Combat Poverty Agency
working for a poverty-free Ireland

Policy Submission

Ensuring Access to a Basic Bank Account

Submission to European Commission DG Internal Market and Services on Financial Inclusion

April 2009

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- **Introduction**

The Combat Poverty Agency is a state advisory agency developing and promoting evidence-based proposals and measures to combat poverty in Ireland. One of the functions of Combat Poverty is to advise the government on all aspects of social and economic policy pertaining to poverty.

Combat Poverty welcomes the opportunity to comment on DG Internal Market and Services consultation document on *Financial Inclusion: Ensuring access to a basic bank account.* In 2006 Combat Poverty published the first Irish study on financial exclusion[1] with the support of the Financial Regulator and subsequently a policy statement based on this research and European reports.[2] Combat Poverty also participated as a research partner in two studies funded by the European Commission on financial exclusion[3] and over-indebtedness[4].This submission draws on our research and policy work at both a national and European level and from our experience of working with people experiencing poverty.

The submission replies to the 12 questions posed by the European Commission in its consultation document:
http://ec.europa.eu/internal_market/consultations/2009/financial_inclusion_en.htm

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[1] Corr, C. 2006. *Financial Exclusion in Ireland: An exploratory study and policy review.* Dublin: Combat Poverty.
[2] Combat Poverty. 2008. *Tackling Financial Exclusion in Ireland.* Dublin: Combat Poverty.
[3] European Commission. 2008a. *Financial Services Provision and Prevention on Financial Exclusion.* Brussels: European Communities.
[4] European Commission, 2008b. *Towards a Common Operational European Definition of Over-indebtedness.* Brussels: European Communities.

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?

Yes and Combat Poverty highlighted this in a recent policy statement.[5] Combat Poverty believes that the provision of basic bank accounts is an important element in the battle against social exclusion. In 2006 Combat Poverty carried out the first study in Ireland on financial exclusion.[6] This study showed that a basic bank account is a necessity in order to participate fully in economic and social life in Ireland.[7] The provision of basic bank accounts is now part of government policy in Ireland since the recapitalisation scheme announced in 2008 which aims to ensure stability in the Irish banking sector. In return, the scheme obliges the two banks in question to promote basic bank account to low-income groups.

Combat Poverty believes that a basic bank account is the key financial product as it offers a range of services including access to cash, bill payment facilities and money transmission (through direct debits and standing orders). It is also important that a basic bank account is seen as the first step towards greater financial inclusion and therefore acts as a gateway to a range of other financial products, such as affordable credit, savings and insurance (in particular home contents insurance).

From the European perspective there are a number of challenges. These include defining the minimum requirements of a basic bank account which can be applied across different Member States, ensuring that appropriate regulation and monitoring of such an initiative is put in place and that any initiatives are appropriately evaluated and assessed. A key challenge for the European Commission is the difference in availability and access to bank accounts in Member States. Compared to the other EU-15 countries, Ireland has the fourth highest level of financial exclusion (12%) and this is substantially higher than the EU-15 average (7%). The most recent figures collected at a national level through the Household Budget Survey (2005)

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[5] Combat Poverty. 2008. op. cit.
[6] Corr, C. 2006. op. cit.
[7] Low-income consumers were interviewed as part of the research study and a number of recommendations were made on the key features of a basic bank account, based on their needs. These include:

- Debit (ATM and point of sale) card with no government stamp duty
- Flexible account opening requirements
- No minimum opening or monthly balance
- Free transactions
- No account-keeping fees
- Electronic funds transfer facilities
- Direct debit/standing order facilities
- No overdraft facility or chequebook
- Buffer zone of €20 (allows customers to withdraw a little more money than is allowed)
- Weekly bill payment account (suits the budgeting needs of low-income consumers)
- Financial advice and information

carried out by the Central Statistics Office showed that 23% of households in Ireland have no current account. Furthermore, market research surveys show that approximately 10% of individuals in Ireland have no bank account at all.

