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IMPACT ASSESSMENT

Accompanying the document

COMMISSION RECOMMENDATION

**on access to a basic payment account
(Text with EEA relevance)**

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Disclaimer

This impact assessment report commits only the Commission's services involved in its preparation and the text is prepared as a basis for comment and does not prejudge the final form of any decision to be taken by the Commission.

1. INTRODUCTION

Access to a bank account has become a pre-condition for participating fully in the economic and social life of a modern society and the use of cash is rapidly decreasing. Nevertheless, according to recent studies, around 30 million EU citizens over the age of 18 do not have a bank account. Among these 30 million 'unbanked' citizens, it is estimated that about 6.4 million are actually deprived of or do not dare to ask for a bank account when they would want to open one. These individuals cannot currently benefit fully from the Internal Market.

The provision of a basic payment account, which can be considered as a low-profit product, is unlikely to be a priority for banks that are focused on ensuring their stability, rationalising operations and improving and maintaining profitability. On the other hand, growing levels of unemployment in the aftermath of the financial crisis are likely to increase demand for such services. In the current economic climate, it is unlikely that this problem will resolve itself; addressing access to a basic payment account is thus an important part of the regulatory efforts to reform the financial sector.

In line with the Commission's better regulation approach, policy options need to be carefully considered and their impact thoroughly assessed in advance. This report focuses on the problems related to access to a basic payment account. Other services such as savings, credit and insurance are outside the scope of this initiative.

2. PROCEDURAL ISSUES AND CONSULTATION OF INTERESTED PARTIES

2.1. Procedural issues

Over the last three years, the Commission has undertaken a thorough analysis and carried out consultations concerning the problem of the lack of access to basic banking services.

In November 2007, the Commission published its Communication *A single market for 21st century Europe*¹, accompanied by a Commission staff working document on initiatives in the area of retail financial services² where the Commission invited all stakeholders to reflect on the possibilities to ensure that by a certain date no EU citizen or resident would be denied access to a basic bank account. The same objective was included in the Renewed Social Agenda³ adopted in July 2008.

In May 2008, the Commission published a fact-finding study *Financial services provision and prevention of financial exclusion* covering the current situation in the EU.⁴ The results of the study were presented on 28 May 2008 at a high-level conference⁵ organised by the Commission. The main conclusion of the conference was that markets alone might be insufficient to achieve a more financially inclusive society and that public authorities, both at

¹ http://eur-lex.europa.eu/LexUriServ/site/en/com/2007/com2007_0724en01.pdf

² http://ec.europa.eu/citizens_agenda/docs/sec_2007_1520_en.pdf

³ COM(2008) 412,

⁴ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:DKEY=473792:EN:NOT>.

⁵ http://ec.europa.eu/employment_social/spsi/docs/social_inclusion/2008/financial_exclusion_study_en.pdf and <http://www.fininc.eu>

⁵ http://ec.europa.eu/employment_social/spsi/events_en.htm#financial_exclusion

national and European level, have the responsibility to guarantee that all Europeans can access and adequately use basic financial services.

On 5 June 2008, the European Parliament adopted a Resolution on the Green Paper on Retail Financial Services⁶ in which it stressed the need to ensure access to financial services for all interested parties.

A public consultation on ensuring access to a basic bank account⁷ was launched in February 2009, and set out different policy options which could be followed by the European Union to ensure access to a basic bank account. Responses to the consultation revealed broad support for some EU action in this area. The majority of consumer and civil society stakeholders favoured a universal EU-wide right to a basic bank account provided free of charge or at a minimum fee. Most public authorities shared the objective of ensuring access to a basic bank account, emphasising that access should be a right rather than an obligation. The financial services industry recognised the importance of basic bank accounts but believed that the freedom to contract should be maintained (for a more detailed overview see Annex 1).

On the basis of the results of the consultation, in August 2009, the Commission engaged the Centre for Strategy and Evaluation Services to carry out a study (hereinafter: the CSES study) on the costs and benefits of a series of policy actions in the field of ensuring access to a basic bank account, ranging from the promotion and sharing of best practices to an EU legislative initiative, or a Recommendation. The study's conclusions favored a Recommendation as a first step.

The report *A new strategy for the Single Market – At the service of Europe's economy and society* (hereinafter 'the Monti report')⁸ published on 9 May 2010 recognises the importance of the access to basic banking services. Professor Monti states that the lack of access to basic banking services prevents a relevant number of citizens from effectively accessing the Single Market. He suggests that in this context, the Commission should consider proposing, possibly on the basis of Article 14 of the Treaty on the Functioning of the European Union (hereinafter TFEU), a regulation ensuring that all citizens are entitled to a number of basic banking services. He adds that an EU framework for financial inclusion complementing the ongoing comprehensive reform of financial services regulation at EU level would allow an important part of the population, in particular in the new Member States, to reap more fully the benefits of the single market.

The Single Market Act⁹ published on 27 October 2010 recognises the importance of creating a single market that serves consumers and announces a legislative initiative on access to certain basic banking services at the beginning of 2011.

A public consultation on the content of the possible proposal for ensuring access to a basic payment account was launched on 6 October 2010 with a deadline for responses on 17 November 2010. Stakeholders were invited to express their position on the principle of a European harmonised framework aiming at guaranteeing the right for consumers to access to a basic payment account. Input was also welcome on targeted aspects that this framework could regulate.

⁶ <http://www.europarl.europa.eu/RegWeb/application/registre/searchResultDetailed.faces>

⁷ http://ec.europa.eu/internal_market/consultations/2009/financial_inclusion_en.htm

⁸ http://ec.europa.eu/bepa/expertises/visitor-programs/mario_monti/index_en.htm

⁹ http://ec.europa.eu/internal_market/smact/docs/brochure-web_fr.pdf

First, the financial industry was generally against a binding EU instrument in this field, arguing that such an initiative will not have a significant added-value compared to what has already been developed and what could be realised at national level in a dialogue with the industry. This report acknowledges the fact that lack of access to bank accounts has not been widespread at the same extent in all Member States and that legal, economic and social conditions differ from a country to another, but points to the fact that similar difficulties for consumers have been identified throughout the EU and that these consumers are encountering concrete difficulties in reaping the benefits of the internal market as a whole. Second, consumer representatives were supportive of an initiative that will ensure an effective access for all consumers to an account with a sufficient range of functionalities likely to enable them to live a normal life. They favour an EU level proposal which would introduce only minimum standards, leaving Member States free to adapt them in line with local conditions and consumers' needs. Third, both national public authorities and financial industry tend to consider that the compliance with customer due diligence requirement is a matter of the utmost importance.

The issues for which there was the most consistent cross-stakeholder approach vis-à-vis a possible EU action were the importance of acknowledging that access to a bank account for the widest part possible of the society is highly desirable and the need to ensure that any EU initiative would allow sufficient flexibility at national level.

An Inter-service Impact Assessment Steering Group, chaired by Internal Market and Services DG, was established in April 2010, involving representatives from Competition DG, Economic and Financial Affairs DG, Secretariat-General, Legal Service, DG Health and Consumers, Enterprise and Industry DG, Education and Culture DG and Justice DG. The Group met on 10 May, 13 July and 8 October 2010.

The report was presented to the board on 1 December 2010. The board concluded that the report needed to be improved and resubmitted. The board focused on three main recommendations to improve the report. These recommendations, as well as those expressed by the Board on 17 February 2011, have been incorporated into a revised version of the report.

The board recommended strengthening the analysis of the problem description to clarify the magnitude of the problem (see Section 4.2), by attempting to distinguish within the EU adult population without a bank account the part which actually is or considers itself deprived of such an economic tool, by assessing the relative importance of the specific drivers addressed by the initiative in question (see Section 4.1, and Table 3 in Sub-section 4.1.3) and by explaining better its impact on the functioning of the Single market. The board also suggested providing more information on the likely evolution of the problem taking into account parallel Commission initiatives and expected economic developments across the EU (see Section 4.4 and Annex 18). Furthermore, the board suggested strengthening the analysis of subsidiarity and proportionality, in respect of the different policy instruments examined (see Section 8.6). Finally, the board requested that the analysis of the impacts was further developed, in particular in providing more information about the assumptions, including cost assumptions, underpinning the quantification of net benefits, particularly with respect to transfers among stakeholders – consumers, taxpayers, payment service providers (see Section 8.4 and Annex 13), potential monitoring costs for banks and public authorities and effects on the competitiveness of the EU banking industry (see Section 8.5 and Annex 15).

3. POLICY CONTEXT

3.1. Importance of having a bank account

Over the last decades, access to basic financial services has become a necessary pre-condition for participating fully in the economic and social life of a modern society. The use of cash is steadily decreasing as salaries, benefits and utilities are more and more paid via bank accounts. What is more, a bank account plays a gateway role as it is an essential tool to access other basic financial services, ranging from electronic payments to consumer loans, mortgages and life insurance¹⁰. Access to a bank account, offering a set of basic electronic payment transactions, has become a key to full participation in the internal market. Similarly, although to a lesser extent, gaining access to housing or a job might be facilitated by having a bank account.

3.2. Existing Member States policies and industry initiatives

Ten Member States have already recognised under one form or another the importance of having access to banking services, as banks may be reluctant to offer bank accounts to some strands of society, leaving them unbanked. However, approaches differ considerably in various Member States.

Four Member States have regulated access to a bank account (Belgium, France, Finland and Denmark, see also Annex 6) either by introducing a right to a bank account for everybody (Finland, Denmark) or only for the unbanked population (Belgium) or those who have been refused a bank account (France). Belgium and France guarantee access to a basic bank account, which is defined by law. One Member State (Sweden) guarantees access to a deposit account, which does not offer payment services. In Netherlands, an agreement between banks and the relevant authorities states that a bank may not refuse to open a bank account to any customer.

Table 1: Access to a bank account – Comparison of binding requirements¹¹

Member States	Right to a basic bank account (defined by law)	Right to a regular account	Right to a deposit account (no electronic payments)	Agreement between the government and industry)
Belgium	X			
Finland		X		
France	X			
Denmark		X		
Sweden			X	
Netherlands				X

Source: CSES study and own research

In another four Member States, specific voluntary codes by the banking sector address the issue of payment bank account opening. They either state that banks should open accounts for anybody fulfilling standard requirements, e.g. concerning ID, address, compliance with anti-money laundering (AML) rules (Germany, Slovenia) or that they should offer a special basic

¹⁰ *European Financial Integration Report 2008*, SEC(2009) 19 final.

¹¹ For more detailed information, see Annex 5.

bank account to those customers whose needs would be suited by such a product (United Kingdom). The situation in Italy is governed by the Patti Chiari Charter, a range of commitments provided by banks that includes also the provision of a payment account. Banks can choose between the 'Servizio Bancario di Base' and/or the 'Conto Corrente Semplice'. In addition, the Italian Banking Association (ABI) has recently promoted some initiatives to facilitate people's access to banking services. For a further description see Annex 6.

In addition to efforts undertaken by industry associations, individual service providers (usually social-oriented providers, like savings banks, post office banks and other mutual co-operative providers) have attempted to improve the accessibility and usability of financial services products, by offering products designed for the unbanked population.

Nevertheless, in most Member States, this problem is not addressed at all, meaning that some groups of EU citizens are deprived of access to electronic means of payments. The table below illustrates differences both in the scope and means by which access to banking services is ensured. Regulatory frameworks exist mainly in EU15 Member States, while the majority of EU12 Member States have no framework at all, whether of a regulatory or a voluntary nature. However, even in the EU15, only a minority of members has any regulatory framework in place. There is also a correlation between the existence of frameworks and the level of population with bank accounts. Five of the countries that have binding requirements in place have the highest average level of account penetration and the lowest level of the unbanked population. Similarly, Member States in which the banking sector has adopted specific charters have a higher bank penetration than those Member States with no frameworks in place.

The comparison between EU15 and EU12 illustrates important differences between the two groups. Only one of the EU12 countries (Slovenia) has voluntary charters addressing access to a bank account.

Table 2: Access to banking services – Country comparison

	Total countries	EU12	EU15	Average account penetration ¹²	Countries
Binding requirement	5	0	5	99.3	BE, DK, FI, FR, SE
Industry charter	4	1	3	95.8	UK, DE, SI, IT
Agreement between the government and industry	1	0	1	99	NL
No framework	15	9	6	92	AT, CZ, EE, EL, LT, LV, LU, MT, PL, PT, ES, HU, CY, IE, SK
No framework BG, RO	2	2	0	51	BG, RO

Source: CSES study, own research

According to our information cross-border bank account opening is generally not addressed by Member States' policies or industry codes of conduct. However, in Finland, access to a bank account would be guaranteed to any consumer, regardless of his/her residency.

¹² Flash Eurobarometer 282. *Consumers' Views on Switching Providers.*

3.3. Scope of the impact assessment

This Impact Assessment discusses the causes of lack of access to a bank account offering payment services and proposes measures to ensure wide accessibility of payment accounts. In the problem description we refer to bank accounts, as studies and evidence refer to bank accounts. In the assessment of options we refer to payment accounts, as this is a wider term, already used in the EU legislation, describing any account, including a bank account, used for the purpose of execution of payment transactions. A 'payment account' is defined in the Payment Services Directive (PSD) as "an account held in the name of one or more payment service users, which is used for the execution of payment transactions"¹³. A basic payment account will be defined by payment services it will offer – the assessment of services which should be offered with a basic payment account is presented in Section 7.1. The PSD directive defines also payment services providers, which include banks but also other providers (see Glossary in Annex 2). The PSD establishes information requirements concerning the provision of payment services as well as rights and obligation for payment services providers and consumers (such as liabilities of parties, maximum execution time of payment transfers and rules of refund).

This Impact Assessment does not deal with access to credit, insurance or any other financial instruments. Nor does it address the issue of inadequate financial literacy, although this is one driver of self-exclusion; financial literacy is the subject of a separate initiative¹⁴.

4. PROBLEM DEFINITION

Evidence¹⁵ 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 due to the lack of electronic means of payment, incur higher costs because of the use of cash only or, worse, experience problems when taking up jobs, renting accommodation, receiving wages or benefits. Individuals going cross-border for study, traineeships, or on (temporary) employment can face all these problems because they are likely to be denied a bank account on grounds of residence and nationality.

According to a study available and Eurobarometer surveys¹⁶, on average, 7 % of all EU consumers i.e. 30 million Europeans over the age of 18, do not have a bank account¹⁷ (Annex 3). This limits their participation in the financial market and the internal market, resulting in persisting inequalities and, in some cases, possibly leading to financial or social exclusion¹⁸.

¹³ Article 4(14) of Directive 2007/64/EC.

¹⁴ Communication Financial Education adopted in December 2007.

¹⁵ *Financial Services Provision and Prevention of Financial Exclusion*, DG Employment, Social Affairs and Equal Opportunities, European Commission, 2008, pp. 21-25 (hereinafter: DG Employment study); *Study on the Costs and Benefits of Policy Actions in the Field of Ensuring Access to a Basic Bank Account*, Centre for Strategy & Evaluation Services CSES, July 2010, p. 6 (hereinafter: CSES study).

¹⁶ Flash Eurobarometers 243 and 282 respectively of 2008 and 2009. Consumers' Views on Switching Providers, European Commission.

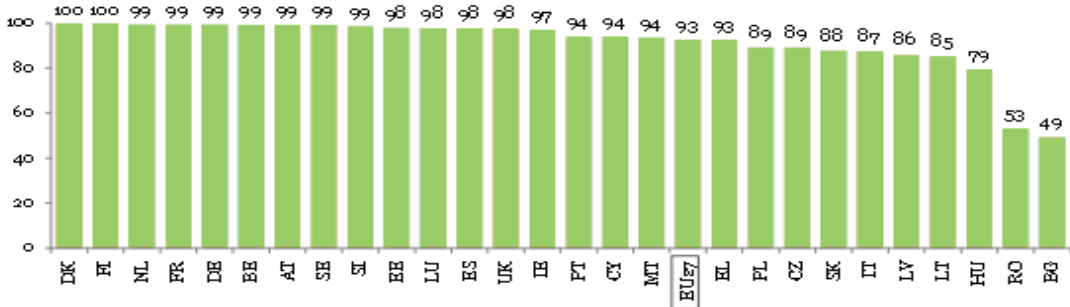
¹⁷ It should be noted that whereas there are few data on individuals' access to a bank account, there are even fewer research on households, which make it a less reliable basis on which to base a policy.

¹⁸ *European Financial Integration Report 2008*, SEC(2009) 19 final.

At the same time, this global average figure hides disparities among Member States as well as among the actual unbanked population at stake which need to be examined in more details. In fact, the reality and the acuity of the situation may differ, according to whether one lives in a Member State with a developed banking sector or not, whether one has been denied access to a bank account for reasons e.g. of level of income or residency status, or does not want to have a bank account, either for lack of financial education or as a 'political statement'. The magnitude of the problem may therefore also differ. The different reasons for not having a bank account or not having access to a bank account are examined thereafter. The extrapolations (see Section 4.2) made in this respect show that about 6.4 million persons out of the 30 million unbanked adults in the EU are actually deprived of a bank account.

The diversity of the situation in the EU regarding the lack of a bank account is illustrated by the graph below based on a Eurobarometer poll carried out in 2009. With the exception of Romania, Bulgaria and Hungary, at least 85 % of the respondents in each of the other Member States have a current bank account. In the case of Romania and Bulgaria, around half of the respondents do not have a bank account. In two of the Member States, namely Denmark and Finland, virtually everyone has a current bank account. The comparison between EU15 and EU12 is quite distinct; average bank penetration for EU12 is 91 % and for EU15 is 97 %. Apart from Slovenia, Malta, Estonia and Cyprus, the percentage of the population in EU12 countries with a current bank account is generally lower than the EU27 average. Of the EU15, only Italy has bank account penetration that is below that of the EU27 average.

Graph 1: Proportion of adults with a bank account



Source: Flash Eurobarometer 282 – Year 2009

4.1. Reasons for lack of access to a bank account

Research has been carried out to identify factors that influence access to financial services in general, and to a bank account in particular. Within the framework of Employment, Social Affairs and Equal Opportunities DG’s study, causes of financial exclusion have been studied in 14 countries (for the summary of results, see Annex 7). Some social and economic factors such as changes in the structure of labour markets (greater job insecurity, high levels of youth unemployment, income inequalities) and the demographical changes – technological gap between generations (with an ageing population having difficulty in staying up-to-date with new technology) have been identified as factors that contribute to difficulties in accessing to a bank account.

These issues however fall outside the scope of this Impact Assessment.

Another series of explanatory factors relate to the demand side as well as to the supply side¹⁹.

4.1.1. Demand side

People are deterred from accessing and using transaction banking services for a range of psychological, cultural and educational reasons. Many of these can be explained by a lack of basic financial literacy skills or a lack of awareness of the advantages brought by the use of banking services.

According to a Commission study²⁰ there is a strong link between being unbanked and being on a low income. Various studies support this by demonstrating a strong correlation between being unbanked and relatively low household income as well as between being unbanked and low educational attainment.

Many researchers²¹ have looked at what types of people do not have access to a bank account. They have concluded that problems with access to a bank account mostly affect vulnerable groups: people living on a low income, the unemployed, single parents, people unable to work through disability and recipients of social assistance²².

They have also found a link between the lack of access to financial services and age, with the youngest (mostly EU15) and oldest people (mostly EU12), being most likely to be excluded, as well as with the level of education. Being unbanked is also very prevalent among ethnic minorities and migrants²³.

Social factors are however outside of the scope of this Impact Assessment.

Psychological and behavioural factors

Some people for instance are of the opinion that dealing only in cash gives them more control over their budget and spending behaviour. Others are mistrustful of financial services providers due to the lack of financial education or by bad past experience. Also low self-esteem and belief that banks are not for poor people prevents some of the unbanked from applying for a bank account.

Low financial literacy

The problem of financial illiteracy has been recognised as one of the main causes of self-exclusion. Consumers with little or no financial education are intimidated by the often complex nature of financial products and by their own lack of understanding of such products.

¹⁹ Anderloni and Carluccio, 2006; Corr, 2006; Gloukoviezoff, 2005; Kempson, 2006 after DG Employment study, pp. 40-41.

²⁰ DG Employment study, pp. 31-35.

²¹ Anderloni, 2003; Anderloni and Carluccio, 2006; Bank of Italy 2004, BMRB, 2006; Barr, 2004; Bayot, 2005; Błędowski and Iwanicz-Drozdowska, 2007; Corr, 2006; Devlin, 2005; Disneur et al, 2006; Gloukoviezoff, 2005; Kempson, 2006; Kempson and Whyley, 1998; Idzik, 2006; IFF, 2000; IFF, 2006; Marketing Partners Ireland Ltd, 2006; Mintel, 2005; Test Achats, 2001; after DG Employment study, pp. 31-35.

