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## FINANCIAL INCLUSION: ENSURING ACCESS TO A BASIC BANK ACCOUNT CONSULTATION DOCUMENT

### 1. INTRODUCTION

Over the last few decades, access to basic financial services has become a necessary precondition for participating fully in the economic and social life of a modern society. In particular, access to and use of a bank account, offering a minimum of basic transactions has become key to social integration. The use of cash is decreasing as salaries, benefits and utilities are more and more paid via bank accounts. Increasingly, consumer goods and services are bought via payment cards. However, evidence shows that a substantial number of Europeans are still subject to financial exclusion, leading to a greater risk of social exclusion. Financial exclusion can also present a barrier to the internal market in the EU. Currently, it seems that cross-border access to basic bank accounts in the EU is being restricted, at least to some extent since non-residents do not always have access to a bank account in another Member State.

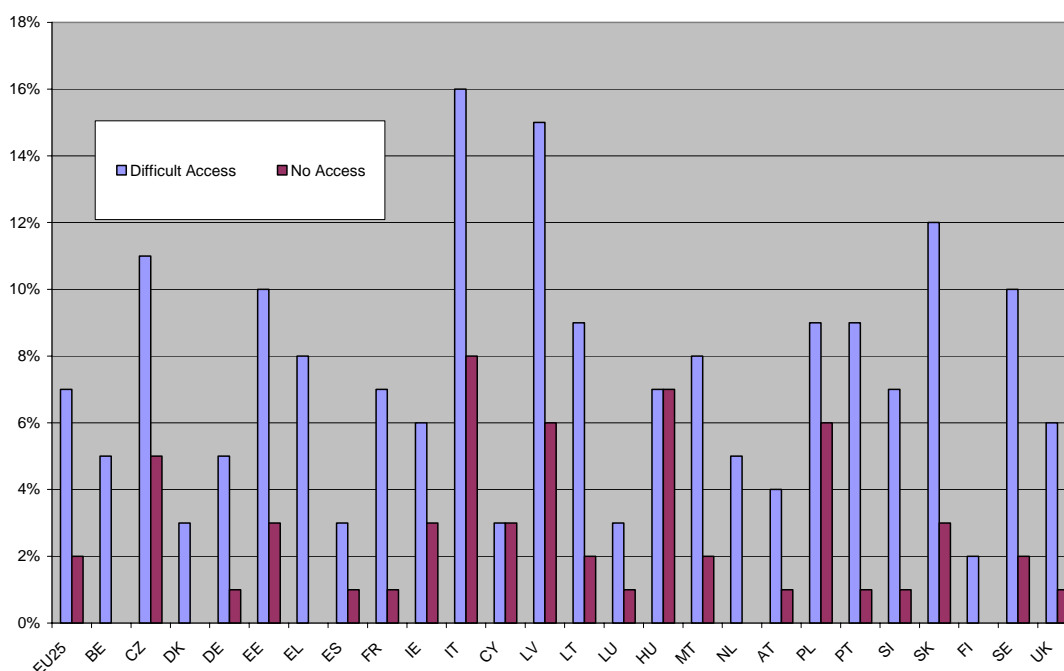
Financial exclusion can potentially have multiple facets. This consultation is, however, limited to basic bank accounts although consideration may be given at a later stage to other financial services which could also play a role in financial exclusion. A basic bank account is to be understood as a bank account which includes services like making and receiving electronic payments for goods and services (e.g. transfers, direct debits, standing orders) and making withdrawals, but excludes any overdraft facility.

According to a 2007 Eurobarometer survey<sup>1</sup>, 7 % of respondents consider access to a basic bank account as difficult, and 2% do not have such access at all.

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<sup>1</sup> Eurobarometer Survey 260 *Consumers opinions on services of general interest* (July 2007) covering the whole of the EU except for Bulgaria and Romania.

**Graph 1:** Percentage of population finding access to the banking system through a current account difficult or impossible



Source: Eurobarometer 260 "Consumers' opinions on services of general interest" 2007.

In most countries, a large number of people are financially excluded, i.e. they encounter difficulties accessing or using a basic bank account in the mainstream market. These people are very often already in a vulnerable position in the society – living on low incomes, unemployed, single parents, recipients of social assistance, retirees, or immigrants. It can therefore be said that financial exclusion forms part of a much wider social exclusion faced by some groups who lack access to housing, education or health care as well as employment.

