

ENSURING ACCESS TO A BASIC BANK ACCOUNT

Commission consultation

BEUC's Response

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Summary

This is BEUC's response to the Commission's Consultation on financial inclusion which aims at collecting views from all stakeholders on how financial inclusion can be improved and, more specifically, how to best ensure that every EU citizen or resident has access to a basic bank account by a certain date.

Financial inclusion is one of BEUC's members' priorities in the area of retail financial services: "Basic banking services should be available and accessible to all EU consumers everywhere in the EU". Therefore, we consider that access to a basic bank account is only an initial step towards providing all EU consumers with basic banking services.

BEUC's position with regards to the Commission's Consultation is as follows:

- Every EU citizen and resident should have access to a basic bank account;
- We agree with the description of causes and consequences of financial exclusion;
- Financial service providers' need to make profit can and must be reconciled with their social obligation vis-à-vis excluded groups;
- In many Member States voluntary codes of conduct have proved to be inefficient;
- All providers should be obliged to offer basic bank accounts to all citizens throughout the EU
- Basic bank accounts can be provided either on a commercial or not-for-profit basis. In any case fees must be affordable and strictly cost-based;
- The role of alternative commercial and not-for-profit financial service providers in addressing financial exclusion can be enhanced. Regulators must consider the impact of regulation on financially excluded groups;
- The role of public authorities in combating financial exclusion is crucial;
- Financial inclusion should be addressed at EU level;
- The Commission should remove all the obstacles preventing consumers from opening a bank account cross-border;
- The concept of financial inclusion should not be limited to the provision of basic bank accounts, but must also cover other basic financial services.

Access to financial services is key for consumers to be integrated in society, and to live a normal social and economic life. Financial inclusion is also an important step towards completing an integrated EU market in financial services¹. The EU Financial Services Policy for 2005-2010 stresses that *"accessing a bank account is the entry point for most consumers to financial services and markets and increasingly important for citizens to participate in the market and society"*².

Financial inclusion constitutes one of BEUC's members' priorities in the area of retail financial services: *"Basic banking services should be available and accessible to all EU consumers everywhere in the EU"*.

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?*

We strongly agree with the Commission's objective. Access to financial services is key for consumers to be integrated in society, to live a normal social and economic life, and key in further areas — as highlighted in the Green Paper on retail financial services aimed 'to facilitate EU citizens' full participation in the economy': access to a bank account and 'basic' payment services in particular, but also access to motor insurance for some categories of consumers (young drivers in some Member States), saving accounts and credits for instance need to be considered.

Without access to a basic bank account, a great deal of important financial services remains inaccessible. Moreover, bill payments can be more time-consuming and costly without a bank account, and charges can be higher for basic financial transactions such as cashing cheques. It can also be more difficult to take up employment or find accommodation without a bank account, while people without a debit or credit card are unable to take advantage of the lower prices of goods and services that can be bought with such cards. Even finding a job might become difficult if one does not have a bank account due to the administrative burden associated with paying the salary in cash.

The introduction of basic bank accounts on a universal basis (an EU-wide right to a current account) would be an important step in encouraging the 'unbanked' to become involved in banking services.

The main initiative introduced internationally to bring financially excluded people into the banking system has been the provision of basic banking services. This has happened in Belgium, Germany, Italy, France, the Netherlands and the UK. Basic banking services involve the provision of simple, low-cost current accounts, designed for people who want to ensure that they cannot overdraw their account.

Access to a savings scheme for low-income consumers should also be taken into account.

¹ It is a part of the Financial Services Action Plan (FSAP) adopted in 1999 and designed to open up a single market of financial services in the EU.

² See the White Paper "Financial Services Policy 2005-2010" at: http://ec.europa.eu/internal_market/finances/docs/white_paper/white_paper_en.pdf, page 14.

The main challenge is to ensure that the initiative reaches those consumers in need of a basic bank account and that such bank account constitutes an affordable and useful tool for strengthening their re-integration into the economic and social life.

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

We agree with the description of causes and consequences of financial exclusion. Among the main causes of exclusion one can find economic difficulties, like bad credit scoring in some Member States (see Germany where such tool is badly used), bankruptcy or insolvency proceedings.

In Italy for instance, there are 1.3 million people without a current account, mostly seniors who never had a bank account, people experiencing problems with paying their debts and migrants.

In Denmark, in spite of the right to a basic bank account, some Danes are denied this right. The reason for this is that they are not considered as "attractive" customers. The people that are denied a bank account are typically people with mental and/or financial problems.