²² Referred to as 'marginal' consumers.

²³ See footnote 21, p. 30.

Consumers are prevented from accessing financial services because they are not aware of the benefits of an account, because they do not know how to use or manage accounts or other basic financial services or ignore they incur high costs because they do not have a bank account. Because they may also have a fear vis-à-vis new electronic banking technologies (like ATMs) because they are familiar with the tools, or because they mistrust banks. Lack of understanding of banking products prevents consumers from applying for them. The issue of improving financial literacy is dealt with in a separate initiative and thus falls outside the scope of the present Impact Assessment.

In this respect, it is necessary to distinguish within the 30 million unbanked adult EU citizens, those who are either self-deprived or have been refused access to a bank account from those who prefer not to have a bank account, even if this might result in individual, if not societal, economic inefficiencies. An attempt to calibrate the size of the respective populations is made under Section 4.2 on the magnitude of the problem.

The supply side drivers influence the demand side in the relation to 'marginal' consumers – as consumers will not apply for an account, if they do not find an offer that suits their needs (e.g. a basic bank account). Banks' policies also influence customers' decision whether or not to apply for a bank account. Self-exclusion may be caused by the belief that a bank would reject an application but also because there are no appropriate basic offers on the market.

Pricing conditions, lack of transparency and comparability of the information on bank account fees may deter consumers from applying for a bank account if they do not have clear and transparent information on prices and find fees relatively high in relation to their income.

4.1.2. *Supply side*

4.1.2.1. Level of development of the banking sector

This driver affects 'marginal' consumers²⁴ as well as 'mobile'²⁵ consumers living in the Member States with a bank sector which is still in development, particularly in terms of infrastructure coverage.

Existing research points towards a correlation between economic development and access to a bank account. On the whole, economically less prosperous societies, where financial/electronic payment circuits tend to be less developed/used, tend to suffer from lower levels of access to bank accounts²⁶ (see Annex 4).

The size of the banking sector in the economy and the level of banking penetration vary greatly from one Member State to another. The size of banking assets is smaller than the GDP in Romania, Lithuania, Bulgaria, Poland, Slovakia and the Czech Republic but up to seven times GDP or more in Luxembourg, Malta, Ireland, Cyprus, United Kingdom and Denmark²⁷.

²⁴ People living on a low income, the unemployed, single parents, people unable to work through disability and recipients of social assistance

²⁵ Consumers who want to open a bank account in the host Member State (in which they are not residents).

²⁶ DG Employment study, see footnote 9, pp. 19-20; *Policy Level Response to Financial Exclusion in Developing Economies: Lessons for Developing Countries*, Kempson, E. (paper presented at *Access to Finance: Building Inclusive Financial Systems*, Washington DC, 30.-31.5.2006).

²⁷ Bank Watch, 15.4.2010.

The very low percentage of the population having a bank account in Bulgaria (49 % of the adult population) and Romania (53 %) may be explained by a lower level development of the banking sector compared to other Member States. The dynamic baseline scenario for Bulgaria and Romania is discussed in Section 4.4.

It is noticeable that the banking sector is growing rapidly in EU12 (e.g. the volume of loans has multiplied 6- or 7-fold in the last few years in Lithuania²⁸). This will lead to enhancements of either retail banking networks or online banking facilities. As the use of bank accounts increases in those Member States, so will the need for access to a bank account.

It is worth noting that in countries with a widespread financial system that also tend to have a lower percentage of unbanked population, the impact of not having a bank account may be very profound. Due to the widespread use of banking services, unbanked consumers may sometimes have little choice but to pay through electronic means (credit transfers, online). Being unbanked in those societies (where the size of the banking sector in relation to GDP is high) is very likely to lead to social exclusion. The level of development of the banking sector is outside of scope of this Impact Assessment.

4.1.2.2. Product design

The limited availability of products

The limited availability of products for customers perceived as commercially unattractive concerns mainly marginal consumers but also mobile consumers.

As has been described in Section 3.2, special products designed to meet the needs of commercially unattractive consumers are offered only in a few Member States. In Belgium and France they are guaranteed by law. In Netherlands six major banks have signed a basic bank account covenant. Basic bank accounts are available also in the United Kingdom, Germany and Italy (where specific voluntary codes apply to provision of basic bank accounts). Co-operative or savings banks also offer products specially designed for commercially unattractive consumers. However, they often operate in a limited geographical area and usually focus on customers that are residents in their business district. What is more, they do not operate in the majority of Member States with lower bank penetration. Generally speaking, socially oriented financial institutions (like co-operative, savings or postal banks) have a very limited presence in EU12 where the levels of unbanked population are higher. The Van Dijk Management Consulting study²⁹ has found that special products designed for the financially excluded consumer are offered in a total of nine Member States. As a result, the majority of unbanked consumers are not offered products designed for their needs. This driver concerns predominantly the group of the excluded (marginal) consumers. However, mobile consumers seem to be considered commercially unattractive because of enhanced potential of fraud, risk (due to the lack of access to credit histories) and enhanced requirements concerning due diligence.

²⁸ Bank Watch, 7.4.2010.

²⁹ Study *Data collection for prices of current accounts provided to consumers*, Van Dijk Management Consulting, 2009, p. 26.

Pricing conditions

This driver mainly concerns 'marginal' consumers (low-income, unemployed, receiving social benefits) who are very price sensitive. 'Mobile consumers' are concerned when they are offered different price conditions than home consumers³⁰.

The price level and transparency of information on the total amount of charges attached to bank accounts are particularly important for consumers. A lack of clear information as to the total amount of charges for an account and its related services can deter some consumers from applying for an account. Banks differ in their pricing methods which can lead to difficulties for consumers in comparing products and assessing the total amount of annual charges. The Commission has recognised this problem and asked the banking industry to come up with a self-regulatory initiative enhancing the transparency and comparability of bank fees. This problem falls therefore outside of the scope of this Impact Assessment.

The DG Employment study³¹ has confirmed that charges for the use of a bank account deter both access and use. The study shows that terms and conditions may not be suited to the needs of basic users. A requirement to keep a minimum balance (or to have a minimum opening balance) is detrimental to consumers on low incomes. Regressive charges (both monthly and per transaction) disproportionately affect people on low income. An account that in principle is free of charge may become very expensive if the bank applies high charges for any credit transfer, direct debit or cheque transaction that fail due to insufficient funds.

The Van Dijk Management Consulting study *Data Collection for Prices of Current Accounts Provided to Consumers* has also confirmed that the pricing of accounts may not always correspond to the types of transactions which are more likely to be used by the given profile of users: e.g. when the total price of a basic bank account covers a significant number of credit transfers that are not frequently used by basic account users.³² The same study has revealed significant price differences for the provision of payment services through a payment account, depending on the profile of users: average, active, passive, basic (Annex 9).

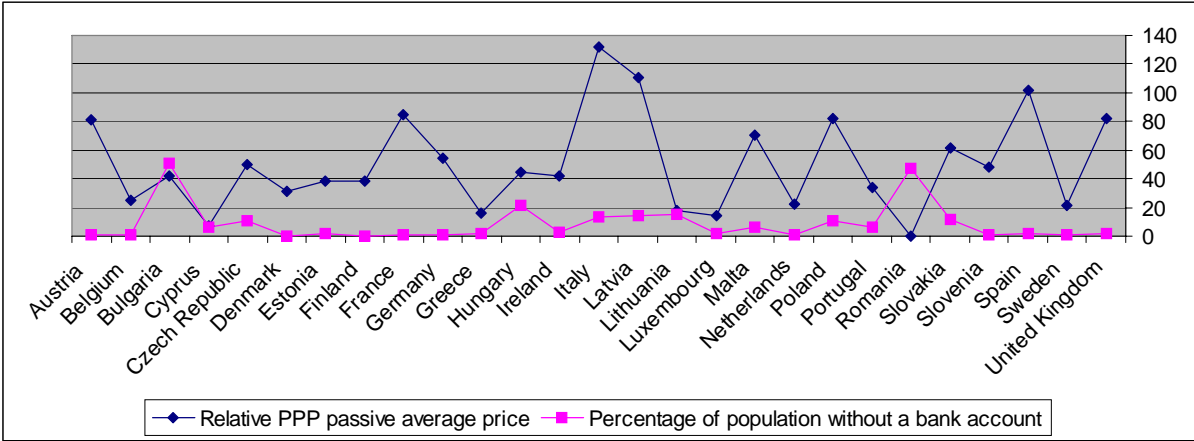
Neither the correlation test applied nor the graph below revealed the existence of a direct correlation between the price level of accounts on offer (including on purchasing power parity basis) and the level of a population without a bank account. Although in a few countries, there would seem to be some relation between price levels for basic profile users and the unbanked population.

³⁰ As indicated in the complaints sent to the Commission services.

³¹ DG Employment study, p. 41.

³² Van Dijk Management Consultants study, see footnote 26, p. 29.

Graph 2: Proportion of unbanked population in relation to average bank account price



Source: European Commission, Internal Market and Services DG based on Flash Eurobarometer 282 & Van Dijk Management Consultants study, 2009

In summary, whilst the problems faced by the different groups of consumers may vary in intensity depending on whether one is looking at marginal consumers or mobile ones (two categories which overlap in some cases), both groups are confronted with a failure of the market to respond to their needs, as shown in Table 3 (Section 4.1.3).

4.1.2.3. Commercial policy

Commercial policy of banks has consequences both for 'marginal'³³ consumers and 'mobile'³⁴ consumers.

Some consumers are denied access to a bank account because they do not fulfil certain eligibility conditions, some of them stemming from legal requirements such as identity checks, and others established by banks: such as residency requirements, proof of income, profitability, risk assessment, credit history etc.

Identity requirements

It is obvious that people unable to satisfy identity requirements cannot open an account. The third EU Anti-Money Laundering Directive (2005/60/EC) clearly requires that individual unable to provide adequate identification when applying for a bank account must be rejected. Whilst the requirement to carry out customer due diligence stems from the law, banks in a few Member States have sometimes interpreted the 'know your customer' legal requirement in such a way as to politely refuse commercially unattractive customers. This has been particularly the case for non-resident customers trying to open a bank account in another Member State. But the issue has also been reported problematic for low-income marginal consumers in those Member States in which there is no national ID, e.g. in Ireland, unbanked consumers face problems with providing appropriate documents for identification (passport, driving licence, utility bills, etc)³⁵ However, the assessment of the implementation of the Anti-Money Laundering Directive is outside of the scope of this Impact Assessment.

³³ Consumers found commercially unattractive by banks.
³⁴ Consumers seeking to open a bank account in the Member State other than of their residence.
³⁵ Glukoviezoff, Understanding and Combating Financial Exclusion in Ireland, p. 5, unpublished.

Profitability

Banks sometimes have their own requirements for the opening of a bank account e.g. in terms of a minimum level of economic activity and the financial status of the applicant.³⁶ This certainly may constitute an obstacle for the unemployed or people of low and/or unstable income. In general, banks target profitable consumers thus excluding marginal consumers, consumers on low income or engaged in temporary employment may appear to many financial institutions (especially commercial ones) as not profitable because they are likely to be passive users of a bank account and undertake low volume of transactions. Furthermore, such consumers are unlikely to make much use of financial products other than a basic bank account, at least in the short term. Analysis shows that people on low incomes are not commercially unattractive for many financial services providers since their needs are modest and therefore profit margins are small or non-existent.³⁷ An example of such an approach can be found in the code of practice of the Association of Cypriot Banks, which states that one of the criteria for denying their services may be the real or expected volume of transactions with a specific customer³⁸.

Whilst it is fully legitimate for public and private banks engaged in a commercial activity to ensure their profitability – and this is even more acute in the present economic and financial situation – there are circumstances where market forces do not cater for some needs of our modern societies, including access to a basic payment account and leave some categories of population, mainly 'marginal' consumers, in a disadvantaged position. However, also mobile consumers may be found less profitable due to higher costs of their identification and the conduct of business rules, like 'know your customer'.

Risk assessment

Banks also perform a risk assessment of customers (not only for accounts with an overdraft facility or a credit line). Consumer organisations in several Member States report that individuals in economic distress find it more difficult to gain access a bank account, even where these accounts have no overdraft facilities attached. Overindebted and bankrupt customers in particular, may have problems with opening a bank account. In many countries e.g. in Germany, people can be rejected because they have an unimpaired credit history. UK banks have the right to deny a basic bank account if the individual is an undischarged bankrupt. Bankrupt customers may also be perceived by banks as carrying a legal risk in respect to their dealings. Risk assessment may be also detrimental for non-residents trying to open a bank account in another Member States ('mobile' consumers), since banks may be unable to access their credit data and thus may be unable to conduct risk assessment.

Residency

Experience has shown that there are difficulties to the cross-border mobility of consumers demanding payment services. The opening of a payment account in another Member State today is often refused by providers on the mere basis that the consumer is not a resident of the

³⁶ *Report on the Results of the Survey - WPI - Better Access to Financial Services for People Experiencing Poverty and Social Exclusion*, Financial Inclusion Observatory, p. 8, <http://www.fininc.eu/knowledge-and-data/knowledge-and-data.en.32.html>.

³⁷ Burchardt and Hills, 1998a; Kempson and Whyley, 1999a, 1999b after *In or out? Financial exclusion: a literature and research review*, FSA, Consumer Research, 3.7.2000, p. 12.

³⁸ http://www.acb.com.cy/codes/bankingconduct2009_gr.pdf

Member State concerned. Furthermore, as European payment users and consumers become increasingly mobile, and work, travel, study and retire in different Member States of the Single Market, there is a growing need for them to be able to open a payment account on a cross-border basis. Although there has been a spectacular growth of online banking services at national level, this growth has not been replicated at a cross-border level. In theory, distance is not a relevant parameter for the provision of online banking services but in practice residency obligations blocks the development of this market. Not having this possibility creates a gap for a fully integrated payments market in which citizens should be able to make all payment transactions from one single payment account which is not necessarily in the country of residence.

In an enquiry undertaken by the Commission³⁹ vis-à-vis the national banking associations in Austria, Belgium, France, Luxembourg, the Netherlands and the United Kingdom, it was confirmed that there were no legal restrictions limiting the provision of payment accounts to residents only. Some banking associations, e.g. in the UK, acknowledged that whilst some financial institutions provide basic accounts to customers without a need for residence, a significant number of their members refuse to open payment accounts to non-residents due to fraud and money laundering concerns. In fact, the AML requirement in such cases is still often used as a polite excuse to turn down a potential non-resident client. However, the main concern has to do with the fear of providers that they would face significant difficulties to recover debt if clients' assets were held outside their jurisdiction, if their clients were to overrun their accounts into overdraft. This fear is further substantiated by a lack of access to the potential customers' credit histories.

4.1.2.4. Asymmetries of information

This driver concerns predominantly the group of low-income (marginal) consumers but there is also asymmetry of information concerning 'mobile' consumers due to the difficulties with access to their personal data and credit histories.

This bias vis-à-vis low-income consumer subsists in many European jurisdictions where the vast majority of banks (unless prompted by the intervention of the public authorities, like in the UK) have shown little marketing interest for this segment of the population⁴⁰. Whilst some banks⁴¹ have come to realise that this segment in the long run might be a profitable one, there is no active competition among banks across the EU to attract that clientele, contrary to the efforts made vis-à-vis e.g. the teenagers, who are seen as the customer base of tomorrow. In most cases, banks tend to cater for their mainstream clientele (mass market approach for staple services), devise products accordingly and do not seem to be ready to adopt long term investment strategies vis-à-vis low-income consumers. If there is an asymmetry of

³⁹ In this context, the Commission Services corresponded with national banking associations in Austria, Belgium, France, Luxembourg, Netherlands and United Kingdom.

⁴⁰ "Database technology has had an enormous effect on marketers' ability to ignore the poor. Data enables companies from all sectors to identify their best and worst customers easily and then exploit the old '80/20 rule' – 80 % of a company's profits comes from 20 % of its biggest spending customers. The result is that many companies have become ruthless about who they deal with and, in some cases, actively rid themselves of unprofitable customers. Banks are the worst culprits. A survey by the Chartered Institute of Banking recently found that 56 % of UK banks admit to having strategies for 'firing' unprofitable customers". Marketing Magazine – James Curtis, 26.10.2000.

⁴¹ After two years, 40 % of Banco Santander UK's low-income clientele upgraded to a classic current account with a broader service offer, which is more attractive both for customers and their bank. The Banker, June 2010.

information in this area, it is likely to remain, as no copycat strategies have emerged to address the low income segment market, contrary to what happened over the last 20 years for the segment of 'high-net-worth individuals'. Furthermore, this is unlikely to be remedied by banks' actions in the area of 'corporate social responsibility'. These generally represent a small share of the banks' activities, ranging from charitable activities to a recent approach of the micro-finance market often outside the boundaries of the EU, rather than permeate the whole banking activity.

4.1.2.5. Geographical accessibility

The lack of physical presence of a bank branch close to the consumer can also constitute a barrier for those living in more remote or rural areas. This has been recognised by a few Member States which consider the provision of the country-wide banking network as a service of general economic interest. Those Member States aim at ensuring adequate physical access to cash and payment services for citizens living in remote areas, in which payment services providers have reduced their physical presence (see Annex 8). The United Kingdom, Ireland and Sweden consider "country-wide access to over-the-counter cash and payment services through post office counters" to be a service of general economic interest⁴². Germany and Austria assign to a certain group of credit institutions, namely savings banks, the task of providing a comprehensive financial infrastructure.⁴³ The issue of geographical availability of a banking network is however outside the scope of this Impact Assessment.

4.1.3. *Drivers per different group of consumers*

The table below aims at summing up the influence of drivers on the main two target groups: named for the reason of simplicity as 'marginal' consumers, and 'mobile' consumers. The table does not include drivers, which are out of scope of this initiative.

The demand side drivers apply predominantly to 'marginal' consumers who would not apply for a bank account for reasons listed in Section 4.1.1. 'Mobile' consumers are in general less likely to be affected by the demand side factors, like psychological, cultural or educational reasons; this group is active and is not deterred from applying for a bank account but faces problems lying on the supply side, i.e. refusal of the bank to open a bank account.

⁴² http://ec.europa.eu/competition/publications/cpn/2003_1_14.pdf

⁴³ http://ec.europa.eu/competition/state_aid/studies_reports/archive/report_bank_en.html

Table 3: Problem drivers for different groups of consumers

	Drivers	Marginal consumers	Mobile consumers
Supply	Limited or no availability of products designed for consumers perceived as commercially unattractive	✓✓✓	✓
	Price conditions – high price levels	✓✓✓	0
	Commercial policy – profitability	✓✓✓	✓
	Commercial policy – risk	✓✓	✓✓✓
	Commercial policy – residency	0	✓✓✓
	Commercial policy – asymmetry of information	✓✓	✓
Demand	Psychological and behavioural factors	✓✓✓	0
	Low financial literacy	✓✓✓	0

✓✓✓ (strong driver), ✓✓ (moderate driver), ✓ (weak driver), 0 – neutral

4.2. The magnitude of the problem

The few studies and polls available on this subject tend to indicate that about 7 % of EU consumers, meaning 30 million adult citizens in the EU do not have a bank account. However, there are hardly any data concerning those people who do not have a bank account because they have been refused access to one: banks in general do not keep data concerning those applications which they have turned down.

To ascertain among the 30 million unbanked persons, that part of the population that is likely to have been refused access to a bank account, extrapolations have been carried out on the basis of the data available for France (methodology is explained in Annex 5). On the basis of that data we have estimated that around 30 % of the unbanked population in EU25 have been denied a bank account (5.7 million). We have applied a different methodology for Bulgaria and Romania – estimating that 717 000 adults in those Member States can have problems with access to a bank account (Annex 5). It has been estimated that in total 6.4 million consumers face problems when they want to open a bank account.

This figure does not take into account the mobile population which may face difficulties in opening a bank account on a cross-border basis, i.e. in another Member State than that of their residence. More than a question of number, the issue at stake here is a symptomatic one: the problem that the mobile citizens encounter affects the image of the Single Market. It is hard for EU citizens to understand that they are granted a freedom to move within the EU and accept that they may face problems in a number of Member States to open a bank account. Whilst difficulties in opening a bank account in another EU Member State will not per se constitute an insurmountable obstacle for a student firmly intending to carry out his or her PhD in another Member State, it nevertheless represents a 'friction' that cannot be justified on grounds of necessity and proportionality. It is however difficult to quantify the problem since banks do not keep records of the rejected applications made on a cross-border basis.

