

SOLIDAR CONTRIBUTION TO EUROPEAN COMMISSION CONSULTATION ON FINANCIAL INCLUSION/ACCESS TO A BANK ACCOUNT

1. Introduction

SOLIDAR welcomes the invitation by DG MARKT to contribute to the consultation on financial exclusion, focusing on the issue of access to a basic bank account. We consider this an important step in the sequence of initiatives launched and realised in recent years by Commission Services around the same and related issues.

SOLIDAR supports the special attention given in this context, in particular by DG EMPL, to **strategies and measures addressing “overindebtedness”** as this is the most topical and - looking at absolute numbers - most important "new social risk" across Europe. With the financial and economic crises far from having reached their turning points, we should expect rising overindebtedness figures in the next months and years, with more individuals and households facing the risk of financial exclusion across Europe. SOLIDAR calls on the European Commission to address this risk and in particular the problem of difficult access or non-access to a basic bank account.

The major SOLIDAR statements and conclusions in our response are:

- 1- The access to a free basic bank account is a right and a precondition for full participation in society and inclusion into the labour market. Non-access to a bank account in line with general conditions and usual fees is a form of discrimination.
- 2- Access to a basic bank account can and has to be conceptualised and explicitly defined and recognised by public authorities as a service of general interest.
- 3- Evidence shows that self-regulation by the bank sector has failed when it comes to effectively guaranteeing access to a basic bank account for everyone.
- 4- All providers should be obliged to offer basic bank accounts to all persons residing on the territory.
- 5- A strict and comprehensive regulatory framework at national level is needed. This is the level where obligations directly and immediately can be enforced by competent public authorities and where possible compensations can be defined.
- 6- A European level regulation taking the form of a directive is not the appropriate instrument (at least not to start with), given the diversities of social and economic realities and the broad range of solutions and regulatory approaches to address financial exclusion.

SOLIDAR's input builds on positions and feedback from members in Belgium, Germany and The Netherlands. It takes on board input provided by SOLIDAR for the contribution

to this consultation prepared by the Social Platform. It also takes into account documents prepared during 2008 by the Standing Committee of German Welfare Associations of Counselling Services on Overindebtedness (*Arbeitsgemeinschaft Schuldnerberatung der Verbände (AG SBV)*). They were sent to German authorities and deal with issues at the centre of this consultation. SOLIDAR's German member organisation *Arbeiterwohlfahrt (AWO)* is member of the *AG SBV* and contributed to their elaboration.

2. SOLIDAR's Response to Questions

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?*

SOLIDAR is fully in line with the overall objective referred to above.

As access to a free basic bank account is a **right and precondition for full participation in society and inclusion into the labour market** the competent authorities should set the ambitious target to reach the goal to have access to a transaction account excluding any overdraft facility for all EU citizens and all persons residing in the EU, e.g. by 2012 or 2015 the latest. It could and should be added and linked to other targets already defined in European-level and national anti-poverty strategies and policies. This target should be given a high priority in the related policy processes at European and national level, in particular in the framework of the OMC Social Protection and Social Inclusion.

Non-access to a bank account in line with general conditions and usual fees is a **form of discrimination** and leads to exclusion from society in many ways as it is virtually impossible to receive social benefits from institutions of social protection schemes at low administrative cost or to effect non-cash payments such as the payment of rent, energy or telecommunication bills. Non-access or difficult access to a transaction account entails not only negative immediate impacts for people excluded from these services, but also has disadvantageous mid- and long-term impacts for those concerned and for society as a whole. An anti-discrimination perspective in line with the forthcoming Article 13 Directive and Article 21 of the European Charter of Fundamental Rights is crucial to guarantee access to a basic bank account (and other financial services). Support should be given to those groups and guarantees should be enforced in particular related to those grounds covered by the future Article 13 Directive where available evidence shows systematic forms of discrimination. Where non-access to financial services has a gender dimension, this also needs to be addressed in the frame of gender equality measures.

Special needs of **migrants**, including the facilitation of sending remittances to countries of origin where evidence shows that this is not sufficiently facilitated by the financial sector, and the opportunities that their full financial inclusion could bring about are another facet needing attention to safeguard equal rights and that particular needs are catered for. Special challenges exist for undocumented migrants and for homeless persons.