In UK, low-income consumers fear being subject to fraud and exposed to default charges or debt as a result of opening bank accounts rather than managing their money in cash. The reason is that, on the one hand, traditional bank accounts do not accommodate their specific needs in respect of being able to control and keep a track of their finances and, on the other hand, the banking sector is not proactive about basic bank accounts which are generally seen as high-risk and low-profit.

More generally, we think the problem of financial exclusion does not come from a lack of demand but more from a restriction of the offer that only targets the most profitable part of the population. This restriction is not based on potential risks that banks do not want to assume - basic banking services do not include overdraft services - but on a cost-benefit analysis.

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?

We think that financial institutions have to develop basic banking services as a part of their corporate social responsibility activities.

Obviously, this does not prevent financial service providers from making profit but we think this can and must be reconciled with their social obligation vis-à-vis excluded groups (French and Belgian examples confirm such a possibility).

Providing bank accounts to people that are not “attractive” customers is simply a cost of banking, just like paying taxes for instance. It is not a matter of profitability but a social obligation. Nowadays it is difficult to receive certain services without having access to basic bank services, given unemployment benefits, social pensions etc. are generally only paid into a bank account.

Another rationale is that providers’ quest for profits is partially responsible for the generation of excessive consumer indebtedness and consumers’ losses in the retail investment markets, whilst the externalities of profitable markets’ expansion are borne by consumers, governments and taxpayers. Provision of free bank accounts with low-cost payment instruments can be seen as a partial internalisation of the described costs.

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

In Slovenia, the few voluntary codes that exist in the area of financial services have not led to the desired impact. Similar feedbacks have been received from some other Member States such as Germany and Belgium. The German non-binding code of conduct has raised numerous problems in terms of commitment: the reasons for rejections are neither clearly defined nor concluding, and the granting of an account is in some cases combined with extremely high fees. The codes of conduct are popular with financial service providers because they can help avoiding the adoption of binding rules and are used as useful marketing tools. In contrast with self-regulation, the laws adopted by seven German states to grant everyone a bank account yielded positive results.

In our view, the impact of codes strongly depends on the prevalent cultural and corporate social responsibility patterns present in society. In countries where such traditions exist, voluntary codes have greater chances to be respected, while in most countries this is not the case. This fact is reflected in the Commission report on financial inclusion which states that the impact of self-regulation is mixed: effectiveness and compliance problems of voluntary charters are currently questioned (IT and DE) or have paved the way to the introduction of a regulatory system (FR and BE), while other experiences are rather positive and ensure high levels of transaction banking inclusion (UK and NL)³.

It is clear that self-regulation creates distortion and uneven situations between Member States. As a result, citizens in some Member States find themselves financially and socially excluded. Therefore, the Commission’s objective of overall financial inclusion in Europe can not be tackled by means of soft law.

³ Commission’s report “Financial Services Provision and Prevention of Financial Exclusion” can be found at: http://ec.europa.eu/employment_social/spsi/docs/social_inclusion/2008/financial_exclusion_study_en.pdf

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 throughout the EU. This must be achieved through Community legislation setting minimum common standards for all EU countries.

One must keep in mind that the main objective of the basic bank account initiative should be maximizing the coverage and outreach to consumers. Since many of the financially excluded are not Internet users, the geographical coverage of access points (bank offices) should be as broad as possible.

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

Basic bank accounts can be provided either on a commercial or not-for-profit basis. In any case, because they address financially excluded groups which by definition experience financial trouble, fees must be affordable and strictly cost-based. Banks should not be allowed to discriminate customers, i.e. charge unattractive customers a fee while attractive customers get the same account, free of charge. In Germany, for example, some banks have developed a policy that makes basic bank accounts very unattractive: charging very high fees for using these accounts, tying a basic bank account with other products like life insurance, etc.

At the same time, not-for-profit basis does not mean that the bank only encounters costs when providing a basic bank account. These can be covered by fair-priced charges for all kinds of transactions.

In Italy fees for some basic bank accounts are higher than fees for current accounts. In addition, basic bank accounts are not coupled with deposit accounts, meaning consumers holding such accounts can not benefit from deposit interest rate.

In Denmark, competition ensures that basic bank accounts are provided free of charge. If a bank provides a basic bank account free of charge to some customers, the same practice should be extended to all customers (who have a right to a basic bank account) of the same bank.