The evidence available is purely anecdotal and based on the complaints which the Commission receives from citizens on a regular basis. These complaints concern a large

number of different Member States⁴⁴ where payment service providers have refused to open a payment account on the grounds of nationality or place of residence. Questions to the Commission's Citizen Signpost Service (CSS) focussing on situations with a cross-border dimension corroborate these findings⁴⁵.

Anecdotal evidence based on citizen complaints sent to the European Commission and inquiries with the Citizen's Signpost Service:

- A Belgian resident's request to open an online bank account has been refused by several Dutch banks on the basis of him not having a residence in the Netherlands.
- A German pensioner living in Spain tried to open a bank account with a German bank for receiving her pension but was told she needed a permanent residence in Germany to do so.
- A Belgian resident owning a flat in London wanted to open a bank account with a UK bank to handle her rent income but was refused on grounds of not being a UK resident.
- A request to open a bank account by a Romanian citizen studying in France was rejected by a French bank on the basis of the student's nationality.
- An EU citizen working in Luxembourg on a temporary basis was required to submit a proof of residence in Luxembourg for opening of a bank account.
- An Irish citizen moved to the UK for the purpose of study and has tried to open a current account. Banks in the UK stipulated that he needs to be living in the UK for three years in order to be able to receive the terms and conditions offered to the UK citizens.
- A German student who arrived in France and was looking for accommodation was demanded to make a deposit at a French bank but the French bank demanded a French residence card to open an account.
- A Hungarian resident started working for a UK company from his home in Hungary and has been requested to open a bank account in the UK for the salary to be paid into it. He has been refused by UK banks on the grounds that he does not live in the UK and is not a UK resident. The company has refused to pay the salary into an account in Hungary.

In quantitative terms, complaints in terms of numbers (a few tens per year) are definitely dwarfed by the sheer magnitude of people moving around in the EU: if one is only looking at students, nearly 200 000 students every year nowadays study in another Member State than that of their residence thanks to the Erasmus system. Even if complaints are few, they are symptomatic of a lasting problem and on grounds of principle, the current situation cannot be considered satisfactory.

Furthermore, a recent large scale Eurobarometer survey⁴⁶ indicates that the unemployed and the young (aged 15–24), i.e. people usually with low income, are most likely to envisage working outside their Member State. This level of mobility, as well as the fact that consumers searching for a job in another country and the young may appear to banks as commercially

⁴⁴ Over the past three years, the Commission Services have received complaints concerning PSPs in Austria, Belgium, Czech Republic, France, Germany, Italy, Ireland, Luxembourg, Netherlands, Poland, Portugal, Slovakia, Spain and United Kingdom.

⁴⁵ Of all questions received by the CSS in relation to financial services (497) during a 14-month period in 2006 and 2007, 142, i.e. 28.6 %, of all enquiries concerned the opening of bank accounts. Questions on bank accounts were the leading category of all seven financial services concerned.

⁴⁶ Eurobarometer 337, 2010, pp. 8, 9, 11, 17 and 29.

unattractive customers is an issue of concern, given the aforementioned obstacles to the opening of a bank account by non-residents.

4.3. Consequences

4.3.1. Consequences for consumers

Limited choice of goods and services

More and more goods and services are offered online. In such cases, lack of access to electronic means of payment by some consumers means they are prevented from fully benefiting from the opportunities created by the internal market. Unbanked consumers are essentially faced with less choice in goods and services and often higher prices. Online shopping for instance, either domestic or cross-border, cannot be accessed without a means of electronic payments. It has to be also acknowledged that there are also other barriers to access to online goods and services e.g. lack of access to the internet. Problems with limited goods and services are encountered both by 'marginal' and 'mobile' consumers, when the latter move temporary to highly banked Member State where domestic bank account is required by service providers. Consumers who do not have access to a bank account may have problems accessing other mainstream financial services. A simple bank account can become the gateway to other financial products. Without a bank account consumers cannot benefit from the Single European Payment Area nor from the internal market for financial services.

Higher costs

Occasional use of banking services is more expensive than being a regular bank customer. When a customer receives a payment, such as a cheque, and does not have access to a bank account, a consumer may need to pay a fee or use an intermediary to cash the cheque. A similar problem arises where a consumer wishes to make a payment, and does not have a bank account. Households often need to pay at least three utility bills per month (e.g. energy, gas, telecom), not to mention other occasions when they need to pay for goods and services or send money. Likewise, without electronic means of payment, consumers cannot take advantage of discounts often provided for electronic payments of utility bills or for online purchases (for more information see Annex 16).

Financial exclusion, social exclusion and poverty trap

Consumers who do not have access to a bank account are also very likely to be disadvantaged or even face problems in everyday life. The use of cash is decreasing: employers increasingly pay wages electronically, renting property becomes more and more difficult without a bank account, utility providers increasingly require bank accounts, and even at many universities students need a bank account in order to pay for students' accommodation. This is certainly the case in countries with high bank penetration, in which cash is less frequently used. This applies both to marginal (commercially unattractive consumers) and mobile consumers.

The situation can vary from one Member State to another and some groups and societies may still prefer to operate in cash. However, even in the case of those countries with a less wide spread banking system, the pace of development in the banking sector indicates that consumers in those Member States are likely to face problems in the coming years.

Lack of access or difficulties accessing or using financial services and products which enable people to lead a normal social life has been called 'financial exclusion' by many researchers⁴⁷. Financial exclusion may lead to social exclusion – defined as a lack of participation in the society by the LSE Centre for Analysis of Social Exclusion. On the other hand, social exclusion may be a cause of financial exclusion, when for example those living on a low income, the unemployed, immigrants or the homeless cannot open a bank account, either because of the price of the latter or because of the eligibility criteria set by the bank. The relationship between financial exclusion and social exclusion has been the subject of many studies.⁴⁸

There are also strong links between financial exclusion and over-indebtedness. Financial exclusion and over-indebtedness are both causes and consequences of poverty and social exclusion. People without access to electronic payments bear higher costs for many goods and services through a limited choice and bear higher costs when paying bills and occasionally using banking services.

Not being able to demonstrate any banking history prevents many individuals from accessing prime lending markets which feature lower rates of interest than sub-prime lending. Sub-prime markets are characterised by offering credit to those with lower credit scores but at higher interest rates. Higher charges incurred by consumers without access to prime financial markets add to costs of living and make it more difficult to escape the poverty trap. A study on poverty led by the UK Family Welfare Association, *How poor households pay more for essential goods and services*, has estimated the cost to poor families stemming from operating in cash and not being able to make electronic payments to be EUR 163 per annum. Total costs borne by poor families for operating in cash, not being able to make electronic payments, not being able to access mainstream affordable credit, incurring higher maintenance insurance costs and incurring higher utilities charges have been estimated to be EUR 1 126 per annum.

Barrier to free movement of persons

The exercise of the right of free movement of persons within the EU should not be jeopardised by difficulties such as those relating to the opening of a bank account. As confirmed by the expert group⁴⁹, cross-border bank opening is growing although it primarily concerns specific categories: non residents living near a border, non resident property owners (secondary residence or investment), foreign students, expatriates, temporary workers (tourism, agriculture, and construction), etc. These individuals need a bank account for everyday operations: paying for accommodation, receiving pensions or salaries, paying bills, etc. Indeed, the Single European Payment Area (SEPA) aims at ensuring that one bank account will be enough to carry out all national and cross-border transactions. However, SEPA concerns only payments in euro within the EEA and is not completed yet. Secondly, it only applies to electronic transactions. Therefore when consumers move temporarily to

⁴⁷ For the purpose of this IA, "financial exclusion refers to a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong". *Financial Services Provision and Prevention of Financial Exclusion*, DG Employment, European Commission, 2008.

⁴⁸ Anderloni, 2003; Anderloni and Carluccio, 2006; Kempson and Whyley, 1999, Kempson and Whyley 1999; Kempson et al, 2000; McKay and Collard, 2006 after DG Employment study *Financial Services Provision and Prevention of Financial Exclusion*.

⁴⁹ http://ec.europa.eu/internal_market/finservices-retail/docs/baeg/report_en.pdf

another Member State, if the latter does not belong to the euro area, it may be still more beneficial for them to open a bank account in that Member State, if only by avoiding systematic conversion charges from euro to the domestic currency at stake and vice versa. After all, consumers should have the choice and possibility to open bank accounts in the host Member States.

4.3.2. *Consequences for industry*

More and more providers offer their goods and services online. Thus retailers, especially in the area of e-commerce may bear the consequences of lost opportunities. The opportunities offered by the European Digital Single Market⁵⁰ will be unavailable for consumers without access to such means of payment, and hence industry will be deprived from part of a potential market. In these specific circumstances, supply and demand will not meet.

For utility service providers, having to deal with consumers without a bank account is also more costly. Furthermore, it prevents from proposing direct debits as a means of payment, which enables the securing of their cash flows⁵¹, thereby facilitating their treasury management.

4.3.3. *Consequences for national public administrations*

As studies show, there is a correlation between the income level and the unbanked status as explained in Section 4.1.1.: those on low income – there are 84 million people at risk of poverty in the EU, the disabled, the unemployed and single parents are more likely to be unbanked. These groups are also most likely to receive social benefits. There is also a correlation between the unbanked status and age, with oldest people (mostly in EU12), being unbanked. The latter group also receives state benefits, namely pensions. We can therefore estimate that a substantial proportion of unbanked consumers receive social assistance.

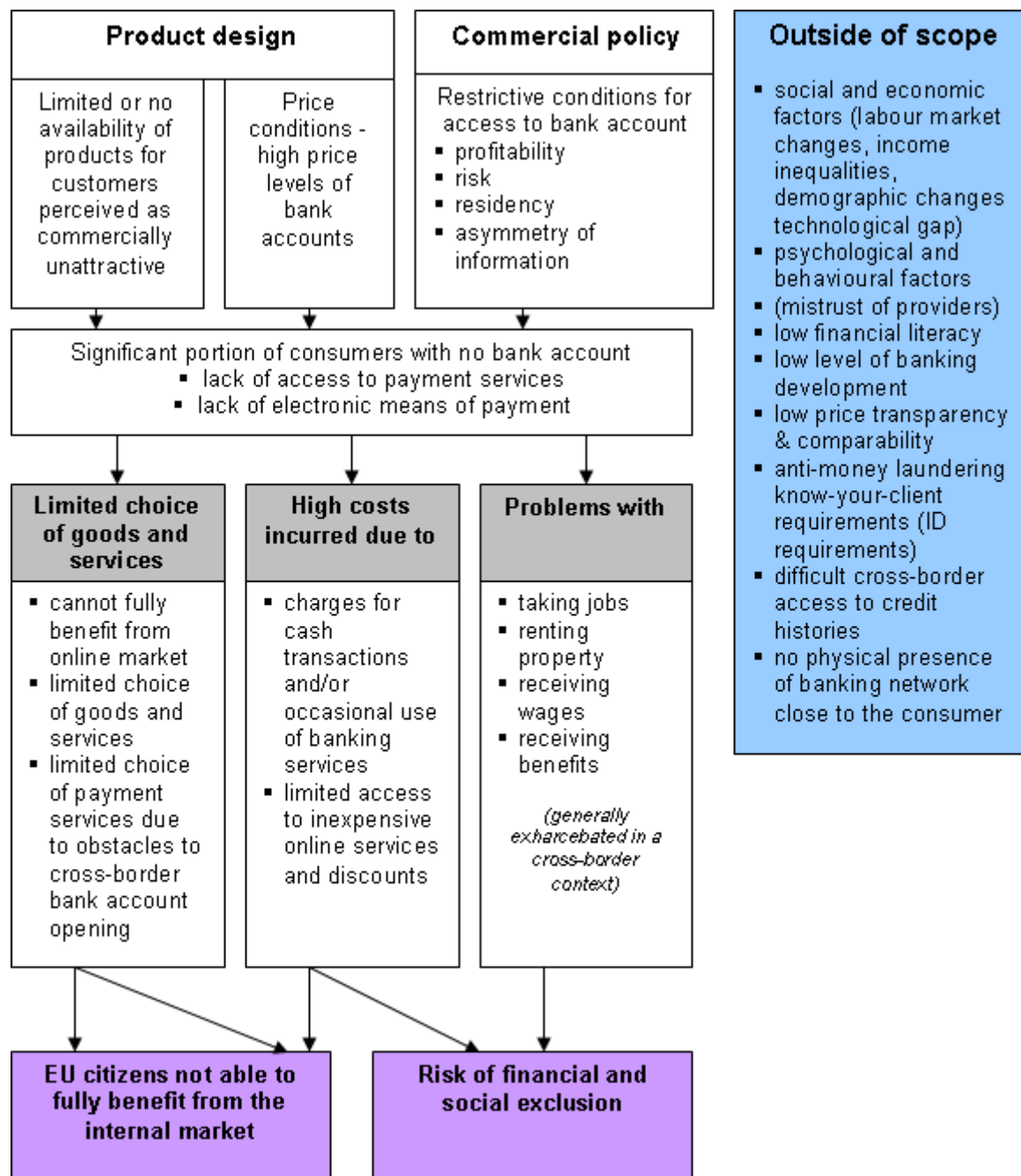
It can be therefore said, that where Member States do not pay social security benefits or pensions electronically, they incur higher costs. On the basis of available information, we assume that 98 % of Member States administration has the possibility to make and receive electronic payments⁵². In the current context of severe budgetary constraints in a number of Member States, it is worth exploring additional savings from the reduced transaction costs of making payments through bank accounts as opposed to traditional physical processing. Furthermore, the aim of the Digital Agenda and of E-Government of fully digitalising the relationship between citizens and public authorities may not be reached if recipients of social benefits are unable to open a bank account.

⁵⁰ http://ec.europa.eu/information_society/digital-agenda/index_en.htm

⁵¹ At least in theory, as there may be circumstances where low income consumers might rather prefer to opt for credit transfers or other means of payment allowing to keep a tight control on their finance.

⁵² On the basis of responses to Commission's questionnaire on migration of the public administration into SEPA.

Graph 3: Problem tree



4.4. Dynamic baseline scenario

A number of factors need to be taken into account in a dynamic baseline scenario, relating respectively to the specific situation of Bulgaria and Romania, the evolution of the present economic situation and possible change in bank's behaviour, as well as to the influence of other related Commission initiatives (for more details, see Annex 17).

Bulgaria and Romania – where almost half of the population is without a bank account due for part to an under-developed banking infrastructure and consequent lack of geographical access – would be expected to improve over time in line with their expected economic growth and the development of their financial sector. A development of the banking network similar to Portugal's over the next 15 to 20 years would lead to a doubling of the current density of

the network of bank branches per 100 000 persons, bring Romania and Bulgaria to the level of Hungary. This would undoubtedly lead to a sizeable reduction of the population without a bank account. One could however expect a smaller but still significant part of the population would remain without a bank account.

The question may also arise as to whether the present economic situation would not spur banks to intensify their efforts to exploit all profit opportunities, including the low income consumer segment which segment is likely to grow to the detriment of the mainstream middle income consumer market of most banks. Whilst banks may be ready to accommodate the difficulties faced by their current clientele, in order to preserve it while awaiting an economic upturn, there is no certainty that these banks will adopt opportunistic strategies and broaden their offer of services by including simpler and basic services that would be affordable to a broader customer range. They might as well opt for a more conservative strategy, consisting in trying to maximise their relationship with their existing clientele base.

The self-regulatory initiative on transparency and comparability of bank fees launched by the banking industry should allow consumers to make informed decisions. Combined with the possibilities offered by bank account switching at national level, bank account holders might benefit from a higher level of competition. A limitation of this initiative is that it is conducted at national and not pan-European level: domestic structural market conditions will remain unchanged. Furthermore, the price elasticity of demand for this type of service is unclear.

Whilst actions at EU or Member States level regarding financial education might over time raise levels of awareness among that part of the 30 million EU adults who do not have a bank account about the advantages of holding one and therefore lead to a higher proportion of the banked population, these actions alone will not per se solve the core of the problem at stake, a view shared by many consumer organisations.

5. CASE FOR EU ACTION

According to the principle of subsidiarity, action at Community level should be taken only when the aims envisaged cannot be sufficiently achieved by the Member States alone and can therefore, by reason of the scale or effects of the proposed action, be better achieved by the EU. The issue being addressed concerns access to basic payment services. Given the nature of the objectives pursued under this initiative, EU action can be justified, for a number of reasons.

The problems identified lead to consumer detriment through limited choice of goods and services, incurred high costs, difficulty in taking jobs and receiving incomes. At the moment, the majority of Member States have not addressed the issue, while those in which access to a basic payment account is regulated do not provide for access to consumers from other Member States. This absence of action at national level in most Member States undermines the functioning of the internal market as it does not lead to inclusion: some strands of society are prevented from reaping the benefits of the single market, whatever their place of residence. It also creates unnecessary burdens in cases of cross-border mobility, particularly of workers, trainees, and students. And this is happening at times when currently unemployed (and possibly unbanked) persons may find it necessary to move across borders in search of employment. The exercise by these groups of their rights of free movement under the Treaty is to some extent undermined by the inability to have a bank account in their host state. The present situation is conducive to financial and social exclusion for a significant number of

Europeans, both domestically and cross-border and even in Member States with high banking penetration.

This overall situation is unlikely to change in any material way, especially given the effects of the global financial turmoil on cost-cutting and national market retrenching, with financial services providers likely to be more interested in protecting themselves from perceived risks than developing alternative products for unbanked people with no immediate profit. Furthermore, as described in Section 3.2 and Annex 6, action from Member States alone has been patchy and insufficient from an EU perspective, thus maintaining obstacles to the optimal functioning of the internal market. Such lack of uniformity and potentially discriminatory practices could also lead to numerous consumer complaints. Should Member States move towards ensuring a right of access to payment accounts under their jurisdiction, there is no guarantee that they would grant a cross-border right of access. At the same time, the increasing use of the Internet by providers will make the overlap of domestic and cross-border issues become more and more prominent as far as basic banking services are concerned.

An EU-wide guaranteed access to payment accounts would constitute a first step for consumers in accessing financial services and availing of the benefits offered by the EU integrated financial markets. It would also make it possible for them to benefit from the Single Euro Payments Area as well as to benefit from the rights and protection introduced by the Payment Services Directive. Payment of benefits by public administrations would be easier and more effective as the use of other means than credit transfers for this purpose will decrease.

Ensuring that basic payment accounts are available for consumers will lead to a long-term win-win situation both domestically and on a cross-border basis. Factors that prevent access to payment accounts and therefore full participation of EU citizens and residents in the internal market can be addressed by appropriate EU policy initiatives. In the years preceding the crisis, the financial services agenda was strongly focused on the freedom of provision of services, increasing consumer choice and profitability of financial products, and a possible impact on people experiencing poverty or on low income has been overlooked. This development would need to be re-balanced through more inclusiveness in the internal market, which can only happen through an EU-wide approach. It therefore follows that EU action is justified to achieve the objectives of this initiative.

Should the instrument chosen be a legislative instrument, the legal basis is likely to be Article 114 TFEU.

Article 114 TFEU allows for the adoption of "measures for the approximation of the provisions laid down by law, regulation or administrative action in Member States which have as their object the establishment and functioning of the internal market". In doing this, in accordance with Article 169 TFEU, the Commission will take as a basis a high level of consumer protection.

A non-legislative action in the form of a Recommendation would be based on Article 292 TFUE.

In any case, action at the EU level must also respect the principle of proportionality. This criterion is duly considered when assessing the effectiveness and efficiency of the policy options examined later. The retained option is among the least burdensome for stakeholders.

In the same spirit, the choice of the instrument is crucial in finding an appropriate balance between EU level action and national action. Self-regulation, exchange of best practices, a recommendation, directive, framework regulation or regulation, would all have different impacts on the proportionality of the measures chosen, taking into account the objectives pursued and the mechanisms already in place in a few Member States. A detailed discussion is contained in Section 8.6.

6. OBJECTIVES

General:

- To promote full participation of all EU citizens in the internal market.
- To promote financial inclusion and social inclusion.

Specific:

- To improve access to payment accounts and electronic means of payment throughout the EU.

Operational objectives:

1. To ensure that a suitable product is offered for consumers perceived as non-profitable (commercially unattractive).
2. To ensure inclusive conditions for bank accounts opening for consumers having problems meeting banks' conditions for access (e.g. concerning income, economic situation, credit history or residency status).

6.1. Coherence of objectives with other Commission policies

Financial education – Evidence shows that the lack of knowledge of financial services constitutes a very important factor determining financial exclusion. The Commission issued a Communication on Financial Education, COM(2007)2008 of 17 December 2007, and is currently reviewing and evaluating reactions to it.