Moreover, increasing numbers of consumers are likely to be affected as a result of the ongoing financial crisis. Access to basic financial services could become harder as the capacity of industry to meet the needs of consumers will be impacted, potentially resulting in an increased number of people being excluded from mainstream financial services.

The Commission believes that the situation needs to be improved and that, eventually, all Europeans should be guaranteed adequate access to a basic bank account. This belief has been set out in numerous recent Commission statements on the necessity to empower consumers and strengthen their role.<sup>2</sup>

<sup>2</sup> Green Paper on Retail Financial Services, COM (2007) 226, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52007DC0226:EN:NOT>), Communication on Financial Education, COM (2007) 808, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52007DC0808:EN:HTML>, EU Consumer Policy Strategy 2007-2013, COM (2007) 99, [http://ec.europa.eu/consumers/overview/cons\\_policy/doc/EN\\_99.pdf](http://ec.europa.eu/consumers/overview/cons_policy/doc/EN_99.pdf), Recommendation on the active inclusion of people excluded from the labour market, 2008/867/EC, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:307:0011:0014:EN:PDF>.

Most explicitly, in its staff working document on the initiatives in the area of retail financial services<sup>3</sup> accompanying the Communication A Single Market for 21<sup>st</sup> Century Europe<sup>4</sup> adopted in November 2007, the Commission invited all stakeholders to reflect on the possibilities to ensure that by a certain date nobody will be denied access to a basic bank account. The same objective is included in the Renewed Social Agenda<sup>5</sup> adopted in July 2008.

## **2. FINANCIAL EXCLUSION REMAINS A PROBLEM**

In spite of the many positive actions taken both by national authorities and financial services providers, evidence shows that there are still considerable efforts to be made across the EU to ensure access to transaction banking services for all. Today, many people in the EU cannot enjoy all the benefits that the internal market has to offer, or worse, are already in a situation of social and/or financial exclusion. In a market-based economy, financial services 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. Efforts need to be made to ensure access to a basic bank account which is effective and provided at a reasonable cost.

Banking has evolved from a personal service to an electronic service which is difficult for many people. The unbanked need to be better targeted and directed to the right products and services. It can be said that a basic bank account is a gateway to other products like savings, insurance and credit, and therefore access to basic banking services has a vital role to play in measures to combat unemployment and to gain housing, education and health care. Moreover, access to a basic bank account would benefit the whole society since it would make the provision of various types of social allocations more cost-effective.

Cooperation by all stakeholders will be needed in finding ways to remedy the situation. The current financial turbulence has highlighted more than ever the need to manage finances efficiently, and amplified the necessity of creating a greater level of awareness of the issue of financial inclusion across the EU. This could conflict with the flight to safety of financial services providers who will now, more than ever, be inclined to offer products to low-risk consumers.

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<sup>3</sup> SEC (2007) 1520, [http://ec.europa.eu/citizens\\_agenda/docs/sec\\_2007\\_1520\\_en.pdf](http://ec.europa.eu/citizens_agenda/docs/sec_2007_1520_en.pdf)

<sup>4</sup> COM (2007) 724, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52007DC0724:EN:NOT>

<sup>5</sup> COM (2008) 412, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:DKEY=473792:EN:NOT>

### 3. OBJECTIVE AND SCOPE OF THE CONSULTATION

The objective of this consultation is to collect views from all stakeholders on how financial inclusion can be improved and, more specifically, on how best to ensure that by a certain date every EU citizen or resident has access to a basic bank account.

The Commission services would in particular welcome input on how the responsibilities and competences between the public authorities and the private sector, and more broadly between the national and the European level, should best be shared to address financial exclusion, and on what instruments could be used.

The scope of this consultation is limited to access to basic bank accounts which, as described above, include services such as payments and withdrawals but exclude overdraft facilities. Other financial services like savings, insurance, pensions and credit may be considered at a later stage.

**Stakeholders are invited to send their responses to the questions raised in this document by 6 April 2009 to [markt-retail-consultation@ec.europa.eu](mailto:markt-retail-consultation@ec.europa.eu). Responses will be placed on the Commission's website unless explicitly indicated otherwise by the stakeholders in their response. To see how to submit your contribution, please see the Internal Market website at [http://ec.europa.eu/internal\\_market/consultations/2009/financial\\_inclusion\\_annex\\_en.htm](http://ec.europa.eu/internal_market/consultations/2009/financial_inclusion_annex_en.htm).**

<p><b>Question 1:</b> 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?</p>
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#### **4. CURRENT SITUATION IN THE MEMBER STATES**

In 2008, the Commission published a fact-finding study "*Financial services provision and prevention of financial exclusion*" covering the current situation in the EU, with a more in-depth focus on 14 countries.<sup>6</sup> The study provides data on the levels, causes and consequences of financial exclusion in the Member States. It also describes the diversity of policy responses developed in those Member States in the field of transaction banking services, credit and savings.