Another challenge for the European Commission is the difference between the new accession states and other European countries. A recent study funded by the European Commission showed that access to bank accounts was much lower in the new accession States but it was also not a necessity for these citizens to have a bank account in order to participate fully in economic life there.[8]

A further challenge in Ireland and in other European countries is that financial exclusion is likely to increase in the current economic climate.[9] In relation to access and use of bank accounts two key challenges are highlighted:

- European research[10] has found that one of the key causes of financial exclusion is labour market changes and hence, the significant increase in unemployment in Ireland and elsewhere in Europe is likely to lead to greater financial exclusion.
- Self-exclusion from financial services is also likely to increase. A drop in income due to unemployment or reduced wages could lead to people withdrawing from financial services so that they can manage their income in cash and therefore have tighter control over their reduced resources.
- Due to the financial crisis consumers may feel more mistrustful of financial services and less likely to engage with them.
- In the current economic climate, consumers are unlikely to be adequately protected as market confidence is lacking and market confidence depends to some extent on consumer confidence. This highlights the need for greater consumer protection.

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

Yes. The causes and consequences summarised in the consultation paper are consistent with research carried out by Combat Poverty in Ireland. Additional causes and consequences highlighted in Combat Poverty's research[11] include:

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[8] European Commission. 2008a. op. cit.
[9] Combat Poverty. 2009 - forthcoming. *Poverty Risks in an Economic Downturn: Emerging issues, priority areas and potential responses.* Dublin: Combat Poverty.
[10] European Commission. 2008a. op. cit.
[11] Corr, C. 2006. op. cit.

Causes

- Poverty and income inadequacy have been found to be key causes of financial exclusion. Furthermore, low-income consumers feel a bank account is unnecessary to manage a low income and hence usually prefer to operate a cash budget.
- In Ireland, the government stamp duty on payment cards (€2.50 for an ATM card and a further €2.50 for a debit card) is a barrier to greater financial inclusion.
- The number and complexity of financial products and providers has increased in Ireland. This can lead to confusion, particularly among low-income consumers.
- An increase in the flexible labour market and unemployment means that these groups are at much greater risk of poverty than those in permanent employment and hence of being excluded from banking services.
- There are a number of vulnerable groups who face specific barriers including immigrants, members of the Travelling community, homeless people and people with physical and intellectual disabilities.
- Geographical access is an issue for low-income consumers who live in disadvantaged areas not served by banks or in rural areas where branches have closed.
- Access to banking services has improved due to the increase in the number of ATMs and developments in telephone and internet banking. However, these development have not necessarily increased access among low-income consumers as they face difficulties accessing money at ATMs (e.g. ATMS being out of order and not being able to take out small amounts of money).
- Despite a move towards ‘free’ transactional banking in Ireland, penalty charges for unauthorised overdrafts, failed standing order/direct debits and bounced cheques remain a barrier to low-income consumers
- Some people risk becoming unbanked as a result of poor credit rating

Consequences

- People without a bank account lack security in holding or storing money (which is therefore at risk of loss or theft).
- It can be more difficult to find accommodation without a bank account if landlords require rent to be paid by standing order.

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?

Yes. Combat Poverty thinks that a false distinction is being made by trying to distinguish between the social obligation and profit orientation of financial institutions for several reasons. Firstly, not all financial service providers are driven by profit (e.g. the credit unions and post offices in Ireland). Secondly, banks are providing essential services and therefore people have a ‘social

right' to these services. Thirdly, banks are contracted on behalf of the State to provide social services (e.g. the payment of welfare payments) and therefore have a social obligation. Fourthly, corporate social responsibility is now incorporated into the work of most financial institutions.

While financial institutions should not be expected to provide all services to all people, 'we may be able to identify certain services [e.g. basic bank accounts] that are so important to consumers that it is appropriate to oblige banks to provide them regardless of their own economic judgement'.[12] The provision of basic bank account has the potential to be beneficial for both financial institutions and vulnerable consumers. Poverty is a dynamic process and people in poverty or who are unemployed today are the workers of the future. Also the more people involved in banking services, the more efficient the economy is which is in everyone's interest.

Combat Poverty also feels that financial service providers should play a much stronger 'social' role in society. In the current economic climate the government has leverage. In Ireland the government has taken advantage of this in order to develop the social role of financial institutions. Under section 45 of the Credit Institutions (Financial Support) Scheme 2008 the Irish Banking Federation has to submit a bi-annual report to the Minister on goals in relation to Corporate Social Responsibility including goals and targets with respect to the promotion of financial inclusion and the development of financial education. Furthermore, the two Irish banks which are being recapitalised will be required to provide basic bank accounts to socio-economic groups where the holding of bank accounts is less prevalent.