SEPA and Payment Services Directive – Access to a payment account is necessary for EU citizens to benefit from the Single Euro Payments Area (SEPA), which abolishes the existing distinctions between national and cross-border payments. The objective of SEPA cannot be reached if citizens cannot open payment accounts. Information requirements and the rights and obligations linked to the provision and use of a payment account and payment services have already been harmonised at EU level by the Payment Services Directive (PSD). The PSD does not, however, ensure access to payment services.

Consumer credit – Rules concerning provision of unsecured credit to consumers have been harmonised at EU level through the Consumer Credit Directive (CCD)⁵³. The above mentioned directive applies also to overdraft facilities and overrunning, which are quite often

⁵³ Directive 2008/48/EC.

offered together with a bank account⁵⁴. The CCD ensures transparency of costs, terms and conditions as well as comparability of offers concerning credit.

Transparency of bank fees – The Commission intends to explore the issue of transparency, comprehensibility and comparability of bank fees. The banking industry has been invited to commit to a self-regulatory initiative aimed at ensuring transparency and comparability of bank fees enabling consumers to take informed decisions. This could have implications on the current initiative by ensuring transparency and comparability of fees for a basic payment account.

7. POLICY OPTIONS – DESCRIPTION OF POLICY OPTIONS

7.1. Products and services (linked to operational objective 1)

1: No policy change	No intervention at EU level either by public authorities or by private entities (self-regulation).
2: Ensure that basic payment services are offered by payment services providers (PSPs)	Under this option, a list of payment services to be offered with a basic payment account would be defined at EU level, as the following: (i) opening, managing and closing of the account; (ii) receiving, placing, transferring and withdrawing funds, both physically and electronically; (iii) statement of the account.
3: Ensure that basic payment services and a payment card are offered by payment services providers (PSPs)	Under this option, a list of payment services to be offered with a basic payment account would be defined at EU level, as the following: (i) all the facilities under Option 2; (ii) payment card – enabling the carrying out of electronic payments.
4: Ensure that basic payment services, a payment card and an overdraft (credit line) are offered by payment services providers	Under this option a list of payment services to be offered with a basic payment account would be defined at EU level, as the following: (i) all the facilities under Option 3(ii) overdraft facility.

7.2. Price of a basic payment account (linked to operational objective 1)

1: No intervention at EU level	No intervention at EU level either by public authorities or by private entities (self-regulation). It would be left for market forces to determine the price of a basic bank account.
2: Ensure that where a basic payment account is not free of charge, the price is reasonable	This option would aim to ensure that basic payment accounts are reasonably priced.
3: Free of charge provision of a basic bank account	Under this option a basic bank account would be provided free of charge.

7.3. Conditions of access to a basic payment account (linked to operational objective 2)

1: No policy change	No intervention at EU level either by public authorities or by private entities (self-regulation). It would be left for financial services providers to decide on the eligibility conditions customers would need to meet in order to open a basic bank account.
2 : Access for households	Under this option, access will be granted to partially or fully unbanked households. (access to a basic joint account)

⁵⁴ See footnote 49, Article 3(d) & (e).

<p>3: Right to a basic payment account for all unbanked customers</p> <p>3.1: <i>Access only for residents</i></p> <p>3.2: <i>Access for residents and non-residents</i></p>	<p>Under this option, the Commission could introduce the right to a basic payment account for all unbanked EU residents or citizens (whether or not they have already attempted to open a bank account). No other conditions of granting access could be used apart from those provided in the legislation (e.g. anti-money laundering requirements) or public order and security aspects.</p> <p>Unbanked consumers would have a right to open a basic bank account only in the Member State of their residency.</p> <p>Unbanked consumers would have a right to open a basic bank account in any Member State, even in one in which s/he is not a resident.</p>
<p>4: Right to a basic payment account for every EU citizen and resident</p> <p>4.1: <i>Access only for residents</i></p> <p>4.2: <i>Access for residents and non-residents</i></p>	<p>Under this option, every EU citizen or resident (regardless of whether he or she has already an account) would have a right to a basic payment account. No other conditions of granting access could be used apart from those provided in the legislation (e.g. anti-money laundering) or public order and security.</p> <p>EU citizens and residents would have a right to open a basic bank account only in the Member States of their residency.</p> <p>EU citizens and residents would have a right to open a basic bank account in any Member State, even in one in which he is not resident.</p>

8. ASSESSMENT OF IMPACTS AND COMPARISON OF POLICY OPTIONS

This section provides an analysis of the impacts and comparison of options for three different areas: 8.1 products and services, 8.2 price and 8.3 conditions of access. A quantification of costs and benefits for the preferred options is given in Section 8.4. The schema used for assessment and comparison purposes is the following: ✓✓✓ (strong positive contribution), ✓✓ (moderate positive contribution), ✓ (weak positive contribution), ✕✕✕ (strong negative contribution), ✕✕ (moderate negative contribution), ✕ (weak negative contribution), 0 (neutral contribution).

It is noted that an extended version of Section 8 (Assessment of Impacts) exists in Annex 12, which provides a detailed analysis of the impact of each of the options on different stakeholder categories (consumers, providers, Member States). An estimation of the impact of the preferred set of options in quantified terms is provided in Section 8.4 and in Annex 13.

8.1. Products and services

8.1.1. Option 1: No policy change

Under the baseline scenario, the status quo would be maintained and the problem of limited or no availability of products targeting the excluded consumers would remain unaddressed. Some banks may voluntarily design new products for excluded consumers. However, it is unlikely that in the short term, banks in 18 Member States (where it was found that such products were not available) would target excluded consumers by offering simple bank accounts that would suit their needs. As a result, the objective of improving access to payment accounts and electronic means of payment would not be met. Consumers without a bank account would not be able to fully benefit from the internal market with their choice of goods and services being limited. They would still face financial exclusion which could lead to social exclusion.

No access to a payment account means higher costs for consumers due to high charges for occasional use of banking services, charges for money transmission, cashing cheques, loss of discounts for electronic payments or online discounts. We have assessed the annual opportunity cost of not having access to a payment account to range from EUR 185 to

EUR 365 per consumer (see Annex 13). The financial impact on payment account providers is expected to be neutral since they would not need to introduce new products.

8.1.2. Option 2: Ensure that basic payment services are offered by payment services providers (PSPs)⁵⁵

Providers would offer a basic payment account specially designed to meet the characteristics of commercially unattractive consumers, which would allow them to: (i) deposit and withdraw cash; (ii) receive salaries, benefits, pensions and other credit transfers directly, (iii) pay bills or taxes electronically, pay for goods and services electronically (either by credit transfers, standing orders or direct debits); (iv) but not obtain a payment card or (v) credit in the form of an overdraft.

This option would improve the availability of payment accounts throughout the EU and therefore would have a moderately positive impact on consumers (✓✓). The impact on providers largely depends on the chosen assumptions (notably with regard to the pricing of such an account) and could accordingly range from weakly positive to weakly negative (✓-✗). Member States are expected to experience a weakly positive impact (✓). For a more detailed analysis of impacts, see Annex 12.

8.1.3. Option 3: Ensure that basic payment services and a payment card are offered by payment services providers

Providers would offer a basic payment account specially designed to meet the characteristics of commercially unattractive consumers, which would allow them to (i) perform all functions specified under Option 2 and (ii) use a payment card⁵⁶ allowing for electronic payments.

This option, like Option 2, would facilitate the achievement of the objective of ensuring that a product designed for consumers perceived as commercially unattractive is offered throughout the EU. In addition to the benefits described under Option 2, consumers would get quicker access to funds and be able to buy goods and services on the internet. Most online purchases and bookings are possible only with a card, and more and more providers are offering payment with a debit card in addition to a credit card. As a result, consumers would benefit from an increased choice of goods and services, and savings due to various discounts for electronic payments and access to online services. Being able to buy goods and services without having to leave home should improve the standard of living of people with disabilities, or older people. This would further enhance their participation in the internal market and improve their position in the society. Like Option 2, the benefit could be even larger than currently envisaged as the low income segment is likely to grow to the detriment of the mainstream middle income consumer market.

The overall impact on consumers is expected to be strongly positive (✓✓✓). The overall impact on providers is expected to range from moderately negative to weakly positive (✗✗-✓). The impact on Member State administrations is expected to be neutral or moderately positive (0-✓). A detailed analysis of impacts can be found in Annex 12.

⁵⁵ See Glossary. We are using the term Payment Services Providers in order not to restrict provision of a basic payment account to banks.

⁵⁶ Payment card with real time authorisation not allowing payment transactions which exceed the current balance of the account.

8.1.4. *Option 4: Ensure that basic payment services, a payment card and an overdraft (credit line) are offered by payment services providers*

Providers would offer a basic payment account, which would allow consumers to (i) perform all functions specified under Option 3, and (ii) get into a negative balance (overdraft).

While this option would look positive at first sight, it would in reality not achieve the objective of ensuring that a product designed for consumers perceived as commercially unattractive is offered throughout the EU. In order to grant a credit line, banks would need to carry a risk assessment. Therefore, this product would not meet the needs of consumers with bad credit histories, indebted, unemployed or on low income. Similarly in the case of non-residents, the lack of access to credit histories would prevent banks from offering them such a product.

The overall impact on providers is expected to range from strongly negative to weakly positive (***-✓). The overall impact on consumers is expected to be weakly negative (*). The overall impact on Member States is expected to range from neutral to weakly negative (0-*). A detailed analysis of impacts can be found in Annex 12.

To conclude, this option would not meet the objective of ensuring that unbanked consumers have access to a suitable product.

Comparison of options

The 'Do nothing' scenario (Option 1) has no impact on achieving the objectives outlined in the table below. Options 2 and 3 were both found to be particularly effective and efficient in achieving the objectives pursued under this initiative. Option 3 however was found to be the most effective concerning achieving the objective of promoting full participation of EU citizens in the Internal Market. Option 3 would ensure that PSPs in EU Member States offer a product designed so as to take into account consumers perceived as commercially unattractive. A basic payment account together with a payment card would allow consumers to benefit from a wider choice of goods and services, lower costs of living (online discounts, access to cheaper goods and services) and would contribute to financial and social inclusion. Option 4 was found to be ineffective since the need for a creditworthiness assessment for the purpose of granting a credit line in the form of overdraft would constitute an obstacle for non-residents and vulnerable consumers.

In terms of efficiency both Options 2 and 3 scored equally well. They both would have a positive impact on consumers and mixed impact on Payment Services Providers. In conclusion, Option 3 is the preferred option since it better promotes full participation of EU citizens in the Internal Market.

Table 4: Type and design of a product (a bank account) – Comparison of options

Options	Effectiveness in achieving the objectives below			Efficiency in achieving all objectives
	Operational objective	Specific objective	General objective	
	Ensure availability of a product designed for commercially unattractive consumers	Improve access to payment accounts	Promote full participation of all EU citizens in the Internal market	
1: Do nothing	0	0	0	0
2: Ensure that basic payment services are offered by payment services providers	✓✓✓	✓✓✓	✓✓	✓-✓✓
3: Ensure that basic payment services and a payment card are offered by payment services providers	✓✓✓	✓✓✓	✓✓✓	✓✓
4: Ensure that basic payment services, a payment card and an overdraft (credit line) are offered	x	x	x	x

The 'Do nothing' scenario has no impact on stakeholders. Options 2 and 3 were found to have a positive impact on consumers and society. They have been found to have a mixed impact on PSP, due to costs of setting up and operation of new products. It is uncertain whether these costs could be offset by revenues and improved image of corporate social responsibility. Although Member States' administrations may incur marginal compliance costs⁵⁷ due to the need to implement and ensure enforcement of rules (if a legislative approach is chosen), the overall impact should nevertheless be neutral to weakly positive. Member States would benefit from the reduction of transaction costs for social benefits and, in the long-run, from a more inclusive society. If the banking industry were to commit to offer special products for consumers perceived as commercially unattractive or non-profitable, the overall impact on the administration would be very positive. Option 4 was found to be the least effective, both for consumers, PSP and Member States.

Table 5: Type and design of a product (a bank account) – Impact on main stakeholders

	Consumers and society	Payment Services Providers	Member States
1: Do nothing	0	0	0
2: Ensure that basic payment services are offered by payment services providers	✓✓	x-✓	✓
3: Ensure that basic payment services and a payment card are offered by payment services providers	✓✓✓	xx-✓	0-✓
4: Ensure that basic payment services, a payment card and an overdraft (credit line) are offered	x	xxx-✓	0-x

⁵⁷ Compliance costs will be marginal since the supervisory architecture for banking and payment services providers is very well established.

8.2. Price conditions

Before defining the policy options, it is important to point out that these would set out broad principles rather than detailed measures. The more detailed measures would need to be defined at a later stage, either at the national level or through Commission delegated and/or implementing acts. Quantified impacts of all preferred options are provided in Section 8.4 and in Annex 13. The impacts of the Commission delegated/implementing acts will be analysed in accordance to established rules.

8.2.1. Option 1: No intervention at EU level

Doing nothing would not be effective in ensuring that a suitable product, i.e. a reasonable priced basic payment account is offered. The pricing conditions⁵⁸ would be determined by market forces. The maintenance of the status quo would fail to improve the level of consumers holding a bank account, and would thus be ineffective in reducing financial and social exclusion.

Doing nothing would mean maintaining the present status quo which negatively impacts many consumers who would be prevented from opening bank accounts because of inadequate pricing conditions. Concerning providers, the impact is expected to be neutral as they would not need to effect any changes to their product pricing. Member State administrations would not incur any costs in relation to implementation, supervision, or enforcement, but would continue to experience the negative financial and social impacts caused by exclusion due to price conditions and would not be able to benefit from reduced costs in paying welfare benefits.

8.2.2. Option 2: Ensure that where a basic payment account is not free of charge, the price is reasonable

PSPs incur significant fixed costs when providing current accounts as well as variable costs. Face to face transactions are more costly to provide than their internet or telephone equivalents so banks usually lose money on them overall. Traditionally, PSPs have operated in such a way that some services to an account holder are financed through other potentially profitable revenues from the customer. In addition, PSPs do not disclose the relationship between the costs of operating a bank account and charges levied on consumers. According to a UK study⁵⁹, current accounts are priced in a way that does not reflect the underlying costs of any one account, although total costs are recovered.

Another study⁶⁰ has found that some banks' pricing policies do not suit well the needs or profiles of users, e.g. where a bank prices up a basic account by offering e.g. a higher number of credit transfers than actually needed by the basic profile users.

This shows the importance of ensuring that basic payment accounts are reasonably priced⁶¹. The aim is to arrive at a price for a basic payment account that would be affordable for basic

⁵⁸ By price we mean total charges applied to a consumer: annual charges, account charges (opening, closing, insufficient funds, OTC withdrawals and deposits, credit transfers, direct debits, internet and phone banking) and payment card charges.

⁵⁹ *Competition in UK Banking: A Report to the Chancellor of the Exchequer*, Cruickshank, Don, HM Treasury, 2000, http://www.hm-treasury.gov.uk/fin_bank_reviewfinal.htm.

⁶⁰ Van Dijk Management Consultants study, p. 29.

profile users, including those on low incomes. In some countries, the basic bank account is provided free of charge; e.g. in UK, France. However, since PSPs are commercial entities, it may not be economically valid for all of them to provide a basic payment account free of charge.

The present initiative would aim at establishing the principle that a price of a basic payment account should be reasonable for consumers. This would be effective in ensuring affordable basic payment accounts (✓✓). The concept of a reasonable price and the methodology/criteria to be used for assessment of the reasonableness of prices would be developed at national level as this notion of reasonable price is likely to differ from one Member State to another, due to differences in account pricing strategies, GDP and consumer income levels. However, if Member States request a common European definition of the 'reasonable' price and criteria for its establishment (e.g. relation to lowest income deciles), these could be developed through Commission delegated/implementing acts. To that aim the new European banking supervisory authority (EBA) could be asked to provide advice on how to develop a methodology to define a 'reasonable' price. The challenge of agreeing a common definition/methodology of the 'reasonable' price will be evaluated in the context of the Impact Assessment accompanying that delegated act.

Where the concept of a reasonable price and criteria for its assessment are developed, either at national (or EU level), Member States would need to monitor the pricing of basic payment accounts in relation to e.g. national consumer prices and income (or other established criteria) in order to verify whether or not the price is reasonable and the account affordable. Pro memoria, the costs of price monitoring and costs of adoption of national measures are assessed in Annex 13. In the case where prices would not be 'reasonable', Member States could provide for an adjustment of PSPs' pricing for low-income consumers. If, as a result of a Member State intervention, PSPs were to lower their prices and suffer losses, to avoid such a situation, they will either develop a cross-subsidization strategies or call for compensation (funded by the industry or the state, according to the Treaty provisions). The latter approach might be the preferred path of small and medium-sized PSPs, if they were to disproportionately shoulder most of the cost, which might be the case for cooperative banks and savings banks.. It is however very likely that take-up of consumers would be proportional to the size of the infrastructure and economic importance of the provider. Consumers would naturally tend to choose the nearest provider, meaning the provider with the widest infrastructure in their particular market. Belgian legislation has foreseen the creation of a compensation fund to be availed of in the event that the number of basic bank accounts is disproportionate to the economic importance of the individual provider. To date, no bank has applied to avail of such compensation.

This option is expected to have a positive impact on consumers (✓✓). The overall impact on providers is uncertain and mainly depends on how this 'reasonable price' is established in each Member State and whether a basic payment account will be loss making (see Annex 13). It could range from negative (when an individual PSP would have to bear losses) to neutral (when losses will be compensated) or slightly positive (when prices are above costs and providers make profit) (✗✗-0-✓). The impact on Member State administrations may range from being slightly negative to neutral or positive, depending on their choice on whether or

⁶¹ By price we mean the total sum of charges applied to a consumer: annual charges, account charges (opening, closing, insufficient funds, over-the-counter withdrawals and deposits, credit transfers, direct debits, use of internet and phone banking) and payment card charges.

not to grant compensation to the PSP industry and the expected benefits (✗-0-✓). For a more detailed analysis of impacts, see Annex 12.

8.2.3. Option 3: Free of charge provision of a basic payment account

This option would be very effective (✓✓✓) in ensuring reasonable priced basic payment accounts. All eligible consumers would be granted such an account free of charge. As a result, many of the existing consumers who have no bank account would be likely to obtain one. This would result in substantial benefits for these consumers, such as improving their financial and social conditions.

According to the UK study an account needs to have a positive balance of about EUR 1 100 per annum to be profitable if no account fee is levied⁶². The level of the positive balance would differ from country to country due to differences in the GDP level. Nonetheless, it is very unlikely that basic payment accounts would have a substantial positive balance. Thus, the costs of a free basic payment account would need to be borne either by individual PSPs, the PSP industry, Member States or other consumers. Providers, in the absence of the compensation mechanism, would most probably attempt to pass the cost of providing free basic accounts to other consumers through cross-subsidisation. This could for instance lead to an increase of charges for other products and services, and e.g. an increase in a few basis points in interest rates for credit might thereby affect demand. In the latter respect, one might however expect that this negative effect on demand would be offset by a greater participation in the economy of that part of the population that is currently unbanked.

Overall impact on providers would range from very negative to neutral (✗✗✗-0). Cumulative impact on consumers could range from slightly positive to very positive (✓-✓✓✓) The impact on Member State administrations would range from negative to neutral or slightly positive (✗✗-0-✓), depending on whether or not they would provide compensation for the loss making product, and on whether or not the amount of compensation would exceed the expected savings from lower remittance costs and benefits from more inclusive society (for quantifications see Annex 13). For a more detailed analysis of impacts, see Annex 12.

Comparison of options

The objectives outlined in the table below cannot be achieved under the 'Do nothing' scenario (Option 1). Options 2 and 3 were both found to be particularly effective in achieving the objectives pursued under this initiative. Option 3 however was found the most effective: by offering the account for free it makes it most affordable, thereby maximising the potential number of consumers that would request and obtain it. These effects constitute the strongest contributors to the general objectives relating to market participation and financial and social inclusion. In terms of efficiency (cost-effectiveness) of the options, however, it was found that Option 2 was more efficient than Option 3. The inefficiency of Option 3 is due to the more negative impacts on one group of stakeholders (the one bearing costs of free bank accounts), explained further below. In conclusion, Option 2 is the preferred option thanks to its combined score of effectiveness and efficiency in achieving the objectives.

⁶² *Competition in UK Banking: A Report to the Chancellor of the Exchequer*, Cruickshank, Don, HM Treasury, 2000.

