdraft facility;
- The last penny in the account can be withdrawn."

The subscribing institutions are not bound to open an account if the customer has a history of fraud or unpaid debt and if he/she already holds a suitable account with the bank.

To monitor the adequacy and effectiveness of the Banking Code, a periodical review is carried out by independent reviewers through extensive consultations with all stakeholders and the compliance is routinely monitored by an independent Banking Code Standards Board. According to Anderloni and Carluccio (2007), the British Banking Code can be considered as an effective self-regulation initiative because of the monitoring activities which allow for periodical revisions of the Code. However, the thirteenth report of session 2005-06¹¹⁵ revealed that improvement has not been universal and some banks are not meeting their obligations under the Banking Code and recommended to consider further improvement to the code.

In Italy,¹¹⁶ in 2003, commercial banks established the PattiChiari¹¹⁷ consortium "committed to [...] change the relationship between customers and their banks and to establish simplicity, quality, transparency, clarity and comparability" of products. Among others, the consortium initiatives include: 1) a 'Basic Banking Service', 2) a website comparing current accounts, 3) an initiative to facilitate 'Switching Bank Account', 4) a guide on cheques clearing, 5) a FARO (Funzionamento Atm Rilevato On line) service (localising an ATM e.g. via the Internet), 6) a website with information on low risk securities and 7) a guide to structured bond investment.

¹¹² The most recent version of the Code was adopted in 2004 (ABB-BVB, 2007).

¹¹³ UK Reports (2007).

¹¹⁴ BBA (2005).

¹¹⁵ House of Commons Treasury Committee (2006).

¹¹⁶ Italy Report (2007).

¹¹⁷ PattiChiari (2007).

As regards 'Basic Banking Service' initiative, all participating banks are required to offer a standard basic account providing the following services: 1) payment by bank transfer, both from and into the account; 2) cash and cheque deposit; 3) cash withdrawal directly at the teller, or alternatively, a prepaid stored value card; 4) regular account statements; 5) home and phone banking facilities to obtain information and manage transactions; 6) investment of savings through regular payments and 7) access to simple investment plans. The basic banking service does not include a chequebook, credit card and any kind of loan or credit for purchase of bonds.

According to PattiChiari, on 31 December 2006, "3.7 million people [...] discovered this service (*Basic Banking Service*) through a specific guide (*PattiChiari Basic Banking Service guide for clients*), and over 40.000 Basic Banking Service products have been taken out". Regarding the monitoring of the quality, the consortium actions are subject to certification by three independent external organisations, Certiquality, Ciscert and DNV.

The aims and initiatives of the consortium seem to be well adapted to issues arising in the Italian market including bank switching, products bundling and information accessibility. However, it is important to mention that the effectiveness of the consortium actions depend on their visibility, the freedom of banks to participate and choose the initiatives, and the price of 'Basic Bank Services'. As showed by the consortium's data (2007), its visibility has increased since 2003. In the second half of 2006, 45% of Italian customers recognized the PattiChiari. However, Italy Report (2007) claims that there is insufficient advertising of the basic accounts in mass media. Moreover, the PattiChiari actions carried out via Internet seem not to be adapted to the needs of vulnerable populations. Moreover, bank participation and the choice of initiatives in which they engage are voluntary. On the one hand the freedom of participation and choice in the PattiChiari project may limit its effectiveness, but on the other hand allowing for flexibility enables more institutions to participate. According to the Consortium's statistics (2007), the PattiChiari initiatives are provided in 26.211 branches of the participating banks (83% of all branches in Italy). Between 2004 and 2006, the number of participating banks has grown from 40 to 72 institutions (155 institutions to date). For pricing, banks are free to fix fees and commissions. The products are currently available at an average monthly cost of €2.8 for up to 54 transactions a year and 71% of products offered have a lower monthly cost as compared to Banco Posta (the Postal Bank) products. In compliance with the antitrust regulations, each bank sets its own prices independently, in accordance with its sales policies, operational and legal constraints.

Conclusion

This paper first allowed for a cross-country structural analysis of the financial services industry in Europe to examine the links between diversity, competition and financial exclusion. It clearly appears that this relationship is far from uniform for all countries examined. The reasons of this heterogeneity are inherent to the basic characteristics of each market, including its structure and the way it is governed. Additionally, the interaction between the government intervention (not only to improve financial services access but also to alleviate financial exclusion) and the individual and/or collective actions including the charters, consortiums and codes of conducts are equally important to define the market and/or policy response to such a phenomenon. However, the effectiveness of government laws (for example to ensure basic financial services to all citizens) and the collective actions depend on how effective their monitoring is.

Diversity and homogeneity do not systematically result in a more (or less) competitive financial services market; however both models may imply lower levels of financial exclusion due to effective complementary actions (government, individual and/or collective). However, it is important to highlight that in countries where commercial SHV banks are the major players, it is rather unrealistic to believe that these institutions would act voluntarily to alleviate financial exclusion simply because services targeting vulnerable populations are seldom profitable. The case of Italy is revealing. The long lasting restructuring trend towards a more profit-oriented and efficient financial services market did not translate into a more competitive supply of services in terms of costs. This has a systematic effect on price exclusion. Moreover, the government intervention to alleviate the high levels of financial exclusion is inexistent and the effectiveness of the industry self-regulatory actions remains to be seen. The conditions for SHV-banks to contribute to alleviate the problem of financial exclusion are either fulfilled by a requirement (government intervention) or by an individual strategic action – as a result of a high competitive pressures from other groups - to integrate vulnerable populations (such as immigrants) through basic financial services into the financial system to gain a future market share in other more sophisticated products (case of Spain). In countries with a high level of diversity (Austria, Germany, France and Spain), STV institutions operate and they are mainstream providers of financial services. In many occasions, they are either required (according to their mission) to allocate a percentage of their profits to social cohesion projects or by regional regulations to ensure the provision of basic financial services. Moreover, because of their dense networks, they operate in rural and remote areas and therefore they alleviate geographical exclusion naturally. The interaction between these two models (SHV and STV) creates strong incentives to compete fiercely (in the case of Spain) and therefore perceive all citizens as potential customers. In all countries, there are niche providers including postal banks and credit unions. These players may alleviate the phenomenon but are not the response to the problem in the countries where they operate. For example in Belgium, the postal bank is operating with a commercial purpose; in Ireland, credit unions do not necessarily serve vulnerable populations... To sum up and in light of these examples, there is a need to strike the balance between efficiency, competition and protection of vulnerable consumers. To this end “*the general economic interest missions*” must be examined.

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