The results of the study were presented on 28 May 2008 at a high-level conference<sup>7</sup> organised by the Commission. It brought together over 400 participants from all relevant stakeholder groups: public authorities, the financial sector, consumer groups, NGOs and academics. The main conclusion of the conference was that, although functioning markets are strong drivers of social inclusion, they alone might be insufficient to achieve a more financially inclusive society, and that appropriate structural policies are needed. The conference concluded that public authorities, both at national and European level, have the responsibility to guarantee that all Europeans can access and adequately use basic financial services.

##### **4.1. Levels of financial exclusion in the EU**

Although statistics on the unbanked cannot be said to give a complete picture of financial exclusion, given some citizens' cultural preference not to engage with the financial sector, they do represent one reliable indicator of financial exclusion. According to a Eurobarometer survey, at the end of 2003, 10 % of adults aged 18 and over in the EU15 countries (Member States before May 2004) and 47 % of adults in EU10 (Member States which joined the EU in May 2004) had no bank account at all. A further 8 % in the EU15 and 6 % in the other Member States only had a deposit account with no payment card or cheque book. Seven per cent of all adults in the EU15 countries and 34 % in the other Member States had neither a transaction nor a deposit account, revolving credit or savings.

Levels of transaction banking exclusion vary widely between Member States, ranging from 2 % in the Netherlands to 62 % in Latvia.<sup>8</sup> Those most likely to be financially excluded are vulnerable groups (people on low income, unemployed, lone parents, people with disability), as well as people living in areas where no financial services are offered.

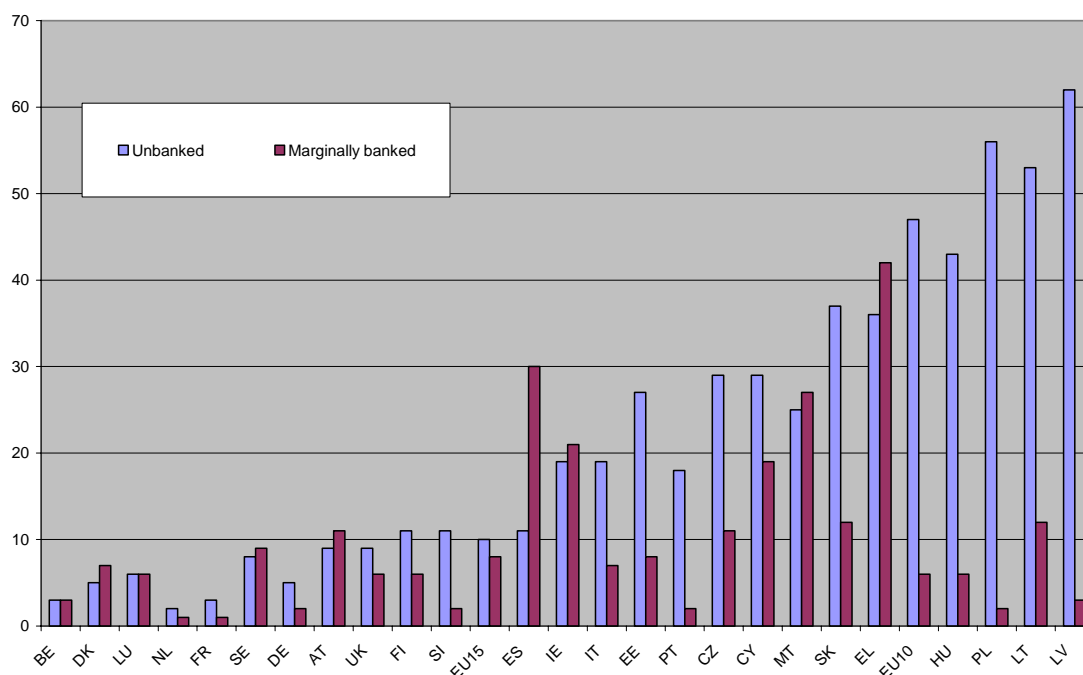
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<sup>6</sup> [http://ec.europa.eu/employment\\_social/spsi/docs/social\\_inclusion/2008/financial\\_exclusion\\_study\\_en.pdf](http://ec.europa.eu/employment_social/spsi/docs/social_inclusion/2008/financial_exclusion_study_en.pdf) and <http://www.fininc.eu>

<sup>7</sup> [http://ec.europa.eu/employment\\_social/spsi/events\\_en.htm#financial\\_exclusion](http://ec.europa.eu/employment_social/spsi/events_en.htm#financial_exclusion)

<sup>8</sup> Eurobarometer Surveys 60.2 (EU15) and 2003.5 (EU10), undertaken at the end of 2003.