Table 6: Product price – Comparison of options

Options	Effectiveness in achieving the operational objective below	Efficiency in achieving the operational objective below
	Inclusive conditions for consumers perceived as commercially unattractive	
1: Do nothing	0	0
2: Ensure reasonable pricing of a basic payment account	✓✓	*-0-✓
3: Free of charge basic bank account	✓✓✓	*

The 'Do nothing' scenario was found to have little or no negative impact on stakeholders. Option 2 was found to have a positive impact on consumers. Impact on Member State administrations would be uncertain and range from positive to negative; on the one hand, the positive impact could be experienced mainly due to greater inclusion and a reduction in transaction costs; on the other hand, Member States might need to bear the costs for partly or fully compensating losses of PSPs. Likewise, impact on providers was found to be range from negative to neutral and depend on how the reasonable price would be established and whether PSPs would need to bear costs of basic payment accounts. Option 3 could have more negative impact on one group of stakeholders since somebody will have to bear the costs of a basic payment account: either other consumers (cross-subsidisation or marginal increase in taxes) or providers or Member States. Since it is uncertain which stakeholder will bear the costs (it would be decided at the national level) the range of possible impacts is given.

Table7: Product price – Impact on main stakeholders

	Consumers	Account providers	Member States
1: Do nothing	0	0	0
2: Ensure reasonable pricing of a basic payment account	✓✓	**x-0-✓	✓-0-x
3: Free of charge	✓-✓✓✓	***x-0	✓-0-xx

8.3. Conditions for access to minimum basic payment services

It is pointed out from the outset that the issue of determining which payment services provider(s) will be assigned as the one(s) from which consumers can access a basic account (i.e. all providers, some providers or categories of providers, a single provider) is left to the discretion of the Member States.

8.3.1. Option 1: Do nothing

Doing nothing would be largely ineffective in achieving the objective of ensuring inclusive conditions for opening bank accounts for consumers perceived as commercially unattractive or non-profitable. It is not expected that any unilateral action taken by providers in the Member States (or by Member State administrations) would improve accessibility for these consumers to such a substantial extent so as to eliminate or minimise the problem. The current level of financial and social exclusion, as well as the inability of many EU citizens to fully benefit from the opportunities created by the internal market, would largely persist.

The overall financial impact is expected to be neutral; providers would neither incur costs (such as those relating to changing standard operating procedures), nor would they derive any benefits (such as any that may result from greater market size, cross-selling, etc). Many consumers would continue facing restrictions in accessing a bank account. Member State

administrations will not realise the opportunity of reducing remittance costs and promoting wider consumer participation that could lead to considerable financial and social benefits, particularly for the unbanked.

8.3.2. *Option 2: Access for unbanked households*

Under this option, any household of which all the members are unbanked in the Member State where it seeks access to an account, will have access to a basic bank account that will be held jointly by the members of that household. For the definition of a household, the definition of 'family member' in Directive 2004/38/EC could be used as is or with adjustments⁶³.

It is expected that this option will be marginally effective (0-✓) in achieving the objective. Firstly, if even one household member has an individual account, the household is excluded from accessing a basic account, thus leaving the rest of the members unbanked. There is no guarantee that the banked member will want to allow the unbanked members to use his individual account (concerns about trust, control, etc). Even if he was to allow them, this would still be far from rendering the unbanked members into banked; they would still be officially unbanked (no formal/direct access), completely dependent on the banked member for everything: withdrawing money, making credit transfers, etc.

Secondly, where a household is unbanked and obtains a basic account, this account, if it is to be any effective, will be a joint account: it would allow each member to effect transactions via the same account (withdrawals, payments) without needing to seek the others' consent each time, and would involve joint and several liability. This can be quite problematic for many, especially where anything less than full trust and confidence is the case.

The first major shortcoming of this option could be remedied by changing the option to "access for households with at least one unbanked member". This however is not too dissimilar to the granting of access to individuals rather than households; the benefit in terms of having to open less basic accounts is marginal, particularly nowadays where in our societies, households or families are less stable than some 30 years ago.

It is expected that this option will have a weak positive impact on consumers (✓), while providers are expected to experience a weak negative impact (✗). Member State administrations are expected to experience a neutral impact (0). For an extended analysis of these impacts see Annex 12.

8.3.3. *Option 3: A requirement that all unbanked consumers are granted access*

Under this option, a consumer in a Member State would be considered 'unbanked' if he does not have a bank account in that Member State where he is seeking access to a basic payment account; whether or not he has a bank account in another Member State is irrelevant. An unbanked consumer would be entitled to access a basic payment account. An underside of this is the possible stigma that a product available only to the unbanked could carry. This option would also require a means for determining the applicant's unbanked status. This could be achieved through the establishment of national registries of bank account holders (potentially expensive) or through reliance on self-declaration (already applied in Belgium).

⁶³ See Articles 2 & 3. Family members are the spouses or registered partners, the spouses' direct descendants under the age of 21, the dependant direct relatives in the ascending line of the spouses, and certain other family members.

8.3.3.1. Option 3.1: Access only for unbanked residents in their home Member State

The effectiveness of this option in achieving the objective of ensuring inclusive conditions for opening bank accounts for consumers perceived as commercially unattractive is moderate (✓). This is mainly due to the two conditions: residency, and unbanked status. While this option would facilitate access for all consumers in each Member State that are residents of that state and can demonstrate that they are unbanked, it would fail to facilitate access for consumers who want to open a payment account in another Member State. Specific classes of consumers that are most likely to be excluded from the accessibility benefits of this option are students, trainees, and temporary workers in a host Member State.

The overall impact of this option on consumers is expected to be weakly positive to positive (✓-✓✓). The overall impact on providers is likely to range between neutral to weakly negative (0-✖). Concerning Member States, the impact is expected to be weakly positive to neutral (✓-0). For an extended analysis of these impacts see Annex 12.

8.3.3.2. Option 3.2: Access for unbanked residents and non-residents

This option is expected to be effective (✓✓) in achieving the objective pursued. This is because, unlike the previous option, this option would lift the restrictive condition relating to residency. This means that more consumers that are perceived as commercially unattractive and non-profitable would be able to obtain access to an account. In concrete terms, the additional benefit goes to unbanked consumers in one Member State that are not residents of that Member State. Such consumers are usually, but not exclusively, temporary workers, students, and trainees. This option thus facilitates cross border mobility; individuals taking advantage of the opportunities offered by the internal market would not be burdened by difficulties in accessing a bank account in the host state.

The overall impact on consumers is thus expected to range from positive to strongly positive (✓✓-✓✓✓). The overall impact on providers is expected to range from neutral to weakly negative (0-✖). The costs and benefits for Member State administrations will be about the same as under the previous option, leading to the same overall impact (weakly positive to neutral, ✓-0). For an extended analysis of these impacts see Annex 12.

8.3.4. Option 4: Access for every EU consumer

Under this option, every European consumer would have a virtually unconditional right of access to a basic payment account, regardless of whether or not he is unbanked. Provided consumers fulfil requirements stemming from the legislation (e.g. anti-money laundering), no other conditions would be imposed. This would lead to the creation of a universal service. Compared to Option 2, this option removes the stigma associated with making the product only available to unbanked consumers. Additionally, it is more inclusive, since it makes basic accounts available to everyone; this means that a small number of consumers who may be perceived as unattractive or non-profitable and who do already have an account but may have valid reasons to want to obtain a basic account, will be able to do so.

On the other hand, this option goes beyond what is necessary to achieve the objective; it provides access to all consumers, meaning also those that are not perceived as unattractive or non-profitable. From this latter class of consumers, some could open (or switch to) basic rather ordinary bank accounts, causing detriment to the providers. This option, as with Option 2, is divided into two sub-options that are analysed and assessed below.

8.3.4.1. Option 4.1: Access only for residents in their home Member State

Under this option, the only condition imposed on accessing a basic payment account would be the requirement of residency; that is to say, a consumer could obtain a basic bank account in a particular Member State only if he were to be a resident of that Member State. This option is assessed as partially effective in ensuring inclusive conditions for opening bank accounts for consumers perceived as commercially unattractive or non-profitable (✓).

On the one hand, it facilitates access for every resident in a given Member State, whether unbanked or not (thereby being more inclusive than Option 2.1⁶⁴). On the other hand however, it blocks access to consumers who, while also being perceived as commercially unattractive or non-profitable, are not residents of that particular Member State. This is particularly prejudicial to the functioning of the internal market which is underpinned by the principle of free movement; individuals who exercise their right of free movement are likely to be burdened by problems in their host state due to lack of a residence permit. In addition, as said under Section 8.3.4, this level of access goes beyond what is necessary to achieve the stated objective.

The overall impact on consumers is expected to be positive (✓✓). The overall impact on providers is expected to be weakly negative (✗), while Member States are expected to experience a weakly positive impact (✓).

8.3.4.2. Option 4.2: Access for residents and non-residents

Under this option, all European consumers would have access to a basic payment account in any Member State regardless of their residency or unbanked status. This effectively means that no conditions would be attached to opening such an account (apart fulfilling legal requirements). It is expected that this option would be effective (✓✓) in ensuring inclusive conditions for opening bank accounts for consumers perceived as commercially unattractive or non-profitable. This is because any such consumer seeking access to a bank account would be unconditionally granted such access. At the same time, it can be argued that this level of access goes beyond what is necessary to achieve the stated objective. This is because it facilitates access not only for the specific category of consumers stated in the objective, but for all consumers.

In practice, this option would facilitate cross-border mobility because it would allow all those who exercise their right of free movement not to be burdened by problems with opening a bank account in their host state on the reason that they are either not unbanked or non-residents. Workers, trainees, students, and others in need of access to a bank account in a host Member State would be particularly advantaged.

It follows that the impact on consumers would be positive to very positive (✓✓-✓✓✓). The impact on providers is expected to be slightly more negative than in the previous option (weakly negative to negative: ✗-✗✗). The impact on Member State administrations is expected to be roughly similar to the previous option (weakly positive ✓), see Annex 12.

⁶⁴ At the same time it is plausible to assume that banked residents who are perceived as commercially unattractive and non-profitable and who would benefit from this access to a basic account are quite limited in number. This means that the greater accessibility that Option 3.1 allows probably improves access for the commercially unattractive to a very limited extent.

Comparison of options

Option 1 (Do nothing) is not effective as it preserves the status quo and its associated problems, and it is not expected that any disparate actions by providers or Member States are likely to effectively achieve the objective. Option 2 was found to be marginally effective. The assessment of Options 3 and 4 has found that they are effective to a greater or lesser extent in achieving the objective of ensuring inclusive conditions for opening bank accounts for consumers perceived as commercially unattractive or non-profitable. Options 3.2 and 4.2 however were found to be the most effective. The latter however was also found to go beyond what is necessary to achieve the objective, by ensuring inclusive conditions not only for the commercially unattractive or non-profitable, but for all European consumers. In terms of efficiency, it was found that Option 4.2 scored best. In conclusion, the preferred option is the latter as it is effective in achieving the objective without going beyond it, while at the same time being the most efficient. It is important to underscore the fact that this option will not in any way limit the ability of Member State authorities to fully and effectively apply anti-money laundering rules. Access under this option is conditioned on being unbanked as well as complying with legal rules relating to public/national security, public order, etc (such as the anti-money laundering rules).

Table 8: Conditions for access – Comparison of options

Options	Effectiveness in achieving the operational objective below	Efficiency in achieving the operational objective below
	Inclusive conditions for consumers perceived as commercially unattractive	
1. Do nothing	0	0
2. Access for households	0-✓	0
3.1 Access only for unbanked residents	✓	✓-✓✓
3.2 Access for all unbanked	✓✓	✓✓-✓✓✓
4.1 Access for all residents	✓	✓✓
4.2 Access for all residents and non-residents	✓✓	✓✓

The 'Do nothing' scenario preserves the status quo and has no impact on stakeholders. Options 2, 3 and 4 all demonstrated positive impacts on consumers and generally moderate positive impacts on Member States, while they are expected to have negative impacts on providers, albeit to a different extent. Option 3.2 was found to have a strong positive impact on consumers, same as Option 4.2, but fared better in respect to providers (mainly because Option 3.2 did not burden providers with the costs of account switching).

Table 9: Conditions for access – Impact on main stakeholders

Options	Consumers and society	Account providers	Member States
1. Do nothing	0	0	0
2. Access for households	✓	x	0
3.1 Access only for unbanked residents	✓-✓✓	0-x	0-✓
3.2 Access for all unbanked	✓✓-✓✓✓	0-x	0-✓
4.1 Access for all residents	✓✓	x	✓
4.2 Access for all residents and non-residents	✓✓-✓✓✓	x-xx	✓

8.4. Maximum benefit to be obtained

To summarise the previous section, the package of retained options would consist of:

- Ensuring that a basic payment account including the following functionalities is offered by payment services providers throughout the EU: (i) opening, managing and closing of the account, (ii) receiving, placing, transferring and withdrawing funds, both physically and electronically, (iii) a payment card.
- Ensuring that a basic payment account is offered at a reasonable price.
- Ensuring that every EU citizen and resident has or could have access to a bank account throughout the EU, by granting a right to a basic payment account to those consumers who do not have a bank account (are 'unbanked') in the Member State where they are seeking to open the basic payment account.

Section 7 on the assessment of impacts has identified a number of possible impacts that the selected options are likely to have on consumers, payment services providers, Member States, and utility companies. In an attempt to best quantify the impacts, we have designed two sets of scenarios. Set A relates to the number of unbanked consumers obtaining a basic payment account, while Set B relates to the level at which the 'reasonable price' may be set. The reason for this is the impacts on stakeholders are mainly driven by the level at which values are set for account uptake and reasonable price.

Scenario set A: Account uptake

- 1) Pessimistic: 2 million unbanked consumers open a basic payment account.
- 2) Expected: 6.4 million unbanked consumers open a basic payment account.
- 3) Optimistic: 10 million unbanked consumers open a basic payment account.

Scenario set B: Reasonable price

- 1) The reasonable price is established above cost (at EUR 55) with a net profit for providers of EUR 3 per consumer per annum.
- 2) The reasonable price is established below cost, with a net loss for providers of EUR 39 per consumer per annum (assuming the price would be capped at the level of EUR 13 as seen in Belgium).
- 3) A basic payment account is offered free of charge, assuming a net loss for providers of EUR 52 per consumer per annum.

It is noted that EU-wide the average full cost to providers per bank account has been calculated to be approximately EUR 52 per annum⁶⁵.

⁶⁵ See Annex 13, Section 2: Based on calculations in two studies (CSES & Van Dijk), the average EU price is approximately EUR 55. Using other data (notably OECD) and own calculations, we arrive at an EU average (full) cost for a basic bank account of EUR 52 (the issue of marginal or variable costing is also touched upon in Annex 13, Section 2).

Table 10: Scenario A1 – 2 million unbanked consumers open a basic payment account

Loss/profit/savings	Providers (million EUR)	Consumer savings (million EUR)	Member States (million EUR)
Scenario B1 (price EUR 55)	~5 profit	360-620	~9 savings
Scenario B2 (price EUR 13)	~80 loss*	<i>444-704</i>	*
Scenario B3 (price EUR 0)	-100 loss*	<i>470-730</i>	*

Table 11: Scenario A2 – 6.4 million unbanked consumers open a basic payment account

Loss/profit/savings	Providers (million EUR)	Consumer savings (million EUR)	Member States (million EUR)
Scenario B1 (price EUR 55)	~12 profit	1 152-1 984	~25 savings
Scenario B2 (price EUR 13)	~250 loss*	<i>1 420-2 252</i>	*
Scenario B3 (price EUR 0)	~340 loss*	<i>1 504-2 336</i>	*

Table 12: Scenario A3 – 10 million unbanked consumers open a basic payment account

Loss/profit/savings	Providers (million EUR)	Consumers (million EUR)	Member States (million EUR)
Scenario B1 (price EUR 55)	~20 profit	1 800-3 100	~40 savings
Scenario B2 (price EUR 13)	~400 loss*	<i>2 220-3 520</i>	*
Scenario B3 (price EUR 0)	~500 loss*	<i>2 350-3 650</i>	*

* The three tables above demonstrate substantial losses for providers, but part or all of these losses could be compensated by Member States, effecting a transfer in burden. Consumer benefits in italics do not account for the possibility of some or all providers' losses being passed onto consumers via taxation or cross-subsidisation. For this, one simply needs to subtract from the consumer benefits above some or all of the providers losses that are expected to be eventually shouldered by the consumer. See Annex 13 for a detailed analysis.

Concerning utility providers, it is expected that the switch of many consumers from cash to electronic means of payments will decrease the formers' costs, but these savings will be substantially reduced by discounts offered to customers opting for e-payments. It is estimated that utility providers could realise net savings of approximately EUR 3-25 million, depending mainly on the level of account uptake.

Maximum benefit in the long run (Bulgaria and Romania): The combined set of options will allow unbanked individuals in EU2 that desire but cannot obtain an account to obtain one in the short run. Most of the unbanked however are unlikely to be interested in having a bank account in the short run as these societies for a large part still operate in cash, but they are likely to gain interest in the medium/long run. As both countries progressively develop (i.e. in real GDP PPP), the banking network will organically grow to meet the rising demand in bank accounts. Eventually, in the medium to long run, the ratio of unbanked to total population will not be materially different from any of the other Member States.

Conclusion

The above data (and its more comprehensive version in Annex 13) demonstrate that where the price is set above cost (scenario B1), all stakeholders experience positive financial impacts, especially the consumers. These impacts become stronger as account uptake increases (scenarios A1-A3).

When price is set below cost (scenario B2 & B3), general consumers experience strong positive impacts, albeit less strong than with pricing above cost. This may appear counter intuitive, but it is not. At pricing below cost, a small group of consumers highly benefits, but the average consumer probably shoulders a large part of the bill for this either via banks' cross-subsidisation, or via the tax money that governments use to compensate providers' losses.

Concerning providers, they experience large losses due to pricing below cost and from foregone revenue from ad hoc check cashing, credit transfers, and closing of EUR 55 accounts by customers moving to the new below-cost accounts. This large negative impact can transform to a small negative or neutral impact depending on the extent, if any, of cross-subsidisation or Member State financial support.

Concerning Member State administrations, it is expected that they will experience a moderate positive impact, provided that price is set above cost. If administrations assume costs for partly or fully covering losses from pricing of accounts below cost, then the net impact is expected to range from neutral/moderately negative to strongly negative.

An extended, comprehensive analysis of costs and benefits is found in Annex 13.

8.5. Other impacts

The recommended option introducing universal access to a basic payment account does not have any perceived impact on European community resources.

As regards the environment, only positive impacts are expected. An increase in the number of electronic transactions for payment of bills as opposed to traditional paper-based instruments should reduce paper consumption. However, since this would apply only to between 2 and 10 million consumers (expected take-up: 6.4 million consumers), the impact is likely to be marginal.

Impact on third countries would concern those third country consumers with a residency permit in one of the EU Member States. Those consumers would find it easier to open basic bank accounts across the EU.

There is not likely to be any material impact on competitiveness. First, it is possible that providers will not be obliged to offer basic payment accounts below cost. If they are so obliged, it is also possible that the price will be marginally lower than the cost, minimising losses. Second, any damage from selling at a loss or from foregone revenue could be made good in whole or in part by Member State financial support.

In the case where the losses are large and are not compensated to any significant extent by Member States, providers can face a bill of anything between EUR 80–500 million (the expected scenario's estimation is EUR 250 million). This can simply lead to an erosion of the bottom line of the industry in the EU (reduced profitability). It is also possible that providers try to pass at least a part of this loss onto consumers by cross-subsidisation, which could theoretically raise borrowing costs and impact consumption and investment. Even in this unlikely combination where (1) price is significantly below costs, (2) losses are large and (3) state support is zero or immaterial, the resulting amount of about EUR 250 million cannot have any material impact on competitiveness, whether it erodes profitability, or is passed onto consumers, or a combination of both. To put the figure of EUR 250 million into perspective, it

should be mentioned that the average profitability of the banking industry in the EU is about EUR 205 billion⁶⁶, which makes the former figure approximately 0.1 % of total profitability.

Administrative burden is expected to be limited since this initiative would not introduce any material information requirements. A more comprehensive analysis of this initiative's administrative burden implications can be found in Annex 15. As it has already been mentioned, Member State administrations can possibly also face, apart from costs relating to information provision requirements, costs relating to implementation, supervision, monitoring, enforcement, and even setting-up and financing a providers' compensation mechanism. A discussion on costs to Member States can be found in Annex 13, Section 3. The Payment Services Directive provisions on information provision will continue to apply to all types of payment accounts. In addition, the provision of information at the point of sale is part of business as usual and covered by charges for the maintenance of payment accounts (impact of price conditions is discussed in Sections 8.2 and 8.4). A more comprehensive analysis of this initiative's administrative burden implications can be found in Annex 15.