While these developments are positive, it is important that all financial institutions, not just those being recapitalised or guaranteed by the State, play a greater 'social' role and this needs to be ensured through much stronger and effective regulation.

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

No. There is no voluntary code of conduct in Ireland in relation to basic bank accounts and experience from other European countries shows that the effectiveness of these voluntary codes of conduct varies. A number of codes of practice have been developed in Ireland by the Irish Banking Federation (IBF). These codes are monitored by the IBF and by third parties (e.g. EU Voluntary Code, European trade associations, European Commission). However, one of the main anomalies in Ireland is that there is no independent body, such as the Banking Codes Standards Board (BCSB) in the UK, with a specific remit to monitor compliance. In 2006 a number of sector-specific codes were replaced by the statutory *Consumer Protection Code.* The Financial Regulator is responsible for monitoring compliance with this code which is issued under Statute and as such any such breaches are sanctionable under the Administrative Sanctions Procedure. However, to-date

[12] Cartwright. 2004. *Banks, Consumers and Regulation.* USA: Hart Publishing.

no information has been publicly released on compliance with the code or sanctions against credit institutions. It is likely that a voluntary or statutory code introduced in Ireland will have little impact on access to basic financial services for vulnerable groups and much stronger regulation is needed.

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

Yes. All providers should be obliged to offer basic bank accounts to ensure that citizens can choose to bank in a financial institution of their choice. Universal banking services should also be promoted where basic bank accounts are provided through intermediaries such as post offices or credit unions. Consideration should be given to obliging Member States to introduce a compensatory financing system, similar to the one introduced in Belgium in 2003. This involves credit institutions contributing money to the fund and institutions providing a proportionally higher percentage of basic bank accounts can apply to the Fund for support.

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?

Yes. As already stated, in its policy statement on *Tackling Financial Exclusion,* Combat Poverty recommended that basic bank accounts should be provided on a not-for-profit basis; i.e. they should be free of charge. This is because transaction charges and penalty charges (e.g. for unauthorised overdrafts, failed standing order/direct debits and bounced cheques) are a barrier to low-income consumers. Therefore, Combat Poverty has proposed that financial institutions should promote financial inclusion and develop services as part of their corporate social responsibility. Secondly, governments could support basic banking services as services of general economic interest (Article 86 of the EC Treaty) and introduce a compensatory financing system (see response to Question 5.).

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?

Yes. Combat Poverty's research has found that low-income consumers in Ireland often prefer to carry out their financial transactions at post offices or credit unions. Therefore, the role of these financial institutions should be enhanced. Furthermore, in countries such as Germany and France, where post offices and savings banks are important players in the provision of banking services, the numbers holding accounts tend to be higher.[13] The most appropriate way in promoting the role of alternative commercial and not-for-profit financial services is through promoting their basic banking services as

[13] Kempson, E., Atkinson, A. and Piley, O., 2004. *Policy-Level Response to Financial Exclusion in Developed Economies: Lessons for Developing Countries.* Bristol: The Personal Finance Research Centre, University of Bristol.

services of general economic interest. A compensatory financial system could also help to promote the services provided by these institutions where funding is provided by other financial institutions (e.g. banks) in providing these services.

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

Yes. In Ireland the greatest barrier to access to bank account for low-income consumers is producing the appropriate identification to open an account. In a submission on the Criminal Justice (Money Laundering) Bill 2005 Combat Poverty recommended the legislation and administrative measures implementing the Third Money Laundering Directive should not deter low-income consumers and other vulnerable consumers from opening a bank account.[14] Combat Poverty recognises there are two clear rationales for regulating.[15] Firstly an economic rationale for the need to correct market failure in the form of information asymmetry, and secondly a social rationale for distributive justice (i.e. what is fair and decent). Combat Poverty would like to see more emphasis placed on the latter. 'While an economic approach to regulation which concentrates on market failure is helpful, it is important to recognise that regulation may also be justified on non-economic groups. In particular, it is suggested that it is reasonable to expect governments, in some cases through the regulatory system, to ensure some degree of social justice'.[16]

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?