Question 7: Could the role of alternative commercial and not-for-profit financial services providers (e.g. microfinance institutions in Belgium and France, credit unions in the UK, Ireland and Poland) 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 service providers in addressing financial exclusion can be enhanced.

However, as far as microfinance institutions and other non-banks are specific national developments, their inclusion into an EU wide approach is difficult. We recognise the fact that they play an important role in some EU Member States, but they are absent in some countries, for example in Slovenia. Another question should be addressed, as to whether the network of these institutions is broad enough to reach the necessary geographic coverage.

In order to encourage further providers to help with access to basic bank accounts, competition should be promoted between traditional and alternative financial services providers. The achievement of this aim might in some cases need the adoption of legislative rules allowing non-banking institutions to provide bank accounts. In Denmark, for instance, banks only are allowed to receive bank deposits; therefore banks only provide bank accounts. In UK, not all credit unions are able to provide current accounts.

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

Regulators must be required to consider the impact of regulation on financially excluded groups.

Financial market regulators too often focus on prudential management of the banks only, and do not take into consideration the social effects of the proposed measures. The regulation of financial markets considerably affects the everyday life of consumers (e.g. rules on credit registers that can generate financial exclusion); thus, this aspect should be dealt with when new regulation initiatives are planned.

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?

In many countries, especially new Member States, the trends and generation mechanisms of financial exclusion are not monitored. Quite often, the lack of data is used as a proof of positive trends towards financial inclusion, which is indeed false.

Public authorities should: set up mechanisms for tracking the development of financial exclusion in society and engage in discussions with all relevant stakeholders on measures aimed at preventing exclusion and supporting the excluded; verify the availability and adequacy of market offer for financially excluded groups; regulate bank account fees for basic accounts (for instance by fixing a maximum fee) if commercial offers are not affordable; implement the decisions taken at EU level aimed at dealing with financial exclusion.

Public authorities should listen carefully to consumer organisations when drafting new legislation that would have an impact on consumers. As the current debate on financial inclusion is all about European consumers, consumer organisations must be strongly involved in the whole process of drafting, implementation, monitoring and evaluation of corresponding measures.

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

Financial inclusion should be addressed at EU level. We are in favour of a Community legislation with regard to financial inclusion so that all economic actors across Europe comply with these rules. It is an important step towards ensuring that basic bank services are offered in all EU countries.

Financial exclusion is also a market failure and a consequence of the trends of EU financial services markets which are becoming more and more integrated. Among the Commission's initiatives for further integration of the Single Market, financial exclusion should not be omitted. The Commission should establish benchmarks regarding monitoring of financial exclusion - that should be implemented nationally - while minimum requirements for action in the fields of prevention and eradication of financial exclusion at national level should be established. Regular reviews should take place and main problems/best practices identified.

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

As we already mentioned above, a minimum harmonisation in this area is crucial to provide all EU citizens with minimum financial services (see our answer to question 10).

Nowadays, it is very difficult to open a cross-border bank account because many commercial banks do not want to deal with consumers residing in another EU country. Besides, there are other specific difficulties for consumers, like languages, proof of identity and the changes in legal systems in different Member States.

The Commission should first consider the question of the right for consumers (and citizens) to open a bank account everywhere in the EU and propose measures that would remove all the obstacles consumers face when they live in another Member State. Concerning basic bank accounts more specifically, the Commission should propose measures insuring that all relevant information is provided when necessary and in the customers' mother tongue.

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

The concept of financial inclusion should cover financial services other than the provision of basic bank accounts.

Payment instruments access is not the only requirement to combat financial exclusion. Excluded consumers also need access to credit and savings for normal participation in social and economic life. The Commission could consider initiatives to stimulate the development of the microfinance market, based on the principles of responsible lending. Furthermore, prepaid basic payment cards (with small charges) and simple deposit products should be a part of the basic bank account.

We believe that a common EU ceiling on the Annual Percentage Rate (APR) charged for consumer credit, combined with initiatives to ensure access to microfinance (small loans) on reasonable terms would be beneficial for financially excluded groups. In Denmark for instance, people with financial problems are typically not able to get loans on reasonable terms in banks. Therefore, they are left to use alternative (and expensive) channels to get loans, where the APR can be as high as several thousands percent for payday loans (sms-loans, etc.).

We also think that it is necessary to adopt binding protecting measures on the attachment of bank accounts in order to preserve vulnerable consumers' interests.

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