8.6. Instruments

8.6.1. Instrument directed towards payment services providers

8.6.1.1. Self-regulation by the banking industry

Under this option payment services providers would be encouraged to develop self-regulatory charters targeting population groups that are considered as not profitable (i.e. currently unbanked) or perceived as commercially unattractive (i.e. residents of other Member States), perhaps in the context of a corporate social responsibility (CSR) initiative.

Due to its voluntary character, this instrument could entail the risks that not all PSPs would adhere to it, and therefore the goal of ensuring access to a basic payment account would most likely not be ensured. There could also be a potential distortion of competition if not all providers sign up to the charter. The non-binding nature of self-regulation bears the risk that in practice there would be no real mechanisms to sanction non-compliant banks.^{67 68} Even if applied, self-regulation could give rise to different standards of access to a basic payment account within the EU, and would most likely not solve the issue of cross-border access to basic payment services.

⁶⁶ Calculated based on data from the European Banking Federation's Facts & Figures 2009. See <http://www.ebf-fbe.eu/uploads/Facts%20&%20Figures%202010.pdf>.

⁶⁷ For example, according to a joint response sent by Réseau Financement Actif to the 2009 consultation, none of the present voluntary codes in the different Member States are related to a precise definition of the provision of a bank account. On the other hand, the Dutch agreement between the government and the industry has a binding obligation to guarantee access, and there it is working out well. See http://circa.europa.eu/Public/irc/markt/markt_consultations/library?l=/financial_services/financial_inclusion/society_organisations/eu_rfa_enpdf/ EN_1.0_&a=d.

⁶⁸ To illustrate, the UK consumer organisation Which? response to the 2009 public consultation on ensuring access to a basic bank account pointed out that voluntary codes are only effective when certain criteria are met, such as strong independent governance, clear objectives including consumer focus, robust standards, transparency, external consultation, adequate funding for effective monitoring, supervision and reporting, promotion of a scheme, high take up in the sector, robust sanctions, adequate redress. Failure to meet these criteria renders most voluntary codes ineffective and runs the risk of exacerbating the problem instead of resolving it, see http://circa.europa.eu/Public/irc/markt/markt_consultations/library?l=/financial_services/financial_inclusion/consumers/uk_which_enpdf/ EN_1.0_&a=d.

Experience shows that self-regulation has not always succeeded (see Annex 6). In several Member States, legislation has been introduced after voluntary codes have not proven to be effective (e.g. France, Belgium, and recent attempts to introduce legislation in the UK).⁶⁹ In addition, encouraging self-regulation might face challenges in the Member States that have already adopted legislation in this field. Self-regulation is the least burdensome instrument for stakeholders, but it is unlikely to achieve the objectives set due to the absence of incentives on the part of service providers.⁷⁰ Also, self-regulation is unlikely to address the problem of abusive eligibility criteria (i.e. providers are likely to continue imposing restrictive criteria according to what they understand as their obligations stemming from legislation on anti-money laundering and terrorist financing), and the aim of not taking the financial status of the consumer into consideration is very unlikely to be achieved.⁷¹

Table 10: Effectiveness of voluntary codes in Member States

Germany	The German 'Girokonto für Jedermann' leaves service providers the discretion as to the eligibility criteria. Also in Germany, the Ministry of Finance concluded in a 2008 report that the situation for persons without basic accounts has not significantly improved over time, and that a continued reluctance by the banking sector to honour its voluntary self-commitment may result in the creation of legal measures.
UK	In the UK, although the Banking Code stipulates that if a customer's needs are suited to a basic bank account and if the individual bank operates the product, the customer would be offered one, consumer organisations suggest that the basic bank account is not always offered. Nonetheless, the number of the unbanked population was reduced by 50 % between 2002/2003 and 2007/2008.
Italy	The Italian Patti Chiari Charter is a range of stand-alone commitments provided by banks from which banks can select the ones they wish to implement, includes also the provision of basic service – with no cheque book and no overdraft facility. DG EMPL and CSES studies found that overall there does not seem to be evidence of promotion of basic banking, and the high level of transaction banking exclusion compared to the other of the EU15 suggests ineffectiveness.
Slovenia	No information available as to the effectiveness of the voluntary charter.

With this in mind, this option seems to be a sub-optimal tool as it does not appear effective in achieving the set objectives because it is not likely to ensure an adequate offer of payment accounts to all citizens of the EU. In addition, it is not proportional as it is not coherent with the satisfactory achievement of the objective and its effective enforcement.

8.6.2. Instruments directed towards Member States

8.6.2.1. Exchange of best practices

EU could create a group of experts and/or informal networks of Member States for the sharing of best practices, including an online database containing national initiatives.

The effectiveness of this option appears to be limited because there is currently a wide diversity of approaches in Member States and there appears to be no clear-cut solution as to which approach works best. Discussions with consumer bodies at the national level suggest

⁶⁹ In the UK, although the Banking Code stipulates that if a customer's needs are suited to a basic bank account and if the individual bank operates the product, the customer would be offered one, consumer organisations suggest that the basic bank account is not always offered. Also in Germany, the Ministry of Finance concluded in a 2008 report that the situation for persons without basic accounts has not significantly improved over time, and that a continued reluctance by the banking sector to honour its voluntary self-commitment may result in the creation of legal measures.

⁷⁰ Only a few respondents to the 2009 public consultation (apart from the industry) considered self-regulation to be a suitable way forward to ensure access to a basic bank account. For a full summary, see http://ec.europa.eu/internal_market/finservices-retail/docs/inclusion/consultation_summary_en.pdf.

⁷¹ Summary of responses to the 2010 public consultation on access to a basic payment account (not yet published).

that it would be questionable whether these networks could bring substantial pressure to bear and encourage governments to align their national initiatives with best practice.⁷² It could lead to a patchwork of solutions and different levels of accessibility which would be in contradiction with the aim of ensuring access.⁷³ It is therefore likely that only a small proportion of the potential benefits would be achieved. The EU budget, on the other hand, would bear the direct costs for setting up the group/online database. It is unlikely that banks would change their practices significantly and therefore the potential benefits would not be fully realised for consumers.⁷⁴

This option does not appear to be effective or proportional in satisfactorily achieving the set objectives as it is not likely to ensure an adequate offer of basic payment accounts to all EU citizens regardless of their place of residence. The cost of setting up the platform for an exchange of best practices would not be commensurate with the results of a potential exchange of best practices.

8.6.2.2. Recommendation

A recommendation to Member States could address the issue of ensuring an adequate offer of payment accounts, leaving the Member States free to act in a variety of ways. A recommendation is likely to have some effect in ensuring an adequate offer of payment accounts at a reasonable price, particularly in Member States with developed financial systems. On the other hand, for the benefits to be realised, a recommendation has to be followed in each Member State. To mitigate the inherent non-binding character of a recommendation, which per se cannot guarantee that action will be taken by all Member States, a recommendation should foresee a close monitoring role for the Commission.

The Member States most likely to comply with a recommendation would be those that already have mechanisms in place, potentially leaving the situation unchanged in those countries that have a less developed framework in terms of access to a basic payment account.⁷⁵ At the same time, this option received support from the industry stakeholders, and also three Member States.⁷⁶

A recommendation would have the advantage of sending a quick and clear message as to which Member States actions are necessary and expected to be taken to address the current market deficiency. It would also act as a catalyst for the development of consistent principles to be applied throughout the European Union. It would give Member States a clear orientation enabling them thereafter to more easily implement binding requirements, if need be. In this context, a recommendation may be both a proportionate and effective instrument.

⁷² CSES study, 2010, p. 72.

⁷³ Summary of responses to the 2010 public consultation on access to a basic payment account (not yet published).

⁷⁴ Only a few respondents to the 2009 public consultation (apart from the industry) favoured this option.

⁷⁵ Adoption of a recommendation by the Commission received broader support among the respondents to the 2009 public consultation than encouraging the adoption of voluntary charters or exchange of best practices, and several considered that a more binding instrument would be needed if there is failure at Member State level to address the problem. For example, consumer stakeholders believed that soft law can be sufficient only as long as the national political determination is real.

⁷⁶ Summary of responses to 2010 public consultation (not yet published).

8.6.2.3. Directive

EU could adopt a directive on ensuring access to a basic payment account which would have to be transposed by all Member States, leaving the choice of method to the latter.

The advantage of a directive compared to a recommendation would be its increased effectiveness due to its legally binding nature. It is therefore likely to have a stronger effect than non-binding instruments in ensuring an adequate offer of payment accounts. A directive is relevant both for all Member States whatever the level of development of their financial systems. A directive could be an appropriate instrument as there is currently a variety of solutions applicable in the different Member States as well as differences in the development of banking systems and price levels. With a directive, the risk of distortion of competition would be minimal since Member States would be asked to designate one or several service providers which would need to meet the requests of opening basic payment accounts, and foresee their compensation if necessary.

To the extent that it would be based on high level principles, a directive could leave to each Member State the necessary discretion to decide how the objective should be achieved under their jurisdiction. Member States would decide which providers would offer basic bank accounts, set price-levels, decide on sharing/compensation of potential losses for providers. A directive would be in line with the proportionality principle to the extent that Community action would leave as much scope for national decision as possible and would respect well-established national arrangements and legal systems.

Respondents to the 2009 and 2010 public consultations have called for flexibility to be left to Member States in addressing the issue because of differing legal, economic and social situations in the different Member States. A directive is one of the instruments that could accommodate this request. A directive could be adopted on the basis of Article 114 TFEU.

8.6.2.4. A framework regulation

EU could adopt a framework regulation establishing a right to a basic payment account.

Regulations are normally used in order to achieve as complete a harmonisation as possible, ensuring that rules are applied at the same time and in the same way across the EU. A framework regulation differs from a classic regulation in the sense that by defining a number of high level principles, it leaves the Member States wide discretion as to how to put these principles into effect. Due to its directly applicable character which guarantees its uniform application throughout the EU, a framework regulation could be an effective instrument, justified on the grounds of subsidiarity as necessary to ensure the smooth functioning of the internal market. Similarly to a directive, the risk of distortions in competition would be minimal since Member States would be asked to designate one or several service providers which would need to meet the requests of opening basic payment accounts, and foresee their compensation if necessary.

A framework regulation would respect the proportionality principle if it would not go further than necessary in achieving its objectives and leave the Member States with enough margin of manoeuvre to put the principles set at the Community level into effect.

At the same time, stakeholders have expressed the need for some flexibility in addressing the problem. Public authorities have clarified that in any case, some flexibility for adaptations and

implementation would be needed at national level. The industry representatives believe that should a binding instrument be introduced, measures should be very general and allow Member States to maintain national specificities, habits and markets. Consumer representatives as well were in favour of a framework which would allow taking into account of national differences.⁷⁷

If a framework regulation were to be chosen, it should be drafted in such a way as to introduce high-level principles. Such drafting would allow for the maintenance of a satisfactory existing solution and would allow for the differences in the development of banking systems and price levels between Member States. However, it might be difficult to justify for subsidiarity and proportionality reasons. A framework regulation could be adopted on the basis of Article 114 TFEU.

8.6.2.5. A regulation

The EU could adopt a regulation establishing a right to a basic payment account. A regulation is the most appropriate instrument to create a set of directly applicable rules, without the need for implementing legislation. A regulation is also particularly appropriate in the absence of pre-existing national rules as it would create a new directly applicable EU rule.

It would be difficult to justify the choice of a classic regulation for subsidiarity and proportionality reasons since the level of detail of regulation that it would propose might go too far and not leave sufficient margin of manoeuvre for taking into account the different situations in the Member States.

Similarly to a directive and a framework regulation, the risk of distortions in competition would be minimal since Member States would be asked to designate one or several service providers which would need to meet the requests of opening basic payment accounts, and foresee their compensation if necessary.

A regulation could be adopted on the basis of Article 114 TFEU.

8.7. Conclusion

The analysis has led to the conclusion that the most efficient/preferred option would consist in a progressive approach, whereby the European Commission, by way of a recommendation, would set a series of principles and actions that Member States are expected to follow or develop, so as to ensure access to a basic payment account for those consumers who do not have a bank account in the country in which they seek to open one.. The initiative would ensure that all EU citizens and residents can access a bank account. The initiative would focus on:

- ensuring availability of a simple product – a basic payment account - in all Member States;
- removing restrictive conditions that could prevent certain groups of consumers from accessing it by granting a right to a basic payment account to the unbanked consumers;

⁷⁷ See footnote 72.

- defining the services to be offered via a basic payment account;
- ensuring that a basic payment account is offered at a reasonable price.

Member States would be asked to ensure that at least one payment provider offers a basic payment account. In the case where payment service providers would not offer basic payment accounts voluntarily, Member States could appoint an individual provider (like in Austria, where a special bank has been set up to offer 'social' type of payment services) or ensure that the request for the opening of a basic payment account are distributed among various providers (like in France) or oblige all providers to offer a basic payment account (like in Belgium where all banks have to offer a basic payment account).

This combination of policy options would promote (i) full participation of all EU consumers, particularly those on low incomes, financially excluded or vulnerable, in the Internal Market, and (ii) financial and social inclusion more generally. It would also improve customer cross-border mobility, particularly of workers, trainees and students. For the other policy options, it could not be ensured that the objectives would be achieved in a timely and effective way. Other policy instruments such as self-regulation or exchange of best practices are likely to be inefficient in the areas being targeted. A regulation would go too far and not address sufficiently the different situations in the Member States. A directive would allow achieving the expected results. However, at this juncture, a more graduate approach is recommended.

Finally, the preferred policy options are better achieved at EU level in order to guarantee that every European citizen and resident has adequate access to a basic payment account.

8.8. Evaluation and monitoring

The proposed recommendation would foresee an annual evaluation of the effectiveness of the mechanism regarding access to basic payment accounts, on the basis of information provided by Member States on the number of basic payment accounts opened, the number of refusals and terminations of opened basic payment accounts, the prices of basic payment accounts and the magnitude of the remaining unbanked population.

The recommendation would also foresee a periodic review of its application by Member States. In particular, the Commission services would monitor, 12 months after the publication of the Recommendation, the measures taken by Member States. If necessary, the Commission could propose legislation in order to ensure that the objectives of the Recommendation are fully met.



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ANNEXE

COMMISSION STAFF WORKING PAPER
ANNEXES 1-17 TO THE IMPACT ASSESSMENT

Accompanying the document

COMMISSION RECOMMENDATION

on access to a basic payment account
(Text with EEA relevance)

{C(2011) 4977 final}
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Disclaimer

This impact assessment report commits only the Commission’s services involved in its preparation and the text is prepared as a basis for comment and does not prejudge the final form of any decision to be taken by the Commission

**Annex 1: Results of the 2009 and 2010 public consultations
on ensuring access to a basic bank account**

1. RESULTS OF THE 2009 PUBLIC CONSULTATION

On 6 February 2009 the European Commission published a consultation document on financial inclusion: ensuring access to a basic bank account, and invited the stakeholders to respond by 6 April.

The objective of this consultation was 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 in particular welcomed 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 the consultation was limited to the access to basic bank accounts, which include services such as payments and withdrawals but exclude overdraft facilities.

The European Commission received 97 responses to the public consultation.

The respondents can be classified into seven main categories: public authorities, consumers/users, financial services industry, trade unions, civil society organisations, academics/think tanks, and individuals/others. The table below shows how the responses are split between these different categories.

Table 1: Contributions received by stakeholder category

Stakeholder category	Number of replies	Percentage
Public authorities	23, of which: 19 Member States authorities 4 municipal authorities	23.7 %
Consumers/users	11, of which: 9 representative bodies 2 expert panels	11.3 %
Financial services industry	29, of which 24 representative bodies 5 corporates	30 %
Trade unions	2	2.1 %
Civil society organisations	21	21.7 %
Academics and think tanks	5	5.1 %
Individuals and others	6	6.1 %
Total	97	

In total, contributions were received from stakeholders in 20 EU Member States as well as from representative bodies at EU and international level.

In general, most respondents welcomed the Commission's initiative giving an opportunity for all stakeholders to provide input on this issue. Access to a basic bank account was considered necessary for fully participating in the society. It was recognised that financial exclusion contributes to social exclusion and that denying access of some persons to basic financial

services opens a gateway to denying them a host of other fundamental, social and economic rights. It was also accepted that financial exclusion is increasingly a problem in the EU, and considering the important societal role of financial services, the level of financial exclusion in Europe is alarming. Many respondents agreed that increasing numbers of people are likely to be affected as a result of the ongoing financial crisis, and welcomed the priority that the Commission gives to this public policy challenge that the EU is currently facing.

Access to a basic bank account was viewed by many as the most urgent issue to be tackled, while other financial services such as savings, insurance, credit, microfinance, could be looked at in the future.

Below are some extracts from the summary of responses to the consultation.¹

1.1. The objective to ensure access to a basic bank account

Most public authorities share this objective, emphasising that access should be a right rather than an obligation. Consumer/user stakeholders would like to see a universal EU-wide right to a basic bank account provided free of charge or at a minimum fee. The financial services industry recognises the importance of basic bank accounts but believes that the freedom to contract should be maintained. Several respondents see it as a business opportunity which enables the implementation of anti-money laundering rules since funds would circulate through formal channels. Civil society stakeholders consider access to a basic bank account as a universal right. Academics/think tanks believe that banking should be considered a utility service and several of them support a legal requirement for it. They consider that minimum standards and fees of an appropriate account would need to be defined at EU level.

1.2. Addressing the issue at EU level and the Commission's role

All public authorities support EU action in this field which is shared with national authorities as the levels of exclusion vary significantly from country to country. The majority favour sharing of best practices or issuing of a Recommendation (with a monitoring mechanism), a few public authorities support EU legislation or self-regulation at EU level. Some respondents favour legislation only after other measures have failed. Several believe that EU activity should also offer cross-border solutions. It was pointed out that the main problems at EU level are the different costs and availability of financial services. Some believe that setting a date by which nobody in the EU is denied access to basic financial services would have obvious advantages in some Member States.

Consumer/user stakeholders are more evenly split between sharing of best practices, a soft law and legislation, and a few support self-regulation. Supporters of binding EU regulation find it necessary especially in the current financial climate where the interests of vulnerable consumers are unlikely to be the priority of the industry. It is generally felt that there is not sufficient will on part of many Member State authorities to tackle exclusion, that there has been too much reliance on self-regulation and market initiatives which have failed to deliver. Many support a general policy of EU on financial inclusion. It is believed that the Commission should define the main features of a basic bank account and tackle the issue of the validity of an EU address and set up a continuous monitoring system across the EU.

¹ Full summary of responses available at: http://ec.europa.eu/internal_market/finservices-retail/docs/inclusion/consultation_summary_en.pdf.

Industry stakeholders generally support the Commission's role in monitoring national markets and promoting best practices, encouraging an EU code of conduct but emphasise that solutions need to be adapted to different Member States, and that it is therefore difficult to define basic products. They argue for an umbrella agreement approach by setting targets and timelines for the level of inclusion, measures to monitor closely the performance and, if required, soft law. The need to follow the subsidiarity principle is mentioned by many. It is believed that the Commission should act as a general facilitator, assure a level playing field, encourage the diversity of banking models, seek insight in the innovative schemes developed in other continents, provide financial education and work on cultural sensitivities that can prevent certain groups from engaging with service providers. To raise awareness, the Commission should also carry out surveys/evaluations/market studies on regional/local level at regular intervals on the number of the unbanked. EU funds should be allocated to improve the skills of financial services staff, also infrastructure needed for the setup of account services.

Some civil society respondents are of the opinion that increasing unemployment will increase the importance of financial inclusion. A common definition is needed. It was also recommended that each state should report to the Commission on its activities which may bring appropriate information to identify which political tool is the most effective. Some consider that a compensatory mechanism could prove useful. Several respondents support a recommendation, and only if it fails, the use of binding rules. Several favour a legislative proposal. Other actions mentioned are exchange of best practices, strengthening European networks in the field to give visibility to the issue, promoting exchange and links with the private sector.

Some academics/think tanks suggest a common framework and a regular reporting system on access to a basic bank account, for the time being in the form of soft law. Others favour legislation because there is no sufficient will to act on the part of many Member States authorities. It was proposed that minimum standards should be set and compliance should be measured. Some respondents feel that so far there has been too much reliance on self-regulation and market initiatives.

Other stakeholders consider the soft law approach as possibly the most effective for the time being, leaving room for each Member State to decide on the most appropriate measures.