- Combat Poverty believes that the key role of governments in promoting financial inclusion is through legislative action. This can be done through direct legislation by imposing upon financial service providers an obligation to provide basic bank accounts. The *Community Reinvestment Act (CRA)* 1977 in the United States is an example of how legislation can contribute to financial inclusion by requiring financial institutions to meet the credit and financial services needs of low and moderate-income communities; banks have provided more appropriate services and supported community development initiatives as a result of this legislation.[17] The rationale for the introduction of the CRA was that financial institutions that receive federal

[14] Combat Poverty. 2008. *Submission on Criminal Justice (Money Laundering) Bill 2008.* Dublin Combat Poverty.
[15] For further information see: Cartwright, P. 2004. *Banks, Consumers and Regulation.* USA: Hart Publishing.
[16] Ibid. pg. 7.
[17] Federal Reserve Board, 2007. *Community Reinvestment Act*. http://www.federalreserve.gov/dcca/cra/

government protection, in terms of deposit insurance and borrowing discounts, should be obliged in return to serve the wider community including those on low incomes. The CRA has been amended on a number of occasions, but still operates on these basic principles. From an economic perspective, the CRA can be interpreted as an attempt to rectify market failures.

- Indirect regulation is also important to insure that obstacles are removed that reinforce financial exclusion (see Question 8. e.g. Anti-Money Laundering Legislation).
- Government action in other sectors can reinforce financial exclusion. For instance, new claimants of some social welfare payments in Ireland cannot receive their payment into a bank account as part of a fraud control measure. This is in direct conflict with efforts to tackle financial exclusion and the Payments Directive. Combat Poverty has recommended that the electronic payment of benefits should be promoted alongside the development of appropriate financial products, such as basic bank accounts.
- The most appropriate way to provide an understanding of the problem of financial exclusion at an EU level is to incorporate some key questions monitoring financial exclusion in the European Survey on Income and Living Conditions (EU-SILC) and to repeat the module on financial exclusion and over-indebtedness carried out in 2008 every 5 years.
- Combat Poverty recognises the importance of strong local and national linkages in tackling poverty and social exclusion. Its research on financial exclusion underlined the contribution of local organisations in assisting low-income consumers to access and use bank accounts and other financial products. The European Study on access to financial services highlighted initiatives introduced in a number of countries to address financial exclusion at a local level e.g. Belgium, the Netherlands and France. Similarly, a recent study in the UK recommended that local partnerships should be developed and supported between the financial services industry and the voluntary sector as a way of meeting local needs.[18] Combat Poverty believes that governments should promote pilot initiatives on financial exclusion in local areas in order to develop good practice in the area.
- Combat Poverty sees financial exclusion as a cross-cutting issue which requires joined-up government. Other governments have acknowledged this and have set up steering committees comprising key stakeholders to address the issue in a coordinated way (e.g. Financial Inclusion Taskforce in UK; Comité Consultatif du Secteur Financier in France; Maatschappelijk Overleg Betalingsverkeer in the Netherlands). Combat Poverty would like to see a similar committee established in Ireland.
- Raising awareness about the availability of basic bank accounts is only a small part of the solution. Vulnerable consumers need to be assisted in accessing basic bank accounts. Voluntary organisations and state agencies working with low-income groups provide crucial assistance with the opening of personal bank accounts. These organisations can help

[18] Mitton, L. 2008. *Financial inclusion in the UK: Review of policy and practice.* Kent: University of Kent

overcome barriers to financial services as they tend to be more trusted and familiar to low-income consumers. However, it is important that they reach out to the most excluded.

- Vulnerable consumers also need to be assisted in using bank accounts appropriately. Forthcoming research from Combat Poverty[19] highlights several reasons why low-income consumers with bank accounts do not use them and are therefore considered marginally banked or underbanked:
    - When low-income consumers receive their social welfare or wages they withdraw their money at once
    - Low-income consumers open a bank account just to pay a direct debit (usually electricity and also Sky) and do not use their bank account for any other financial transactions
    - Low-income consumers only open a bank account reluctantly to receive wages and continue operating a cash budget
    - Low-income consumers do not use their bank account because of a perception that bank charges are still high
- Therefore, Combat Poverty has recommended the need for the provision of financial information, advice, education and advocacy for low-income consumers. International research has found that the most successful financial education initiatives are targeted to the specific needs of excluded groups and delivered in partnership through trusted organisations.[20]

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?