**Graph 2:** Percentage of population lacking access to a basic transaction account (unbanked) or having only limited access (marginally banked)



Source: *Financial services provision and prevention of financial exclusion*, Luisa Anderloni, Bernard Bayot, Piotr Błędowski, Małgorzata Iwanicz-Drozdowska and Elaine Kempson, 2008.

#### 4.2. Causes of financial exclusion

A range of societal factors have an impact on people’s access to and use of basic financial services. Financial exclusion is influenced by demographic changes such as ageing, and the tendency for young people to leave home at an older age which makes them less likely to open a bank account. Stricter money laundering rules implemented in response to terrorist attacks have also resulted in difficulties in getting access to services, with some people being unable to satisfy identity requirements, thus finding it quasi impossible to open a basic bank account.

In addition, many aspects of financial exclusion are related to the availability and demand for services. The conditions and high costs associated with bank accounts deter both access and use. But there is also self-exclusion as some groups of people, e.g. the elderly, immigrants and those on low incomes, do not engage in transaction banking services because they mistrust financial institutions, fear the loss of financial control, or simply lack access to the internet.

The table below brings together information obtained in 14 countries. It shows that issues like demographic and labour market changes, the technological gap, risk assessment and marketing, and concern about costs are among the main causes of financial exclusion.

**Table 1:** Causes of financial exclusion in 14 European countries

	Type of factors	Number of countries where this cause of financial exclusion has been identified*
<b>Societal factors</b>	Demographic changes technological gap	10/14
	Labour market changes	8/14
	Income inequalities	8/14
	Liberalisation of markets less attention to marginal market segments	6/14
	Liberalisation of markets disappearance institutions targeted to low income	5/14
	Social assistance	5/14
	Demographic changes overindebted	4/14
	Money laundering rules/Identity checks	3/14
	Fiscal policy	3/14
	Demographic changes young	2/14
	Demographic changes migrants/minorities	2/14
	Cash is common	1/14
	<b>Supply factors</b>	Risk assessment
Marketing		8/14
Geographical access		7/14
Product design (terms and conditions)		7/14
Service delivery (eg internet)		7/14
Complexity of choice		7/14
Price		4/14
Type of product		1/14
<b>Demand factors</b>	Concern about costs	8/14
	Belief that not for poor / low self esteem	8/14
	Fear of loss of financial control	7/14
	Mistrust of providers	7/14
	Preference for alternative providers and cultural factors	4/14
	Religion	4/14
	Opposition to use	4/14
	Bad past experience	1/14
	Fear of seizures	1/14

Source: *Financial services provision and prevention of financial exclusion*, Luisa Anderloni, Bernard Bayot, Piotr Błędowski, Małgorzata Iwanicz-Drozdowska and Elaine Kempson, 2008.

### **4.3. Consequences of financial exclusion**

Financial exclusion has a direct and indirect impact on the way in which individuals manage their money. But it is also part of a much wider social exclusion as it affects the overall quality of life of individuals – their patterns of consumption, participation in economic activities or access to social welfare and distribution of incomes and wealth.

The widespread move from cash to electronic payments makes the situation more difficult as the inability to access a bank account makes payment of bills costly due to the fact that the cost of banking services bought separately is generally higher than those accessed within a stable relationship with a bank. Furthermore, many utility companies offer discounted rates to customers paying via direct debit, and many retailers offer lower prices for goods and services purchased via a payment card. More importantly, without a bank account, it is virtually impossible to access employment in most Member States as one of the pre-conditions for signing an employment contract for the future employee is having a bank account number.

In addition to the consequences of a financial nature, not having access to or not knowing how to properly use banking services can have an impact on an individual's self-esteem and lead to self-isolation from social relationships.