In addition to enforceable frameworks (at whatever level at the end) the issue needs to be moved up and given **high priority on the political agendas** of governments across all EU Member States (where this has not yet been the case). In doing so a rights-based approach should be followed: access to a free basic bank account (and other financial services) is not least an issue of human dignity has to find expression in a social right to avoid exclusion and discrimination, with effective guarantees to fight its possible violation.

In addition, the successful implementation of measures promoting financial inclusion will not only need the recognition of this right and the acknowledgement of access to a basic bank account (and other basic financial services) as a service of general interest. In order to address this challenge effectively, a **culture of responsibility as well as the responsabilisation** of a range of actors in the economy and society need to be developed and/or strengthened. Key management staff of banks in particular should assume responsibility in view of the role banks play, can play and should play in not only maximising private profits but also in advancing - in a joint effort with public authorities and civil society - policy objectives related to social cohesion and social inclusion. Access to a basic bank account and financial services insofar could become a key feature of corporate social responsibility strategies of the bank sector.

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

The paper provides a comprehensive summary of the main causes and consequences of financial exclusion, with rising numbers of men and women affected by poverty and overindebtedness in many EU Member States restricting their full participation in society.

It becomes clear also from this document¹ and available research that the **situation differs widely across the 27 EU Member States** when it comes to the relative importance of financial exclusion and the incidence of full or partial lack of access to a basic transaction account. Also within Member States partly non negligible differences prevail between urban and rural areas and/or due to the lack of access to online bank services. These challenges need and can be addressed by public authorities and the financial sector using regulatory tried and tested tools in some Member States, as summarised in section 5.3.2 "Public authorities as legislators" of the consultation document.

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?*

SOLIDAR fails to see any fundamental difficulty in reconciling these at first hand conflicting objectives. To the contrary, this can be done by precisely making use of the instrument mentioned above. Access to a basic bank account can and should be conceptualised and explicitly defined and recognised by public authorities as **a service**

¹ in particular looking at rates reported for categories "difficult access" or "no access" in Graph 1, p. 2 and for categories "unbanked" or "marginally banked" in Graph 2, p. 6

of general interest by also stipulating the related public service obligations (or enforceable social obligations) all banks should have towards excluded groups. Compensation for any additional costs financial services providers that offer a bank account will incur in fulfilling a public service obligation can be provided without infringing against Community state aid rules. Governments can therefore put in place a compensatory financial system.

No general obligation for financial service providers to play a stronger "social" role in society, in particular in combating financial exclusion, reaching beyond the obligation to offer a basic transaction account should be introduced. This task can be and already is being addressed by providers of financial services that are part of the social economy family (as well as other providers) with the intention to both strengthen their corporate social responsibility and to profile their product portfolio.

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

Evidence from the ground highlights the failure of self-regulation when it comes to effectively guaranteeing access to a basic bank account for everyone. This is clearly underlined e.g. for Germany in a report issued in September 2008². The underlying rationale is identified in the consultation document (p. 3): *"in a market-based economy, financial service providers often focus on those consumers who represent a commercially attractive proposition, leaving vulnerable consumers without the same choice of products and voice to ensure their interests are taken into account"*. To ensure the realisation of the public good and social policy objectives a regulatory framework is indispensable. Self-regulation also failed with regard to effective mechanisms of legal redress and procedures of appeal against decisions taken by banks.

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

In SOLIDAR's opinion, **all providers should be obliged to offer basic bank accounts to all persons** residing on the territory of the country the local branch operates. Such as a general obligation, for example applies for Belgium.

This obligation can be implemented following the model sketched out under questions 1 and 3, i.e. by explicitly recognising the access to a basic bank account as a service of general interest. All financial service providers, based on a delegation of this task and a mandate conferred to them³, will have to fulfil the related public service obligation against compensation.

² AG SBV [Standing Committee of German Welfare Associations of Counselling Services on Overindebtedness]: *Bericht der Bundesregierung zur Umsetzung der Empfehlung des zentralen Kreditausschusses zum Girokonto für jedermann. Stellungnahme für das Bundesministerium der Finanzen zur aktuellen Situation Girokonten für jedermann [Report of the Federal Government on the implementation of recommendations by the Standing Committee on access to credits in view of access to basic transaction accounts. Position prepared for the Federal Ministry of Finances on the current situation of access to basic transaction accounts]*

³ Such a system could also work if a sufficient number of financial service providers represented across the whole territory publicly, in writing and in a long-term perspective committed themselves to offering a basic bank account for everyone. SOLIDAR, however, lacks information if such an approach has already

Different models could be designed and set up as to how this money can be raised (taxes, contributions by banks themselves) and redistributed (e.g. establishment of a mechanism and fund to redirect financial compensation to the banks according to number of cases).

