

**Submission to the European
Commission's Consultation on
Financial Inclusion: Ensuring
Access to a basic bank account**

From

The Society of St Vincent de Paul

**Social Justice and Policy Team
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Introduction

The Society of St Vincent De Paul (SVP) welcomes this opportunity to input our views on financial inclusion and access to basic banking services to the European Commission. The Society of St Vincent de Paul is the largest charity of social concern and action in Ireland, with a variety of services being provided by our 9,500 voluntary members and 500 staff across the country. These services include debt advice and the provision of direct financial assistance to individuals and families in need.

The Social Justice Committee of the SVP, a national Committee of the organisation, has a mechanism for gathering the experience of the membership as it relates to issues of social policy and concern. This is known as the 'From The Ground Up' project team, and it takes samples of the experiences of our local branches and services throughout the country which then inform our policy positions. This work gives SVP an insight into the issues which are affecting the people we assist and the impact of barriers to accessing essential services, including financial services, on those individuals and families. Low income households in particular often experience difficulty accessing the electronic economy, including saving and banking services.

Question 1: Do you share the Commission's overall objective to ensure that, by a certain date, every EU citizen or resident has access to a basic bank account? What could constitute the main challenges in meeting this objective?

SVP feels that it is essential that every person has access to a basic bank account as a starting point to addressing and preventing financial exclusion. Financial exclusion has a particularly negative impact on low income households and providing access to savings services such as a basic bank account would be of benefit to underbanked and unbanked consumers. One of the main challenges in meeting this objective will be the development of joined up responses to the causes of financial exclusion on the societal, demand and supply sides as set out in the consultation document. The need of banks to make a profit and the need for low income consumers to have access to banking services on a low/no cost basis must be reconciled, and basic banking services must be mainstreamed and provided by all financial institutions to ensure that low income customers have choice and access to non-stigmatised services.

A key challenge for the Commission will be tackling the different factors and causes of financial exclusion across the member states. The causes

and consequences of financial exclusion may also differ across member states depending on the extent to which access to financial services determines/impacts on how individuals manage their money.

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

SVP agrees with the description of the causes and consequences of financial exclusion outlined in the consultation document. Our experience working with people in need gives a particular insight into a number of the factors affecting financial exclusion.

The cost of banking services can be a deterrent to opening a bank account for many low income customers. While moves towards free transactional banking in Ireland are to be welcomed, some banks attach conditions to free banking; for example having a minimum balance or minimum number of transactions on the account, the use of online or telephone banking to pay bills or the use of a credit/debit card a minimum number of times per month. Under-banked and low income consumers are less likely to be able to avail of free banking in these cases.

Income inadequacy and indebtedness are supply side factors influencing financial exclusion. SVP is aware of cases where banking services are being withdrawn when the account holder gets into arrears or debt. This poses extreme difficulties for people who are trying to manage a low or reduced income and who may be reliant on particular services in order to meet financial commitments and day to day expenses. Individuals who are reliant on social welfare as their only source of income may also experience difficulties in opening a bank account as they may be deemed by the bank not to meet the necessary criteria for banking services - in spite of the requirement set out in the Consumer Protection Code that financial service providers covered by the code must not prevent the consumer from accessing basic financial services such as a bank account.

The administration of social welfare payments may also impact on the demand side factors causing financial exclusion. In Ireland new claimants of Jobseekers Allowance/Benefit no longer have the option of having their payment made directly into their bank account which is likely to result in under-use of the account and which makes it difficult for customers to access other services.

Geographical location can also be a barrier to accessing banking services, where a lack of public transport and the closure of local bank branches

may mean that some low income and/or rural dwelling consumers may experience restricted access to services. This is a particular concern for us in rural and more isolated communities across Ireland.

In terms of the consequences of financial exclusion, the example of utility companies offering discounted rates to customers paying by direct debit is particularly relevant in Ireland, where a new entrant to the electricity market (Bord Gais) is offering new customers a discount of 2% when they pay by direct debit. The cost of energy is one of the most pressing issues for individuals and families assisted by SVP and the opportunity to avail of reduced electricity prices would be of particular benefit to those on low incomes. However, those without access to a basic bank account will be unable to take up this offer. Indeed, some service providers charge an additional fee where customers do not pay via a bank account. SVP knows of at least one Satellite television company which charges €3 per bill, which is every two months. This is effectively an additional charge of €18 per year, levied mostly on those least able to afford it. This is a practice which SVP disapproves of and is a clear example of the poor having to pay more for services.

A further impact of financial exclusion is that unbanked and underbanked consumers will not have any great engagement with financial institutions. This is a barrier to accessing financial information and can mean that low income consumers are unaware of financial services which may assist them in managing their low income, which in turn may result in uninformed or poorly informed decision making. Barriers to accessing financial information and services reinforce social exclusion.

Question 3: Do you think that one can reconcile financial service providers' legitimate need to make profit with any social obligation they may have vis-à-vis excluded groups? Should financial service providers play a stronger 'social' role in the society, in particular in combating financial exclusion?