<p><b>Question 2:</b> Do you agree with the description of the causes and consequences of financial exclusion? Please provide additional information if available.</p>
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## **5. DIVERSITY OF SOLUTIONS ADDRESSING FINANCIAL EXCLUSION ACROSS THE EU**

### **5.1. Extent of the debate at national level**

The extent of awareness and debate on financial exclusion varies widely across the EU. Awareness and debate is more active and wide-ranging in countries which were Members of the EU before May 2004. Various players engage in the debate: national governments, consumer organisations, social non-governmental organisations and academics. In contrast, in the other Member States, there has been limited debate on financial exclusion or none at all. As these societies are moving to a society in which financial services are gaining importance in daily life, the need to tackle the problem of financial exclusion will become more and more acute.

### **5.2. Role of financial services providers**

For the financial services sector, it can be said that financial inclusion is both a societal challenge and a business opportunity – a win-win situation in the long run. In many countries, corporate social responsibility has become a part of the development, marketing and external communication strategies of financial institutions. Corporate social responsibility is an umbrella term that includes, among others, a focus on marginal customers.

Financial service providers need customers who are informed, confident and have at least access to basic banking services. As the newly banked become more participative in society, they will become potential customers for other financial services products, increasing the size of the overall market. This will also help the move away from paper-based financial transactions to electronic ones, reducing costs across the industry.

#### *5.2.1. Activities undertaken by financial services providers*

Financial services providers across the EU have adopted a wide range of responses to improve the accessibility and usability of financial services products:

- Developing new products and services

Some providers (e.g. in Belgium, Germany, Italy, Ireland and the United Kingdom) have been active in finding and implementing solutions to financial exclusion in different areas of financial services provision. These include developing new products and services that are more appropriate to the needs of people who are financially excluded, working in partnership with not-for-profit organisations or public authorities to reduce costs and barriers to access and raising the levels of financial capability to encourage the use of financial services by those reluctant to do so.

Commercial social-oriented providers, including savings banks, post offices and other mutual co-operative providers, have been particularly active in developing such new products.

- Developing voluntary charters and codes of practice

Voluntary charters and codes of practice to provide basic bank accounts, developed by the banks themselves through their trade associations, are a common response to financial exclusion (e.g. in Italy, Germany, the United Kingdom, and the Netherlands). In many cases, these developments have been prompted and encouraged by public authorities.<sup>9</sup>

#### 5.2.2. *Activities of alternative commercial providers and not-for-profit financial services providers*

Alternative commercial providers and not-for-profit organisations pay special attention to the marginal segments of the society (e.g. microfinance institutions in Belgium and France, credit unions in the United Kingdom, Ireland and Poland).

Such providers have undertaken a large range of initiatives in the field of financial education (e.g. in Austria, Germany, France, and Poland) and debt counselling (e.g. the United Kingdom, Germany, the Netherlands and Poland).

**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?

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

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

**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?

**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?

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<sup>9</sup> According to the study referred to in point 4 of the current document, in the United Kingdom, about 1.6 million additional people opened a transaction account since the adoption of the Banking Code in 2005, which included an undertaking to make basic bank accounts available to everyone who might benefit from one. By 2007, around 50 000 new basic bank accounts were being opened each month, with 2.4 million accounts in operation.

### 5.3. Role of public authorities

Governments have also played a role in guaranteeing citizens' access to basic financial services. Public authorities have made efforts to secure a balance between different interests, and to identify the best possible solutions, taking into account country-specific conditions. Governments have been active in improving the overall awareness of the importance of financial inclusion by developing clear indicators of the extent of the financial exclusion problem. In order to promote a fruitful debate on financial inclusion, governments have also played a crucial role in ensuring that a dialogue exists and that negotiations take place between key stakeholders.

Independent assessments of the situation, financed by governments, are an essential tool to feed and stimulate debate on the issue. The data collected by the Commission-financed study, *Financial services provision and prevention of financial exclusion*, shows considerably higher levels of financial inclusion in those Member States where the issue has benefited from a wider discussion in society.

Government intervention to promote financial inclusion however differs from one country to another. Broadly speaking, public authorities have intervened in two ways: as facilitators and as legislators.

#### 5.3.1. Public authorities as facilitators

- Providing an understanding of the problem and assessment of policy measures

Some governments (e.g. in the Netherlands, Poland, Belgium, Germany and the UK) have either commissioned or undertaken research projects to investigate the causes of financial exclusion and to recommend measures to combat them. They have initiated and financed surveys and administrative data collections, and put in place task forces and expert groups to assess a particular issue and the effectiveness of political actions.