1.3. Difficulties in opening bank accounts cross-border

Public authorities suggest that the Commission should monitor the situation, identify problems, draft a recommendation or a directive. Several respondents feel that it should cover both residents and non-residents. It is also mentioned that in some Member States there is no restriction of opening bank accounts cross-border. The Commission could ensure that Member States accept certain documentation from other Member States. The Commission could also promote and facilitate the use and operation of SEPA. Providers would need to ensure that consumers have the capability to transact on their account from outside their home Member State via internet banking/partnership arrangements. There is general belief that the initial emphasis should be on ensuring the access of residents of that Member State, as cross-border access is not significant to those currently without an account.

Consumer/user stakeholders generally believe that minimum harmonisation is crucial to give right to open a basic bank account everywhere in the EU and remove all obstacles when living in another Member State (ID and valid address requirements). The Commission must ensure

that all banks have the same conditions and approach to consumers, and encourage Member States to prohibit banks to refuse clients.

Industry stakeholders generally believe that the Commission's goal should be to design a framework in which banks can freely decide to offer their products to all citizens or not. Many respondents consider cross-border access not an inclusion issue because customers with basic needs would be less likely to engage in cross-border services. Several find that the main difficulties faced by cross-border opening of bank accounts arise from the obligation to identify the customer.

Several civil society respondents propose the promotion and sharing of best practices through the use of the social Open Method of Coordination monitoring and setting targets for the Member States. One respondent favours a directive. Some believe that the Commission should invite stakeholders to more broadly accept the existing documents.

Some academics/think tanks believe that practices should be harmonised. Several find that the Commission's role could be to promote best practices as obstacles/restrictions in accessing an account for non-residents are very high in most Member States. Others emphasise the high level of cooperation needed among Member States' banking authorities.

2. RESULTS OF THE 2010 PUBLIC CONSULTATION

On 6 October 2010 the European Commission published a consultation document² on access to a basic payment account and invited the stakeholders to respond. This annex is an overview of the responses to the contributions received by 25 November 2010.

The objective of this consultation was to collect stakeholders' views on the envisaged measures on access to a basic payment account in order to strengthen and deepen the Commission services' understanding of the appropriate policy options in this field.

Stakeholders were invited to express their opinions and positions on the principle of a European harmonised framework aiming at guaranteeing the right for consumers to access to a basic payment account. Input was also welcome on the targeted aspects that this framework could regulate, namely the required characteristics of such an account, the principle of accessibility and its modalities of application including the cost of the account for the consumer, the need for general information on basic payment accounts and certain principles on monitoring and alternative dispute resolution.

² Available at http://ec.europa.eu/internal_market/consultations/2010/payment_account_en.htm.

Table 2: Contributions received by stakeholder category

Stakeholder category	Number of replies	Percentage
Financial services industry federation	17	22.3 %
Financial services provider	11	14.4 %
National public authority	20	26.3 %
Mediator	3	3.9 %
Financial sector trade unions	3	3.9 %
Consumers/users representative/advocate	19	25.0 %
Other	3	3.9 %
Total	76	100 %

In total, contributions were received from stakeholders in 19 EU Member States as well as from representative bodies at EU and international level.

2.1. General comments

This consultation has allowed the identification of some key messages from stakeholders. First, the financial industry was generally against a binding EU instrument in this field, arguing that such an initiative will not have a significant added-value compared to what has already been developed and what could be realised at national level in a dialogue with the industry. Second, consumer representatives were supportive of an initiative that will ensure an effective access for all consumers to an account with a sufficient range of functionalities likely to enable them to live a normal life. They favour an EU level proposal which would introduce only minimum standards, leaving Member States free to adapt them in line with local conditions and consumers' needs. Third, both national public authorities and financial industry tend to consider that the compliance with customer due diligence requirement is a matter of the utmost importance. The issues for which there was the most consistent cross-stakeholder approach vis-à-vis a possible EU action were the importance of acknowledging that access to a bank account is highly desirable for the widest possible part of the society and the need to ensure that any EU initiative would allow sufficient flexibility at national level.

2.2. Principle of accessibility

The principle of accessibility in the consultation document comprised access for all consumers whatever their place of residence in the EU, their nationality and their financial status or circumstances. Public policy and public security obligations as well as due diligence requirements concerning the identity of the client were mentioned as grounds for possible refusals. Access could also be restricted where the consumer already had a payment account in the Member State.

The majority of public authorities agreed fully or partly with the principles set forth in the consultation document. Several pointed out that the consumers should keep satisfying account opening conditions including anti-money laundering requirements.

Almost all consumer representatives agreed with the consultation paper. A number of them were concerned that the anti-money laundering requirements and precautions on terrorist financing would be used as an excuse for persisting discriminations and refusals of basic payment accounts. A suggestion was made to invite Member States to provide all people who legally reside on their territory an adequate document of proof of identity relevant for the service providers.

Many industry representatives thought that granting a right they saw as an almost unconditional right to a basic payment account would be disproportionate and restrict freedom of contract, provider's ability and duty to perform risk assessment, compliance with the legal requirement of due diligence in respect of anti-money laundering and terrorist financing rules. The cross-border dimension of the right was also questioned by a number of them. They also mentioned the difficulty in gathering evidence that the consumer already has a payment account. Some respondents suggested being more explicit on grounds for refusals to avoid the emergence of grey zones or/and including refusals for 'not reasonable' applications.

2.3. Characteristics of a basic payment account

The consultation has revealed general support among consumer representatives and public authorities for the list of the envisaged services and functionalities that a basic payment account would include, namely the opening and the closing of a payment account, the means for the consumer to receive, place, transfer and withdraw funds, both physically and electronically; the provision of a debit card allowing for the withdrawal of cash and the carrying out of electronic payments. Some consumer representatives suggested a broader range of constituent services or functions, such as the possibility to use online banking, physical access to branches and counters, use of the debit card at any ATM or through a reasonable number of outlets. Most industry respondents were not in favour of a detailed list of services at EU level. The comments or reservations from public authorities and industry representatives mainly focused on the provision of a debit card and on the access to online purchase of goods and services. These types of services were seen by a number of respondents as potential sources of technical difficulties for the providers because the list of services would not include overdraft facilities. A large majority of stakeholders welcomed the exclusion of access to credit as a component of or a right related to a basic payment account, with the industry representatives generally wanting to keep the possibility to offer additional services with the basic payment account.

Where respondents to the consultation commented the possibility to provide technical guidance, they largely considered it as a task which should be let to Member States in order to adapt or implement provisions with regard to local market's practices and specificities.

2.4. Cost for the consumer

Accessibility went together with the principle of a reasonable cost for the consumer.

While almost all public authorities seemed to acknowledge that the cost should be reasonable – one of them used the term 'affordable' – for the consumer as a principle, they were broadly of the opinion that the notion of 'reasonable cost' was a wide, or even controversial notion and that it would need further analysis. Around a third of public authorities seemed to be of the opinion, directly or indirectly, that the price for the consumer should be low, with a number of them remarking that this could also mean an account free of charge, at least for certain categories of consumers.

Apart from the option of no charge at all, many suggestions were made by consumer representatives, with a wide range of definitions: an affordable cost, a low cost; a nominate cost; charges only for those services which imply extra-cost for the provider, for instance using the teller rather than the ATM; a price on a non-profit basis; a price whose level would not be dissuasive for people with low income; a price that will allow the consumer to manage his budget and pay his bills. Other respondents suggested focusing on a "fair" cost for the

consumer, e.g. a cost which would not exceed the charges applied to other customers for a regular account and/or which excludes double-charging practices. Another respondent suggested that a maximum price should be set at national level to avoid any divergent interpretations. Besides, one respondent remarked the possible counterproductive effect of stating that the cost should be reasonable for the consumer, in the countries where 'regular' or similar accounts are currently available free of charge.

Around a fourth of industry representatives agreed explicitly with the principle of a reasonable cost. In this respect, one financial services industry federation clarified that it was supportive because this requirement would mean that the basic payment account would be offered at a (reasonable) price, thus not for free. The main comments of those who did not disagree with the principle of a reasonable cost were about the need for more clarity and guidance –or on the contrary, the necessity not to opt for prescriptive solutions-, the reference to fixed or all-inclusive annual fees, the notion of accessible price, the need to find a balance between social objectives and market realities, the need for providers to recover their operational costs. The other respondents expressed some concerns about what they considered as public price regulation in a competitive market. Some of the respondents pointed out that costs for basic payment accounts are likely to be higher, for instance because provision for non-residents means additional costs for identity verification. A number of them mentioned the risk of cross-subsidization. Many stakeholders, regardless their position towards the principle of a reasonable cost, were of the opinion that in any case, there should not be any obligation of providing the basic payment account free of charge for the consumer.

Annex 2: Glossary

'Bank account' – means an account held by a credit institution.

'Payment account' means an account held in the name of one or more payment service users, which is used for the execution of payment transactions; held by a payment services provider.

'Payment service provider' means any of the categories referred to in Article 1(1) of Directive 2007/64/EC and the legal and natural persons referred to in Article 26 of that Directive, but excludes those institutions listed in Article 2 of Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions benefiting from a Member State waiver exercised under Article 2(3) of Directive 2007/64/EC, to which belong:

- credit institutions/banks;
- payment institutions, e.g. GSM companies, bill payers, money remittance institutions, etc.;
- electronic money institutions;
- post office giro institutions;
- other payment services providers, e.g. public authorities or national central banks (in some cases).

'Consumer' – any natural person who requests and makes use of a basic payment account for purposes other than his trade, business, craft or profession.

'Credit transfer' means a payment service for crediting a payee's payment account, where a payment transaction or a series of payment transactions is initiated by the payer on the basis of the consent given to his payment service provider.

'Direct debit' means a payment service for debiting a payer's payment account, where a payment transaction is initiated by the payee on the basis of the payer's consent.

'Payment service user' means a natural or legal person making use of a payment service in the capacity of either payer or payee, or both.

'Payment transaction' means an act, initiated by the payer or by the payee of transferring funds, irrespective of any underlying obligations between the payer and the payee.

'Payment card' – any personalised card used for payment orders/transactions, including a debit card or pre-paid card; which can be used at points of sale where the card is accepted, including for on-line purchases.

'Debit card' – a payment card not allowing payment transactions which exceed the balance of the account.

'Pre-paid card' – a payment card pre-loaded with funds.

Annex 3: Population without a bank account

Table 1: Population without a bank account (in millions)³

Member State	2009 – no access to bank account at all (Flash EB 282)
Austria	0.07
Belgium	0.17
Bulgaria	3.19
Cyprus	0.04
Czech Republic	0.91
Denmark	0.00
Estonia	0.02
Finland	0.00
France	0.49
Germany	0.67
Greece	0.64
Hungary	1.69
Ireland	0.10
Italy	6.30
Latvia	0.26
Lithuania	0.40
Luxembourg	0.01
Malta	0.02
Netherlands	0.13
Poland	3.29
Portugal	0.51
Romania	8.00
Slovakia	0.50
Slovenia	0.02
Spain	0.72
Sweden	0.07
United Kingdom	1.88
Total	30.06

Source: 2010 CSES report

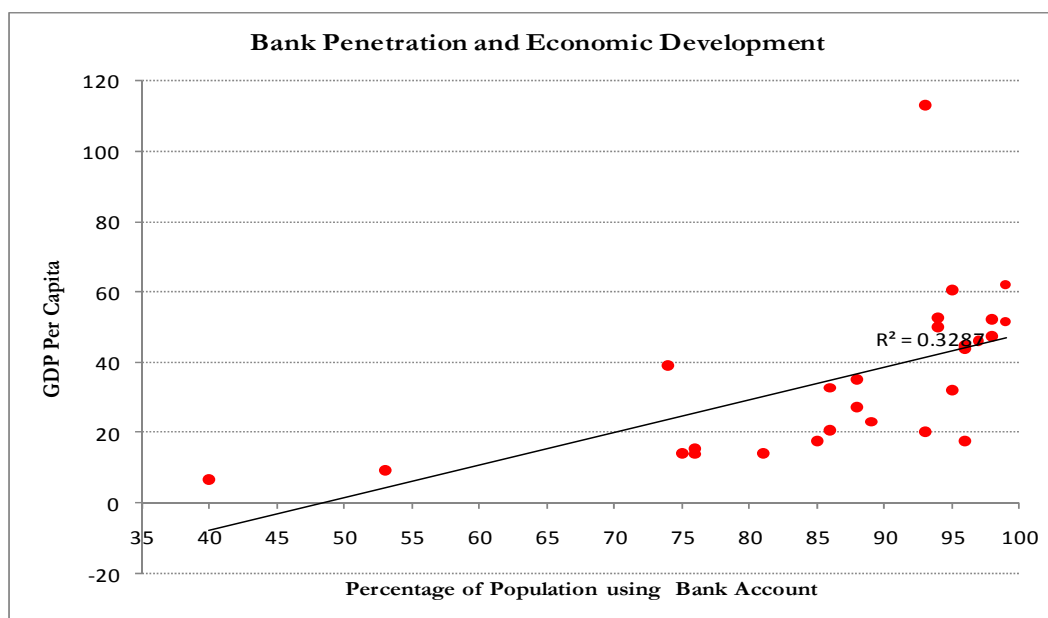
³ Flash Eurobarometer data (243 and 282) on access to bank account is representative of population over 21 years of age. However, younger consumers, e.g. those aged 18 and above, will also need access to bank accounts. The 2010 CSES study obtained population data on each Member State from Eurostat for persons aged 18 and above, and applied the percentages of the population without a bank account from the Eurobarometer surveys to obtain an estimate of the number of adults without a bank account.

Annex 4: Correlation between economic development and bank account penetration

Existing research points toward a correlation between economic development and bank account penetration. That is to say that on the whole, economically less prosperous societies, where financial/electronic payment circuits tend to be less developed/used, tend to suffer from lower levels of bank account penetration, as illustrated by the graph below.

In Graph 1, the y-axis represents GDP per capita in thousands. The x-axis illustrates the percentage of the population having a current bank account. R² is the square of the correlation between the constructed predictor (economic development) and the response variable (bank account penetration) The R² may be interpreted as the proportion of response variation explained by the explanatory variable. Approximately 33 % of the variation in the percentage of the population using a current bank account can be explained by the level of economic development. The remaining 70 % can be explained by other factors or inherent variability.

Graph 1: Economic development and access to a bank account⁴



Source: 2010 Study on costs and benefits of policy actions in the field of ensuring access to a basic bank account

Overall, financial exclusion generally and lack of access to a bank account specifically vary across EU Member States with economically less prosperous societies suffering from higher levels of financial exclusion and lower levels of bank account penetration.

⁴ GDP per capita data extracted from IMF database *International Monetary Fund, World Economic Database*, October 2009. Bank Account Penetration data extracted from Flash Eurobarometer 243. *Consumers' Views on Switching Providers*, European Commission, 2008, http://ec.europa.eu/public_opinion/flash/fl_243_en.pdf.

Annex 5: Magnitude of the problem

There is a lack of data on the magnitude of the problem concerning access to a bank account. Banks in general do not keep data concerning those applications which have been refused. In two Member States, access to a defined basic bank account is guaranteed by law: France and Belgium. Regarding those Member States where voluntary codes have been adopted, data on the take-up of the basic bank accounts is only available in the United Kingdom.

France

French law provides that every person who has been denied a bank account, and does not have another bank account, has a right to a basic bank account. We can therefore assume that a number of basic bank accounts opened in France correspond to the number of refused regular bank accounts.

Since the introduction of the law guaranteeing access to a basic bank account 255 000 adults applied for a basic bank account in France (see Graph 2 in Annex 6). According to CCSF estimates there are still 500 000 adults without a bank account in France (after Gloukoviezoff *Understanding and Combating Financial Exclusion in Ireland*, not published yet), which corresponds to the estimates based on the results of 2009 Eurobarometer data (490 000). We can therefore assume that out of the total unbanked population of 755 000 adults, 255 000 have been refused a bank account. This corresponds to 30 % of the unbanked population.

Belgium

Belgian law guarantees a right to a basic bank account to any resident without a bank account, regardless whether the person has been refused an account or not. We cannot therefore assume that all persons who have applied for a basic bank account in Belgium have been refused a bank account.

However, the Belgian solution turned out to be effective. The introduction of a basic bank account has reduced but not eliminated the problems of financial exclusion. The Réseau Financement Alternatif has estimated that since the introduction of the law in 2003 the number of persons excluded has fallen from approximately 40 000 to 10 000 in 2005. The results show that the introduction of the right to a basic bank account contributed to a 75 % decrease of the population without a bank account in 4 years.

United Kingdom

In the United Kingdom, the code stipulates that if consumer's needs are suited to a basic bank account and if the individual bank offers such a product, the customer will be offered one. It is not clear on what grounds banks assess the suitability of customer's needs. Therefore, we cannot assume that the population which has been offered a basic bank account corresponds to the population which has problems opening a bank account.

Nonetheless, since the introduction of the UK code, the unbanked population has been halved between 2002/03 and 2007/08.

According to UK figures published in October 2009 by the Financial Inclusion Taskforce⁵, there were in 2007/08 that 690 000 households, with 890 000 adults, without a bank account, either savings or transactional. This represents 3 % of households and 2 % of adults. In addition a further 2 % of adults did not state whether they have an account. On all measures, the numbers of adults and households without accounts have halved between 2002/03 and 2007/08. The Taskforce assessment of adults without access to a transactional (current or basic, not savings) bank account has fallen from 3.57 million in 2002/03 to 1.75 million in 2007/08, representing some 4 % of adults, and access to any account has fallen from 2 020 million in 2002/2003 (4 %) to 890 000 (2 %). The self-regulatory code has halved the number of unbanked population, both in the relation to access to a transactional account and any account (current, basic, savings).

Table 1: Decrease of unbaked population due to measures introduced in three Member States

Country	Decrease of the unbanked population	Binding legislation	Voluntary code
Belgium	75 %	X	
France	30 %	X	
United Kingdom	50 %		X

Methodology

France is the only Member States in which access to a defined basic bank account is guaranteed by law to those residents who have been denied a regular bank account. It can therefore be assumed that the number of basic bank accounts opened in France correspond to the number of refused regular bank accounts and derive from there the percentage of the population that have been refused a bank account. Assuming that all those denied a bank account applied to benefit from the right granted by the French law, it is therefore estimated that about 30 % of the unbanked population in France had been denied a bank account (see above). If we apply that same percentage to all EU Member States, apart from Bulgaria and Romania (which are treated separately), i.e. if we assume that 30 % of the unbanked population has been refused a bank account; we arrive at the estimation that out of total 19 million unbanked in the EU25 (not counting at this stage Bulgaria and Romania), 5.7 million persons have been refused a bank account.

Concerning Bulgaria and Romania, a different methodology has been applied, as in both States society still very much operates in cash. It has been assumed that a move to electronic payments will be gradual and correspond to the economic developments up to the average bank account penetration of 90 % (average bank penetration for EU12). Among the remaining 10 % of population which is likely to remain unbanked, 30 % (applying the rate derived from the French situation) may have significant difficulties in opening a bank account, which is estimated to correspond to 192 000 adults in Bulgaria⁶ and 525 000 adults in Romania⁷.

As a result the total estimated number of the population which may problems with bank account opening is 6.4 million adults across the EU.

⁵ *Fourth Annual Report on Progress Towards the Shared Goal for Banking*, HM Treasury, 2009, http://www.hm-treasury.gov.uk/d/fourth_annual_banking_report.pdf.

⁶ Thus, the estimated number for Bulgaria will be: 10 % of the total population – 640 000, 30 % out of 640 000–192 000.

⁷ Estimated number for Romania: 10 % of the total population – 1.75 million, 30 % out of 1.75 million – 525 000.

Table 2: Estimation of the population that was refused a bank account

	30 % of the unbanked population
EU25	5.7 million
Bulgaria	192 000
Romania	525 000
Total	6 417 000

This figure does not take into account the mobile population which may face difficulties in opening a bank account on a cross-border basis, i.e. in another Member State than that of their residence. More than a question of number, the issue at stake here is a symptomatic one: the problem that the mobile citizens encounter affects the image of the Single Market. It is hard for EU citizens to understand that they are granted a freedom to move within the EU and accept that they may face problems in a number of Member States to open a bank account. Whilst difficulties in opening a bank account in another EU Member State will not per se constitute an insurmountable obstacle for a student firmly intending to carry out his or her PhD in another Member State, it nevertheless represents a 'friction' that cannot be justified on grounds of necessity and proportionality. It is however difficult to quantify the problem since banks do not keep records of the rejected applications made on a cross-border basis.