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?*

Please see response to question 5, last paragraph.

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?*

Across Europe, financial service providers with a social economy background and vocation already offer good and effective models for ensuring full financial inclusion and contribute to social innovations. Both should be further explored and supported. As to the second issue raised, reference is made to the answers to questions 3 and 5, second paragraph respectively. Complementary financial services for vulnerable persons at risk of exclusion from access to a basic bank services should be encouraged by public authorities. Organisations of the social economy obviously have a role to play, without inviting or allowing for the creation of a "second market" for those excluded from a "first, regular market" to prevent from segregation and the development of solidified market segments.

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

Yes, as an integral part of social impact assessment at national and European level.

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?*

What is needed, in SOLIDAR's view, is a **strict and comprehensive regulatory framework at national level**. This is the level where obligations can directly and immediately be enforced by competent public authorities and where possible compensations for the realisation of public service obligations can be defined. The appropriate reference point for this is that access to a basic bank account is indeed a

effectively worked and acknowledges that it cannot serve as model for all 27 EU Member States to actually deliver on the main objective as supported under question 1.

service of general interest. An explicit definition and recognition of this quality at Member State level has to be carried out, where this has not yet been done.

In addition, all policies directed towards attaining the aim of giving access to a basic bank account for all people residing in the EU should be coordinated with and embedded into strategies and measures to fight poverty and social exclusion. **Education on financial issues** must be promoted in various formal and informal learning contexts. NGOs can bring in expertise, offer counselling and training, and work in partnership.

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?*

In the follow up process to this consultation, the Commission has the opportunity to support the setting up of a comprehensive, enforceable, and inclusive framework to benefit all people residing in the EU.

The consultation document outlines the **diversity of solutions and regulatory approaches to address financial exclusion**, both by financial services providers and public authorities. SOLIDAR supports the realisation of two policy options set out in the consultation document: 1) The promotion and sharing of best practices and 2) the issuing of a Recommendation or Communication stipulating principles and actions to ensure that every EU citizen or resident has access to a basic bank account.

In SOLIDAR's view a **European level regulation taking the form of a directive is not the appropriate instrument** (at least not to start with), given the diversities of social and economic realities referred to in the replies to questions 1 and 2 and the broad range of solutions and regulatory approaches to address financial exclusion listed in the consultation document and mentioned above. In addition, European level regulation would most likely fail to adequately take into account interrelations between 1) measures to safeguard access to a basic bank account and to promote financial inclusion, 2) regulations around attachment of wages/earnings, 3) eligibility criteria and entitlement conditions in minimum income/social assistance schemes and 4) measures to support over-indebted persons.

The majority view of SOLIDAR members having given input and feedback support a strategy of **“muscling up” national solutions in the context of a comprehensive, enforceable, and inclusive framework at European level**. SOLIDAR therefore also advocates for a stronger and comprehensive inclusion of issues related to financial exclusion – with a clearly broader focus than the one suggested by the Commission under this consultation – under the OMC Social Protection and Social Inclusion. This approach should be promoted and realised before embarking on legislative initiatives in view of a regulatory approach, e.g. in form of a directive.

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

In SOLIDAR's view the cross-border dimension is an issue of minor importance. All efforts should be geared towards implementing an enforceable framework effectively

guaranteeing access to a basic bank account in the country of residence in any case as top priority.

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

The concept of financial inclusion obviously covers more aspects than the provision of basic bank accounts. **Full financial inclusion requires access to other essential banking services**, such as low-interest credit and insurance coverage at decent and fair conditions or access to financial and counselling services, as well as to online services.

Brussels, 8 April 2009

SOLIDAR is a European network of 50 NGOs and labour movement organisations working towards all people living in dignity. Working in alliance with trade unions, SOLIDAR promotes equality, solidarity and social justice in the fields of social affairs, international cooperation and education in Europe and worldwide. For more information visit www.solidar.org