SVP believes that the social obligation of financial service providers must be reconciled with their need to make profit. Banking is an essential service which should be accessible to all, particularly in light of the consequences of financial exclusion outlined in the consultation document, which will disproportionately affect and further marginalise people on lower incomes. Financial service providers clearly have a role to play in combating financial exclusion, and in playing a stronger 'social' role, and the development of new products and services which meet the needs of low income or under-banked consumers is key here. An Post, the national postal service in Ireland, works towards preventing financial

exclusion through initiatives such as Post Bank, associated with Fortis. This is an example of good practice and of a financial service provider taking on a social role which benefits many low income consumers. The examples of good practice from other European countries and the involvement of organisations such as MABS (Money Advice and Budgeting Service) should inform the development of new services and products. However, there is a responsibility and an onus on the financial institutions to ensure that vulnerable/marginalised consumers are not targeted by unscrupulous advertising or pressured to use unsuitable financial services – as provided for in the Consumer Protection Code¹.

The United States has in some ways been more pro-active than European initiatives in this field. For some time the U.S. has levied a Community Re-investment Tax on financial institutions which is directed back toward disadvantaged areas. This was in response to the significant denudation of financial services in poorer districts in the latter half of the last century. This was coupled with the recognition that voluntary corporate social responsibility was insufficient in tackling the problem of poor services for poor areas. Perhaps European policy can learn from the experience of the U.S. approach and either consider such a levy or develop policies that facilitate financial institutions to re-orientate their services in such a way that ensures that a levy is unnecessary. Obviously with the current financial crisis and the dramatically increased role for the state in the operation of financial institutions, new opportunities as well as new limitations are emerging in this regard.

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

There is a need for transparent and non-voluntary codes of practice for financial service providers. These codes of practice must be uniformly and consistently applied. Financial firms regulated by the Financial Regulator in Ireland must adhere to the Consumer Protection Code which outlines a number of principles under which firms regulated by the Regulator must act. The code includes the requirement that financial service providers covered by the code must not prevent the consumer from accessing basic financial services such as a bank account. However, as detailed above, SVP is aware that some consumers are being denied access to basic financial services. We therefore feel that application of this code is at best varied and the introduction of voluntary codes of conduct would be of little benefit in preventing financial exclusion and ensuring access to basic banking services for low income consumers.

¹ Available from www.itsyourmoney.ie

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

All providers should be obliged to offer basic bank accounts to all citizens and residents throughout the EU. The consultation document notes that reduced attention being paid to marginal market segments and the disappearance of institutions targeted at low income customers are important factors in causing financial exclusion; therefore requiring all financial service providers to offer basic banking to all consumers would help to overcome these issues. In addition to this, basic banking should be a mainstream service rather than one provided by a few dedicated institutions in order to avoid stigmatisation and ensure that low income consumers can choose financial services from different institutions which are most appropriate to their needs.

Question 6: Should basic bank accounts be provided on a commercial or not-for-profit basis; i.e. should they be free of charge? In case you favour the latter option, who should bear the costs?

The consultation document notes that concern about costs is a key demand side cause of financial exclusion, which suggests that basic bank accounts should be provided free of charge to low income, unbanked and under-banked consumers. Basic banking for all may help to reduce costs borne by government departments, for example, the Department of Social and Family Affairs in Ireland, as payments can be transferred at much lower cost. On the one hand, consideration could be given to the introduction of a compensatory financing system for government to support basic banking services as services of general economic interest (under Article 86 of the EC Treaty) as recommended by the Combat Poverty Agency². However, SVP firmly believes that, given the financial supports and injections being provided by Governments for financial institutions, the very least that such institutions are obliged to do is provide and fund basic banking. The costs associated are negligible compared to the quantum of financial support from state to banks.

Question 7: Could the role of alternative commercial and not-for-profit financial services providers in addressing financial exclusion be enhanced? What could be done to encourage more such providers to help with access to basic bank accounts?

The role of alternative commercial and not-for-profit financial services providers is of key importance in preventing financial exclusion. In Ireland, the community-based Credit Union movement is a high profile,

² Combat Poverty Agency (2008) *Tackling Financial Exclusion in Ireland*. Available from: http://www.cpa.ie/publications/policystatements/2008_Policy_TacklingFinancialExclusionInIreland.pdf

well used financial service with local branches throughout the country. SVP members encourage and support families who are in financial difficulty to open credit union accounts in order to build up a cushion of savings to prevent the accumulation of debt due to unforeseen expenses. The Credit Union movement in Ireland bridges some of the gaps in accessing financial services which may remain in other countries with a weaker credit union movement. In other European jurisdictions, for example the UK, credit unions are far less developed and we urge Europe-wide policy initiatives which support the work of credit unions.

As discussed above, An Post provides access to banking services which may be more attractive and accessible to low income consumers. This service must be supported and may be under threat in the context of closures of sub post offices around the country due to concerns about their economic viability and also with the planned abolition of the reserved area when the postal market is fully liberalised in 2011. SVP believes that An Post has a vital role to play in the economic and social life of local Irish communities.