Yes. Combat Poverty believes that financial inclusion should be addressed at an EU level and that the Commission should propose binding rules obliging Member States to ensure access to a basic bank account. Given the varied success of soft law approaches in different countries, a regulatory approach is the most appropriate way to ensure a common response across Member States.

The European Commission could also promote mutual learning on financial exclusion through the Open Method of Co-ordination (OMC) for Social Protection and Social Inclusion. To this end the European Commission has already funded a *Mutual Learning on Financial Inclusion* project. In recent months, social experimentation has been the subject of growing interest, and a recent Communication from the European Commission proposed that social experimentation could be used as ‘a new tool for mutual learning and exchange of best practice’.[21] Combat Poverty would like to see the promotion

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[19] Corr, C. and Stamp, S. 2009 – forthcoming. *Managing a Low Income within the Electronic Economy.* Dublin: Combat Poverty.
[20] Sodha, S. and Lister, R. 2006. *The Saving Gateway: From principles to practice.* London: Institute for Public Policy Research
[21] *A Renewed Commitment to Social Europe: Reinforcing the Open Method of Coordination for Social Protection and Social Inclusion.* Communication for the European Commission, 2nd July, 2008.

of pilot initiatives on financial exclusion in Member States in order to develop good practice in this area.

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

The main barrier to access bank accounts for non-residents in Ireland (as well as Irish citizens) is compliance with anti-money laundering legislation. Unlike some other EU Member States, in Ireland it is necessary to prove address (usually with a utility bill) as well as identity (usually a passport/driving licence). Combat Poverty has recommended that basic bank accounts should apply more flexible account opening requirements.[22] In relation to non-residents the EU could ensure that Member States accept certain documentation from other countries.

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

Access to basic banking services is just the first step towards greater financial inclusion. Combat Poverty's research[23] has highlighted the need for access to affordable credit, savings and insurance:

Affordable credit: Affordable credit is important for some low-income consumers for necessary expenditure such as child-related expenses (e.g. school and clothing), consumer goods (e.g. fridges and washing machines), emergency situations (e.g. funerals and unexpected bills) or changes in personal circumstances (e.g. separation, divorce, relationship breakdown, disability or illness). However, a key concern in Ireland is the difficulties low-income consumers face in accessing affordable credit and the high cost of credit for those experiencing financial exclusion. There are currently 53 licensed moneylenders in Ireland and the interest rat can be as high as APR187.22%. Combat Poverty would like to see an increase in the range of affordable credit options to low-income consumers. The credit union movement in Ireland has a key role to play in this regard. Combat Poverty is also aware of the success of micro credit initiatives in other European countries which have developed out of partnerships between financial institutions (e.g. France; UK, Poland), credit unions (e.g. UK) not-for-profit organisations (e.g. Belgium, France; UK), postal bank (e.g. Belgium), regional authorities (e.g. Belgium) and the state as third partner providing a loan guarantee (e.g. France). Another interesting initiative which could be piloted in other European countries, is the social fund in the UK where the government provides interest-free loans to people claiming social assistance through the Social Fund.

Savings and Insurance: Those living in poverty usually employ sophisticated budgeting strategies to manage their low income. However, many are unable to save or pay insurance due to lack of resources. Accumulating debt is often

[22] For further details see: Combat Poverty. 2008. *Submission on Criminal Justice (Money Laundering) Bill 2008.* Dublin Combat Poverty.
[23] Corr, C. 2006. op. cit; Combat Poverty, 2008.

a common result in the absence of savings and insurance. Asset-based welfare is a new policy approach (particularly in the UK e.g. Child Trust Fund; Savings Gateway Scheme), which aims to increase the number of people benefiting from asset ownership (e.g. savings and insurance). Combat Poverty believes that learning should be drawn from successful initiatives in other countries (e.g. in the UK the Savings Gateway and Insurance with Rent Schemes) in order to promote asset ownership among the financially excluded.

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