



Response to the European Commission consultation: Financial Inclusion: Ensuring access to a basic bank account

March 2009

Background and summary findings

1. The Financial Inclusion Taskforce was established by HM Treasury in February 2005. In December 2007 its terms of reference were extended for a further three years to 2011.
2. The Taskforce's remit covers the Government's strategic priorities to improve access to banking, affordable credit, free face-to-face money advice, savings and insurance. The Taskforce also advises on stimulating demand for financial services amongst hard-to-reach groups.
3. With regard to access to banking, the Taskforce's formal terms of reference include provisions to:
 - gather further evidence on usage of basic bank accounts and make recommendations to HM Treasury on next steps for banking in light of the emerging evidence; and
 - monitor developments in the way banking services are delivered and distributed, and report to HM Treasury on the opportunities and threats to financial inclusion.

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?

4. Yes – access to banking is a fundamental aspect of financial inclusion and can act as a gateway to further products and services. Inability to access a basic bank account can have significant impact on both individuals and economies. However simply having a bank account is not in itself sufficient. The ultimate goal is to provide the account holder with access to the facilities that bank accounts can offer, such as storing money safely, receiving electronic payment of wages (which increases employment opportunities), the ability to cash cheques without paying fees to intermediaries, accessing the savings that can be made by paying for services directly, and by purchasing goods online.

5. There are both supply and demand side barriers to extending access to basic bank accounts to all. On the supply side, banks and other deposit-taking institutions are obliged by European legislation to adhere to anti-money laundering regulations which require a certain level of identity and address verification. While these are necessary for the prevention of terrorism and serious organised crime, they may deter some customers who do not possess standard forms of identification.

6. However, efforts are made to mitigate this in the UK by allowing banks to apply a risk-based approach to customer identification and to accept a wide range of potential identification documents. It should also be recognised that it is in a bank's own commercial interest and best practice to know its customer.

7. On the demand side, the circumstances of the recent economic downturn are likely to have diminished many peoples' trust in the mainstream financial system. It is also possible that as unemployment increases, accounts may become dormant. Whilst access to banking is a fundamental aspect of financial inclusion, it is important that the Commission recognise banking as a 'gateway' to broader financial inclusion.

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

8. The Taskforce agrees that the consequences of financial exclusion are well described by the consultation. At the most basic level, financial exclusion imposes additional costs, often on those who can least afford them – and can lead to other forms of harm or disadvantage, such as inability to access vital services or difficulty in obtaining employment (as many employers expect to pay wages electronically).

9. The causes of financial exclusion are more complex. In the UK, the Financial Inclusion Taskforce have monitored progress towards the "Shared Goal" set by Government and industry in 2003, to halve the number of adults in unbanked households¹. The Taskforce have reported each year and analysed data from a large-scale representative survey of households. The latest report shows that lack of access to a bank account is correlated strongly with a number of socio-economic attributes, including income level, household composition, economic /occupational status, and housing tenure.

10. Although the data does not give an indication of the causal relationship, it shows links between lack of bank account and : low income; single parent families; unemployment; residence in social housing. Low income is a common feature of many members of the latter three categories and could be a key driver of exclusion.

11. It is also important to recognise that many of those who are considered to be 'self-excluded' will often have quite rational reasons for not engaging with financial service providers. In particular, those living on a low income often value the flexibility offered by dealing with a weekly cash budget - where resources are immediately accessible, immediately quantifiable and provide an firm buffer for spending. Moreover, the control retained over payments enables the individual to apply their own prioritisation to competing demands on expenditure. Where the underlying problem is inadequate income, access to a bank account is not the solution. For many who are financially

¹ Defined as households in which no adult has access to a bank account of any sort.

excluded, mistrust of financial service providers is also an important reason for remaining outside the formal financial system.

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?

12. Yes – we believe it is possible to reconcile financial service providers' legitimate need to make profit with a social obligation they have to excluded groups. In the UK we have achieved this by supporting a collaborative approach between Government and industry to address market inefficiencies and to ensure that appropriate products are developed and offered that benefit both consumers and industry. The focus should be not just on ensuring that consumers can obtain products, but also that they can obtain the benefits associated with holding those products.

13. The UK welfare benefits system provides a safety net for the most vulnerable consumers. For those who prefer not to access a basic bank account, the Government has worked with the financial services industry to ensure that a card account is available for the electronic transfer of benefits.

14. It is acknowledged that the Post Office Card Account lacks some of the features which enable financial inclusion in the fuller sense, however it does enable individuals to become acquainted with electronic transfer of payments and the 'chip and pin' mechanism which can build very basic levels of financial capability that will be needed to transition to more comprehensive transactional products.