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

Yes, regulation should be proofed to assess and minimise its negative impact on financially excluded groups. Legislation and administrative measures taken should not become barriers to the take up of banking services by low income consumers.

Question 9: What is the most effective role public authorities can play in combating financial exclusion - e.g. providing an understanding of the problem; assessing the efficiency of policy measures implemented and their impact on financial inclusion; promoting and supporting market initiatives; contributing to the provision of financial services; raising awareness; intervening in cases of exclusion (e.g. via tax incentives, subsidies or regulatory penalties); introducing legislation?

Governments have a role to play in combating financial exclusion by obliging financial institutions to provide basic bank accounts for all and to ensure that the financial needs of low income consumers are being met. The efficiency and effectiveness of policy measures and an assessment of the direct and indirect impact of policy measures and legislation on financial exclusion should also be explored. The electronic payment of social welfare benefits directly to bank accounts would facilitate the use of bank accounts by social welfare recipients and encourage moves away from operating on the basis of a cash budget. In addition to this, SVP echoes the recommendation of the Combat Poverty

Agency³ that local level initiatives and organisations should be supported in assisting and encouraging low income consumers to access basic banking services and other financial products. Services such as the Money Advice and Budgeting Service (MABS) in Ireland can play an important role in raising awareness of the causes and consequences of financial exclusion, and ways in which people can gain access to such services.

Question 10: Should financial inclusion be addressed at EU level? How could the responsibilities and competences between the national and EU level be shared? What could/should be the Commission's role?

SVP believes that financial inclusion must be addressed at EU level particularly in light of the causes and consequence of financial exclusion which are outlined above and in the consultation document. The Committee of European Banking Supervisors (CEBS) gives advice to the European Commission on banking policy issues, and also ensures common implementation and consistent application of legislation⁴. This body should also advise the Commission on policy to prevent financial exclusion at EU level. The Commission and the CEBS could use the experiences of those member states where access to basic banking services is assured to draft guidelines to ensure that financial inclusion becomes a policy and practice priority, using the learning and examples of best practice which are currently available. The use of the open Method Of Co-ordination in sharing best practice between members states regarding financial access is relevant here.

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

This is an issue in Ireland, where two administrative, legal and financial systems operate on the Island. The border has posed certain economic difficulties on either side, and SVP operate on an all-island basis, so has had to deal with these at local level. To compound matters, the two zones have different currencies. The Commission could look at initiatives, perhaps using the InterReg programme, to look at ways in which the opening of cross-border financial access could be facilitated in a way that is socially inclusive and underpins economic activity on both sides of a given border.

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

³ Ibid, p. 14

⁴ www.c-ebs.org

The concept of financial inclusion is broader than access to basic bank accounts alone. However, in many cases, a lack of access to basic banking services is the core issue limiting access to other aspects of financial inclusion including access to credit, payment options, savings and insurance. The experience of SVP is that people on low incomes are often able to budget to make ends meet until an unforeseen expense occurs. A job loss, death in the family, an unexpectedly large utility / energy bill or a change in family circumstances can often push people into debt. This is likely to become an even bigger issue as increasing numbers of people are reliant on social welfare incomes due to the increase in unemployment in Ireland. Access to affordable credit, savings and insurance would mitigate the impact of these contingencies on low income households.

Access to affordable credit and a choice of credit is an issue which is consistently raised as problematic by SVP members. A lack of access to basic banking facilities has been associated with exclusion from access to credit (Conroy & O'Leary, 2005)⁵ and the experience of SVP is that many low income consumers often rely heavily on money lenders, which provide expensive credit through extremely high interest rates. Additionally, money lenders do not have access to the Irish Credit Bureau and other databases to verify the financial situation of borrowers, which can result in the borrower taking on multiple loans which they are unable to repay. Mainstream financial institutions would be a lower cost and more appropriate source of credit for low income consumers and developing responsive services for low income consumers should be a priority.

Conclusion:

A lack of access to a basic bank account can have far reaching implications for low income consumers. Financial exclusion can result in those on low incomes paying more for credit, being unable to avail of discounts offered by paying via direct debits, being unable to protect themselves from unexpected events through savings or insurance, and can exacerbate the impact of a change in circumstances such as loss of employment when financial services are withdrawn. In light of these issues and those discussed throughout this submission, it is clear that access to a basic bank account at the very minimum must be ensured – with a view to extending the concept of financial inclusion to cover financial services other than basic bank accounts. Financial services must be developed with the needs of those on low incomes in mind so that the issue of under-banked and unbanked consumers can be

⁵ Conroy, P. & O'Leary, H. (2005) *Do the Poor Pay More?*. Available from: [http://www.mabs.ie/publications/research_papers/Do%20the%20Poor%20Pay%20More%20\(OPEN\)_May_2005.pdf](http://www.mabs.ie/publications/research_papers/Do%20the%20Poor%20Pay%20More%20(OPEN)_May_2005.pdf)

addressed. Given current state support for financial institutions, there has never been a better time for Governments and the Commission to demand that financial institutions provide access to savings products and services for low income households as a matter of course.