- Promoting and supporting market initiatives

Some public authorities (e.g. in the United Kingdom, Germany, Italy and Austria) encourage service providers to offer basic bank accounts, and promote easier access to the basic financial products provided by banks. In some Member States (e.g. in Germany, the Netherlands and Italy), government pressure and public opinion have encouraged the banking sector to adopt voluntary charters and codes of conduct in which banks have committed to providing basic bank account services.

- Contributing to the provision of financial services

Some public authorities (e.g. in the United Kingdom, Belgium, the Netherlands, and France) have also contributed more directly to the provision of financial services for low-income people. This includes the provision of funds or financial guarantees for not-for-profit organisations that exist to meet the financial needs of low-income people.

- Raising awareness

Public authorities have also helped to raise awareness of financial products and services among the target population to tackle their reluctance to use financial services, hence reducing the population at risk (e.g. in the United Kingdom, Ireland, the Netherlands, Poland, Italy, France, Germany).

### 5.3.2. *Public authorities as legislators*

In some countries (e.g. in France and Belgium), legislation has been introduced to ensure that every citizen or resident can have access to transaction banking services. Legislative action by governments can either directly or indirectly address financial exclusion. Direct legislation imposes upon financial services providers an obligation or prohibition to provide a certain kind of financial service and to organise, regulate, monitor or control financial services provision in order to ensure financial inclusion.<sup>10</sup>

Indirect regulation aims to remove obstacles generated by the application of legislation, which does not address financial inclusion directly but which has the practical consequence of hindering the involvement of some people in the banking system. Among such obstacles identified by the study referred to above are: legal requirements regarding customer identity and impact on money laundering regulation (e.g. in Ireland, the United Kingdom, Belgium, Spain) and risk of income seizures (e.g. in Belgium).<sup>11</sup>

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

**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?

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<sup>10</sup> According to the study referred to in point 4 of the document, as a result of the adoption of legislation in Belgium in 2004, in 2005 50 000 basic bank accounts were opened. The introduction of the obligation to offer a basic bank account has also had a preventive effect with mainstream banks offering regular bank accounts (without overdraft) to people asking for a basic bank account. In France, by the end of 2005, after the introduction of legislation, over 26 000 basic bank accounts had been opened which is almost ten times more than in 1995.

<sup>11</sup> Concerning legal requirements, the situation has been improved with the adoption and enforcement of the Third Anti-Money Laundering Directive which allows governments to develop, together with stakeholders, practical solutions which address the needs of those who do not possess the standard documentation. Concerning the risk of income seizures, Belgian legislation has been amended to specifically protect the income part corresponding to the non-seizable guaranteed minimum income.

## **6. POSSIBLE ROLE FOR THE EU IN GUARANTEEING ACCESS TO A BASIC BANK ACCOUNT**

The European Commission's aim is to assure that the market functions to the benefit of all Europeans. Building on the strategy for retail financial services outlined in the Green Paper on Retail Financial Services, the Commission has identified the issue of financial inclusion as an area where work should be undertaken to improve the competitiveness and efficiency of the European retail financial services market. In doing so, an appropriate balance needs to be achieved between the social and economic agenda.

Although financial inclusion is currently being addressed in some Member States and different solutions have been proposed, action at EU level could be envisaged to guide Member States in identifying the best possible solutions for combating financial exclusion. The role of the EU in ensuring access to a basic bank account would have to be carefully defined. Any initiative should not compromise the already well-functioning solutions adopted at Member State level.

There are currently restrictions to cross-border access to basic bank accounts in the EU as non-residents do not always have access to a bank account in another Member State. The Commission is currently investigating the restrictions – from the application of differing price/ service conditions to a refusal to open an account – imposed on non-residents when they seek to open bank accounts in other Member States.

In addition to this internal market angle, and in defining the role for the EU in relation to the wider question of financial exclusion, one or more of the following policy options could be considered:

- Promoting and sharing best practices

The Commission could envisage the creation of a European platform for sharing best practices via initiatives such as expert groups and/ or informal networks of Member States.

- Encouraging self-regulation by the industry

The Commission could encourage self-regulation by the industry with a clear and effective monitoring mechanism in those countries where regulation is not in place. Possible initiatives could include the coordination of national efforts via a database or a European Code of Conduct.

- Soft law approach

The Commission could issue a Recommendation or a Communication addressed to Member States stipulating principles and actions to ensure that every EU citizen or resident has access to a basic bank account.

- Regulatory approach

The Commission could propose binding rules obliging Member States to ensure access to a basic bank account. Any regulatory intervention would have to fully respect the 'better regulation' and subsidiarity principles.

**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?

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

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