15. Many of the financially excluded live on low incomes, however collectively they hold significant buying power and should not be assumed to be an unprofitable market. Although they may not generate such high returns as middle-market products, their fundamental needs in terms of financial services are for basic products that should not be expensive to provide.

16. The UK approach has been to explore to what extent the provision of financial services for this group of the population can be made on a profitable basis. If this can be achieved then it ensures that inclusion initiatives will be sustainable in the long term, and that they will not be reliant on continuing subsidy or government pressure.

17. As private companies, banks are obliged to return a profit to shareholders – and if, as we believe, providers can profitably serve excluded groups then financial inclusion could serve shareholders' interests.

18. However, such services may not generate immediate returns. They may also carry an opportunity cost, where time and resources invested in serving excluded people could be more profitably invested elsewhere. Financial inclusion work therefore also represents, at least in the short term, an opportunity for banks to extend their commitments to supporting the communities they serve as well.

19. In addition, it should be recognised that product supply is not the only problem in serving the financially excluded. Demand is also a significant aspect, as many excluded consumers lack the confidence or, in some cases, the skills and abilities needed to interact with financial institutions, or to manage their budget in any way other than cash.

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

20. In the UK, the banking industry has been guided since the early 1990s by the Banking Code, a voluntary code of conduct developed by the industry, which includes measures relating to the opening of basic bank accounts. This code, along with monitoring performed by an independent body, the Banking Code Standards Board, contributes greatly towards improving industry practice. The FSA has recently consulted on a proposed new framework for regulating retail banking conduct of business to replace these voluntary arrangements.

21. The Taskforce believes that the Banking Code was crucial in supporting progress towards reducing the number of unbanked households in the UK, however the effective monitoring of the voluntary code was at least as important as the content of the code itself in ensuring its proper application. Therefore the Taskforce recommends that where voluntary codes of conduct are used, they should be accompanied by robust monitoring arrangements.

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

22. No - the UK experience has been that a co-operative approach can achieve good results, with the industry making a voluntary commitment to ensure that basic accounts are available to all and working to develop appropriate promotion and staff awareness of the product. Additional support to vulnerable groups of individuals from voluntary organisations also helps stimulate demand and reduce the barriers to accessing existing products.

23. Although all EU citizens should ultimately be able to have access to a basic bank account in whatever country they are in, it is not necessary or realistic to oblige providers to offer a universally available account. While most high street banks could reasonably be expected to offer a basic bank account available to anyone that is resident in the country there is little point, for example, in requiring private banks to offer basic bank accounts. It is undesirable to impose costly additional regulatory requirements to achieve an outcome that could also be reached more efficiently through positive engagement with industry.

24. A universal obligation on providers to offer basic bank accounts is not a necessary condition of universal access to basic bank accounts by consumers, and could even be counter-productive if institutions feel that they have fulfilled their obligations simply by making such a product available without engaging with broader financial inclusion issues. These include ensuring that account features are suitable for the needs of vulnerable customers, and that branch staff are properly informed about the account.

25. Finally, while we would welcome any initiatives to enable cross-border account opening where that is feasible, the focus from a financial inclusion perspective should remain on ensuring that citizens are able to access a basic account in their country of residence.

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?

26. The question suggests mutual exclusivity between commercial provision and absence of charges. This is not a necessary assumption – basic bank accounts can be provided free of charge through a combination of profit from a margin on the interest paid on balances, cross-selling of additional financial products and interchange fees from card transactions on the account. If it were necessary in order to keep basic bank accounts free of charge to the user, we not object to basic bank accounts paying no interest on deposits, as the benefits to the financially excluded from access to a bank account would typically exceed the benefits they are likely to receive from interest on the balance they are likely to hold.

27. It would be preferable for the costs of basic bank account provision to be covered by the provider from the revenue generated by the account. If the immediate revenue stream is insufficient, the provider should bear any additional costs in anticipation of future expected profits to be made from the account and from the proportion of the basic bank account holders that can reasonably be expected to transition to full current account facilities. However, if fees are charged to the consumer, they should above all be simple, clearly communicated and affordable to those on low incomes (preferably a low fixed monthly or annual amount with no additional charges or fees for unpaid direct debits or standing orders).

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?

28. In the UK a successful scheme has been initiated in which access to a banking platform is provided to credit union members through a commercial arrangement between a high street bank and individual credit unions. This arrangement gives the credit union members access to all the benefits of a full banking service, but provided through a trusted and familiar institution. The Financial Inclusion Taskforce, which recently reported to the UK government on bank actions to support affordable credit, expressed a desire to see more competition in this market and encouraged other banks to consider making their own products available through credit unions.

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

29. All regulation should consider the impact on relevant vulnerable groups and as such, any regulation of financial services should consider the impact on financially vulnerable groups. However a specific requirement may be difficult to formulate, given the differing nature and extent of financial exclusion across member states.

30. In the UK, the FSA has committed to a set of principles aimed at improving regulation. These include that new regulation should only be introduced where there is a demonstrable market failure, consulting at all stages of the introduction of new regulation and integrating the economic assessment of the likely effects of legislative proposals into policy-making processes.

31. It is important to bear in mind that regulation will, by nature, increase the difficulty in accessing financial services for some – in some cases it is designed to do so. For example, anti-money laundering regulations exist to prevent criminals, or those with criminal intent, from accessing financial services. This is necessary to protect public safety, and reduce crime, however it inevitably results in barriers to access. While there is every reason to examine ways in which the barriers can be reduced, this must always be undertaken on the understanding that it will probably not be possible to avoid all negative impacts.

32. Nevertheless when developing European Directives, it should certainly be considered best practice to assess the impact on various strata of the consumers that it will affect – among which should be the financially excluded. Furthermore, it should be considered best practice for regulators at a national level to exercise similar procedures when considering how to implement the directive in their jurisdiction and when undertaking consultations and cost benefit analyses in relation to new regulations

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?

33. Public authorities can play a key role in gathering information on the financially excluded, identifying areas and sectors where the greatest need exists. The Financial Inclusion Taskforce provides an independent voice that can evaluate the success of policy measures with impartiality, and can also raise the profile of financial inclusion as a whole through public comment and through direct engagement with stakeholders.

34. Policy-making is a vital role of public authorities in combating financial exclusion, however without the appropriate research to inform policy formation and evaluation of ongoing effectiveness, it runs the risk of being ineffective or even counter-productive.

35. Public authorities can also have a significant impact through indirect action. For example, it is acknowledged that a major cause of the increase in households with access to a bank account in the UK was a change in the method of payment of benefits – from a system where recipients could receive benefits payments in cash on presentation of a benefits book, to one where payment is made directly either into bank or building society accounts, or into a post office card account.

36. Public authorities also have a vital role at a local level, as they are in regular direct contact with financially excluded groups, and can develop partnerships with

appropriate local organisations to deliver targeted assistance in a way that centrally administrated initiatives cannot.

37. Where public authorities at a local level also act as housing providers they can also scrutinise their own internal mechanisms for establishing new tenancies and debt collection procedures for rent and local taxes. By providing advice and guidance to new tenants they can support the opening of an appropriate account for electronic rent payments, and offer resources or guidance on basic budgeting. Early and sympathetic intervention for tenants in arrears will help reduce losses incurred by the authority from unpaid rent or tax, as well as helping tenants avoid evictions as a result of debt.

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?

38. Yes. Financial inclusion is a cross-border issue, however the needs and the most appropriate interventions will differ widely between member states. It would be extremely difficult to develop an over-arching strategy that would be effective for all. The Commission could play a useful role by encouraging member states to make financial inclusion a political priority, with actions appropriate to their own situation.

39. Even simple actions such as compiling an annual report on financial inclusion initiatives undertaken or objectives set in each member state could significantly raise the profile of financial inclusion and encourage Governments and businesses to act. Dissemination of good practice and of “what works” would also be valuable.

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

40. The Commission should encourage member states to work with financial service providers to ensure that they offer basic bank account products that provide a minimum level of access to transactional banking services, while limiting the provider’s exposure to fraud or loss – for example by limiting or removing credit facilities. In recognition of these restrictions to the account, providers should be encouraged not to deny accounts to applicants with poor or non-existent credit history.

41. The Commission could also consult on the possibility of developing cross EU data sharing protocols to enable financial service providers to verify identities for citizens who wish to open an account while resident outside their country of origin.

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

42. Yes. Although access to a bank account is a fundamental aspect of financial inclusion, there are a number of other needs that should also be considered. Once again, these may well differ according to the circumstances of individual member states. However one service that will almost certainly be of universal necessity is access to free, impartial sources of money advice – this can be tailored in each jurisdiction to be relevant to the particular needs and characteristics of the population

and the dynamics of the financial service industry. Other matters that the Taskforce consider to be fundamental to basic financial inclusion in the UK are access to sources of low value, affordable credit with responsible conditions for lending, affordable home contents insurance (particularly for those living in rented accommodation), and access to appropriate savings products.

43. Furthermore, to achieve full financial inclusion relies not only on giving access to products and services but on ensuring that those products and services are used properly to the benefit of the user. Financial inclusion initiatives should therefore be supported by efforts to raise consumers' financial capability - the knowledge, skills and motivation to manage their engagement with financial services, and make the most of the opportunities that those services offer.