The evidence available is purely anecdotal and based on the complaints which the Commission receives from citizens on a regular basis. These complaints concern a large number of different Member States⁸ where payment service providers have refused to open a payment account on the grounds of nationality or place of residence. Questions to the Commission's Citizen Signpost Service (CSS) focussing on situations with a cross-border dimension corroborate these findings⁹.

Anecdotal evidence based on citizen complaints sent to the European Commission and inquiries with the Citizen's Signpost Service:

–	A Belgian resident's request to open an online bank account has been refused by several Dutch banks on the basis of him not having a residence in the Netherlands.
–	A German pensioner living in Spain tried to open a bank account with a German bank for receiving her pension but was told she needed a permanent residence in Germany to do so.
–	A Belgian resident owning a flat in London wanted to open a bank account with a UK bank to handle her rent income but was refused on grounds of not being a UK resident.
–	A request to open a bank account by a Romanian citizen studying in France was rejected by a French bank on the basis of the student's nationality.
–	An EU citizen working in Luxembourg on a temporary basis was required to submit a proof of residence in Luxembourg for opening of a bank account.

⁸ Over the past three years, the Commission Services have received complaints concerning PSPs in Austria, Belgium, Czech Republic, France, Germany, Italy, Ireland, Luxembourg, Netherlands, Poland, Portugal, Slovakia, Spain and United Kingdom.

⁹ Of all questions received by the CSS in relation to financial services (497) during a 14-month period in 2006 and 2007, 142, i.e. 28.6 %, of all enquiries concerned the opening of bank accounts. Questions on bank accounts were the leading category of all seven financial services concerned.

- An Irish citizen moved to the UK for the purpose of study and has tried to open a current account. Banks in the UK stipulated that he needs to be living in the UK for three years in order to be able to receive the terms and conditions offered to the UK citizens.
- A German student who arrived in France and was looking for accommodation was demanded to make a deposit at a French bank but the French bank demanded a French residence card to open an account.
- A Hungarian resident started working for a UK company from his home in Hungary and has been requested to open a bank account in the UK for the salary to be paid into it. He has been refused by UK banks on the grounds that he does not live in the UK and is not a UK resident. The company has refused to pay the salary into an account in Hungary.

In quantitative terms, complaints in terms of numbers (a few tens per year) are definitely dwarfed by the sheer magnitude of people moving around in the EU: if one is only looking at students, nearly 200 000 students every year nowadays study in another Member State than that of their residence thanks to the Erasmus system. Even if complaints are few, they are symptomatic of a lasting problem and on grounds of principle, the current situation cannot be considered satisfactory.

Furthermore, a recent large scale Eurobarometer survey¹⁰ indicates that the unemployed and the young (aged 15-24), i.e. people usually with low income, are most likely to envisage working outside their Member State. This level of mobility, as well as the fact that consumers searching for a job in another country and the young may appear to banks as commercially unattractive customers is an issue of concern, given the aforementioned obstacles to the opening of a bank account by non-residents.

¹⁰ Eurobarometer 337, 2010, pp. 8, 9, 11, 17 and 29.

Annex 6: How existing policies at Member State level respond to the problem

Belgium

Magnitude: The Réseau Financement Alternatif estimated 10 000 of unbanked in 2005.

Since spring 2003, there has been a legal obligation for credit institutions to provide basic banking services. The law [*Loi du 24 mars 2003 instaurant un service bancaire de base*] obliges all banks to provide a basic banking account to any individual who does not already have one, for an annual fee of maximum EUR 13. The law was modified on 1 April 2007

In Belgium, every resident is entitled to a basic bank account. The following conditions have to be met: (a) the consumer cannot have a bank account (b) cannot have accounts or credit agreements worth at least EUR 6 000, or (c) cannot have committed fraud, a breach of trust, fraudulent bankruptcy, or money laundering. Consumers can choose their bank, and the bank has to provide this service, even to (non fraudulent) bankrupts. Annual fee for a basic bank account is very low and amounts to EUR 13. Belgian legislation provides that a compensation fund could be created in order to support those financial institutions, which would offer more basic bank accounts than their economic interest. But this mechanism has not been implemented yet.

The introduction of a Basic Bank Account has reduced but not eliminated the problems of financial exclusion. The Réseau Financement Alternatif has estimated that since the introduction of the law in 2003 the number of persons excluded has fallen from approximately 40 000 to 10 000 in 2005. The results show that the introduction of the right to a basic bank account contributed to a 75 % decrease of the population without a bank account in 4 years.

France

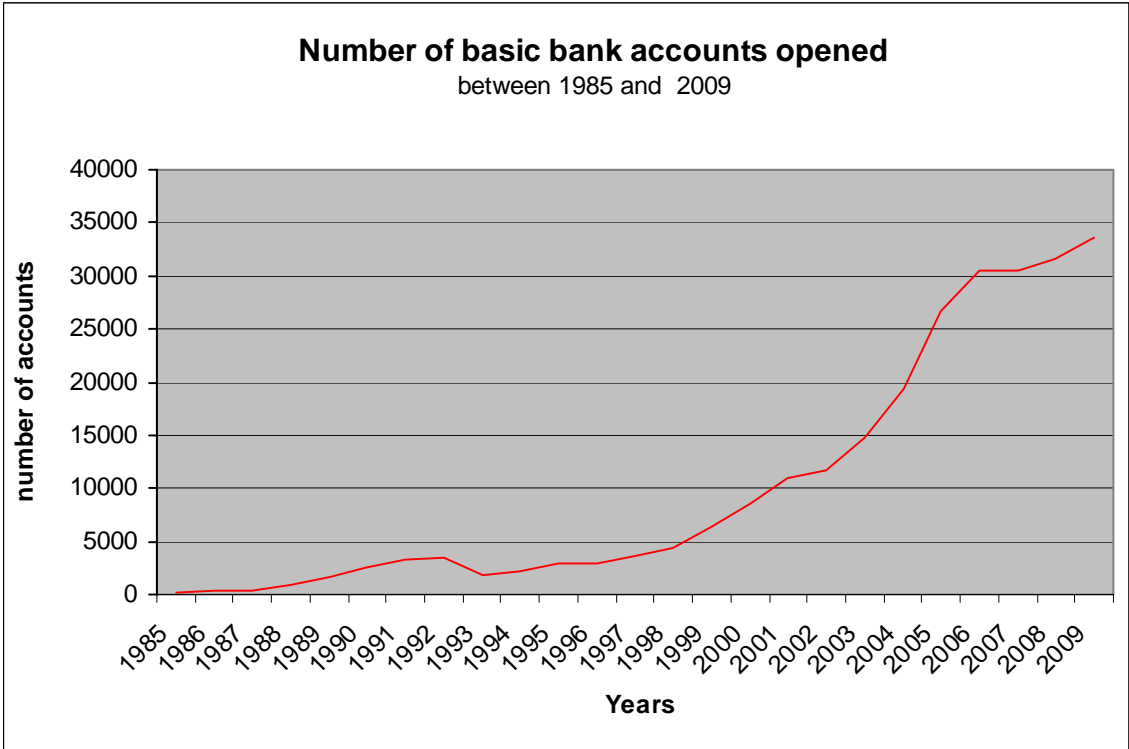
Magnitude: According to CCSF estimates, there are still 500 000 adults without a bank account in France.

In France, the 1984 law¹¹ guarantees residents the right to a bank account. The law has been amended subsequently and supported by the banking industry actions in order to increase its efficiency¹². French law stipulates that every natural or legal person (resident) is entitled to a bank account. However, banks may refuse opening of a regular account. In such a case, a French resident who declares that he has no other bank accounts and has been denied opening of one, can ask Banque de France to nominate a bank, which will open a basic bank account. A basic bank account is provided free of charge and its services are defined by law.

¹¹ The provisions can be found in the Code monétaire et financier: article L.312-1 and article D.312-5 du code monétaire et financier.

¹² In France 2 voluntary action plans were implemented by Fédération Bancaire Française (FBF) – *Relations banques-clients: les banques font des propositions*, action plan of 9.11.2009 and *Des services bancaires pour tous, un compte et une carte pour chacun*, action plan of 30.1.2006. In addition, *Charte d'accessibilité pour renforcer l'effectivité du compte*, the principle of which was provided by law, standardises bank procedures and forms for the right of an account.

Graph 2: Number of basic bank accounts opened in France since the introduction of the right



Source: Banque de France

Finland

Magnitude: According to Flash EB 282, 100 % of Finns have a current account.

In Finland, the Credit Institutions Act of 2003 introduced a legal obligation to provide basic banking services. It states that a regular bank account and the means necessary to use such an account can be refused only if there are weighty grounds for the refusal. The grounds shall be linked to the customer or his prior behaviour or to the fact that there is evidently no actual need for a customer relationship. The customer has to be notified of the grounds for the refusal.

Denmark

Magnitude: According to the Flash Eurobarometer of 2009, 100 % of Danes have a bank account. According to the Danish source 'Økonomistyrrelsen' some 3 % of the population are unable to get an account as a result of their marginalised status.

In Denmark an order about good practice for financial institutions specifies that "Banks cannot deny anybody to establish an ordinary current account without an individual and factual justification". Furthermore, the Danish Bankers' Association (Finansrådet) informed all its members in a Recommendation that financial institutions have a societal duty to provide all citizens with a basic 'salary account' (lønkonto). The account should include a debit card and services enabling clients to pay their bills. Banks are not required to provide credit facilities (credit cards or overdrafts). A 'reasonable' number of withdrawals per year should also be provided free of charge.

In connection with efforts to digitise the public sector, a new scheme was introduced in the autumn of 2005 whereby all citizens and companies needed to establish a 'NemKonto' (EasyAccount) in order to receive payments from public authorities (benefits, tax reimbursements, student allowances, etc.). In that connection there was a realisation that a minority of Danish citizens did not yet have a bank account enabling them to link up to the system. At the time, the Agency for Governmental Management (Økonomistyrelsen), the body responsible for the system, reckoned that a minority of 'vulnerable/marginalised' citizens (addicts, mentally ill, homeless) would not be able to get a bank account, corresponding to around 10 000-15 000 people (<3% of population). For those groups some other solution would have to be found. The 'EasyAccount' was introduced by Order no. 766 (Bekendtgørelsen nr 766 af 5.7.2006 om Nemkontoordningen). As mentioned above, the basic salary account should include a few basic services. Most banks, however, provide more add-ons as part of their basic accounts (example of Danske Bank's basic account provided below in brackets).

Sweden

Magnitude: According to a 2009 survey carried out by Finansinspektionen, most Swedish households have access to a bank account and payment services (and three out of four pay bills via Internet).

A different approach has been followed by Sweden. Legislation guarantees the right to a deposit bank account (allowing deposits and withdrawals but not electronic payments). In the case of Sweden, banks have the right to refuse payment services and even cash cards.

Netherlands

Magnitude: According to Flash EB 282, 99 % have access to a bank account.

Although in Netherlands banks are not legally required to offer a bank account to anyone, an agreement between the banks and the authorities states that a bank may not refuse to open a bank account to any customer. Six banks in the Netherlands have signed a basic bank account covenant. It provides for the following services to be offered: transfers (within Netherlands), direct debits, cash withdrawals at the ATM of the bank or in shops in the Netherlands, account statements and optionally a debit card.

The covenant was negotiated between the Ministry of Finance, the Leger des Heils (Salvation Army) and het Nederlandse Vereniging van Banken (the Netherlands Banking Association). Details are shown in a joint publication *Een bankrekening voor iedereen* (A bank account for all) published in 2004. This form of basic bank account has approximately 1 000 users.

Germany

Magnitude: In 2005, it was estimated that between 100 000 to 500 000 do not have a bank account.

In 1995 Germany's lawmakers set out to make the provision of current/checking accounts compulsory for all banks to all persons that fulfil the standard requirements (i.e. proof of identity and residence), regardless of any adverse entries in the SCHUFA registry (Germany's credit information agency). To avert legal obligation, the banking industry proposed the introduction of a voluntary undertaking by banks in 1996; stipulating that every person who fulfils the standard requirements may open a so-called 'Girokonto für Jedermann'.

Information on the number of basic bank accounts is shown in the table below.

Table 1: Basic bank accounts volume in Germany^{13, 14}

	1999	2003	2005	2006	2007
Total	1 116 000	1 514 700	1 840 400	1 997 631	2 147 169

Source: CSES study

While the figures for the early years have been criticised for not only including 'basic bank accounts' (e.g. they might also include those basic bank accounts which have been installed at the expressed wishes of clients who otherwise would be eligible for accounts with overdraft facility), according to the banking industry, the figures for 2007 refer to 'basic bank accounts' only.

In addition, many German Savings Banks (Landessparkassen), due to their public mandate, are obliged to keep current accounts for individuals resident in their business district. The legal requirement to accept savings deposits and to offer a current account exists in ten German federal states (e.g. in Brandenburg, Mecklenburg-Vorpommern, Saxony, Saxony-Anhalt and Thuringia as well as Bavaria, North Rhine-Westfalia and Rhineland-Palatinate). Such regional legislation does not apply to commercial banks.

While cooperative and saving banks in Germany have only around 12 % and 22 % of the market share of banking, they operate respectively 32 % and 44 % of all current accounts. Moreover, around 80 % of social benefit recipients have a current account with a local savings bank.

According to the response of the Federation of German Consumer Organisations vzbv to the 2009 public consultation and a telephone interview with the same body in November 2010, consumers have no guaranteed access in all federal states of Germany. They often have severe problems to access a bank account if they are deemed not to be attractive to banks. There is evidence that banks have not followed their voluntary code in a consistent manner. Reasons for rejections of opening accounts are not clearly defined or concluding, and as the ADR scheme is set up by banks, the ombudsmen do not have a right to take binding decisions. There are high fees and service restrictions that make those accounts unattractive for the unbanked. Providers have also tried to eliminate consumers with legal seizures.

According to the Federation, there are less problems in the federal states that access to basic bank accounts to their inhabitants is granted. For them, this is proof that self-regulation failed with this respect and only a legal duty will bring about a change. This is further documented by jurisdiction. Despite of the promise of self-regulation, a savings bank from a federal state where there is no legal obligation to grant access to a basic bank account successfully challenged in court the binding character of the code of conduct in 2005 in order to avoid applying its rules.

¹³ Bericht der Bundesregierung zur Umsetzung der Empfehlung des ZKA zum Girokonto fuer Jedermann, Deutsche Bundesregierung, Drucksache 16/11495, 2008.

¹⁴ Bericht der Bundesregierung zur Umsetzung der Empfehlung des ZKA zum Girokonto fuer Jedermann, Deutsche Bundesregierung, Drucksache 16/1298, 2006, http://www.bmj.bund.de/files/2dcc28a9ab1ddd1ca4909c450e44fc6f/1298/Bericht_%20BReg-Girokonto_f%C3%BCr_Jedermann.pdf.

They add that an official report of the Federal Government to the German Parliament from 2008¹⁵ on the situation of consumers without a payment account and on the malfunctioning of the self-regulation comes to the conclusion that the situation is an unchanged problem. The report acknowledges a potential need for legislation on the issue.

United Kingdom

Magnitude: According to 2009 Flash Eurobarometer 282, 2 % do not have a bank account, whereas according to 2008 Flash Eurobarometer 243, 4 % do not use a bank account. This means that results of 2008 Flash Eurobarometer are lower than data UK from 2007/2008 according to which 2 % of adult population 890 000 do not have access to any bank account and 4 % of adult population (1.75 million) do not have access to a transactional account. In the case of UK there is also data concerning households: 5 % of households (1.28 million) do not have access to a transactional account and 3 % of households (690 000) to any account.

The UK Banking Code, which is a voluntary code, stipulates that if a customer's needs are suited to a basic bank account and if the individual bank operates the product, the customer will be offered one. In practice however there may be conditions on accessing the basic bank account, such as the need to show an address and not being an undischarged bankrupt.

The Banking Code gives certain voluntary commitments about a basic bank account, as follows. Banks agreed to "assess whether your needs are suited to a basic bank account (if we offer one) and offer you this product if they are; offer you a basic bank account if you ask and meet the conditions for one".

The most up to date UK figures were published in October 2009 by the Financial Inclusion Taskforce¹⁶. This showed in 2007/08 that 690 000 households, with 890 000 adults, say they have no bank account, either savings or transactional. This represents 3 % of households and 2 % of adults. In addition a further 2 % of adults do not state whether they have an account. On all measures, the numbers of adults and households without accounts have halved between 2002/03 and 2007/08. The Taskforce assessment of adults without access to a transactional (current or basic, not savings) bank account has fallen from 3.57 million in 2002/03 to 1.75 million in 2007/08, representing some 4 % of adults.

According to the Flash Eurobarometer 2 % of adults do not have access to a bank account, which is in line with the UK figures.

The Taskforce also provides information on the composition of 'unbanked' households. Single households comprise 64 % of the 'unbanked' (compared with 36 % of the general population) and lone parent households comprising 17 % of the 'unbanked' (compared with 7 % of the general population).

According to evidence provided to the Commission consultation in 2009 by UK consumer association Which?¹⁷, in the UK, the adherence to the standards set out in the voluntary code

¹⁵ Bericht der Bundesregierung zur Umsetzung der Empfehlung des ZKA zum Girokonto fuer Jedermann, Deutsche Bundesregierung, Drucksache 16/11495, 2008.

¹⁶ *Fourth Annual Report on Progress Towards the Shared Goal for Banking*, HM Treasury, 2009, http://www.hm-treasury.gov.uk/d/fourth_annual_banking_report.pdf.

¹⁷ http://circa.europa.eu/Public/irc/markt/markt_consultations/library?l=/financial_services/financial_inclusion/consumers/uk_which_enpdf/EN_1.0_&a=d

has in the past varied quite significantly between different providers which required a stepping up of monitoring action by the self-regulatory body responsible for enforcing the code.¹⁸ It was further evidenced by UK Citizens Advice Bureau¹⁹ that some bank staff prefer to sell accounts and services which may not be suitable for customers' needs. Also, each bank integrates very differently the code requirements into their incentive structure – e.g. no commission for staff for opening basic bank accounts, staff not aware of the provisions of the Code. In addition, potential customers of basic bank accounts do not know the existence or the provisions of the Code, and even if they do, persons in a vulnerable situation are unlikely to challenge bank staff.

According to the response of the FIN-USE Forum²⁰, looking at the 'headline' figures, the United Kingdom appears to have made significant progress in reducing the number of consumers without a bank account. However, analysing the research more objectively and looking at the number of consumers who are actually using these bank accounts for transactions tells a rather different story. The UK Government's Family Resources Survey (FRS) data for 2006/07 show that up to 2.1 million people, living in 1.4 million households, do not have access to a bank account of any kind. This suggests that significant progress has been made towards achieving the goal of ensuring that half the 'unbanked' have a basic bank account.

However, compared with the data for 2005/06, the FRS data also suggests that progress towards that goal has slowed or stalled during the previous year. The apparently impressive progress made in the early years may be explained by the fact that the UK Government decided to make the transition to paying welfare benefits directly into bank accounts. This will have provided the impetus to individuals to open a bank account.²¹ Now that this transition period has finished, the impetus given by this temporary initiative may be lost. This transitional effect is likely to have overstated the underlying success of initiatives to promote take-up of basic bank accounts, and that it is wrong to conclude that self-regulation has been effective in this case.

In October 2009 the UK Government announced that it had met its shared goal with the banks to reduce the number of adults without access to a current account by half. The Government believed that it is possible to make further reductions in the number of adults without access to banking services, potentially by up to half over the next five years, and that one step towards achieving this would be to introduce a new right to open a basic bank account. The Government intended to introduce a new 'universal service obligation', giving people the right to a basic bank account under certain conditions and planned to consult on the details. After the general elections of spring 2010 the plan was dropped.

¹⁸ *Mystery shopping review of the provision of basic bank accounts*, Banking Code Standards Board, June 2007.

¹⁹ http://circa.europa.eu/Public/irc/markt/markt_consultations/library?l=/financial_services/financial_inclusion/society_organisations/citizensadvice_enpdf/EN_1.0_&a=d

²⁰ http://circa.europa.eu/Public/irc/markt/markt_consultations/library?l=/financial_services/financial_inclusion/consumers/eu_fin-use_enpdf/EN_1.0_&a=d

²¹ The British Banking Association has announced that 600 000 accounts were opened in 2008 but these include Post Office Card Accounts which the government admits does not result in financial inclusion due to the limited number of services attached. The UK Financial Inclusion Taskforce has stressed that these figures cannot be relied upon as an indicator of measuring progress towards the shared goal of reducing the numbers of unbanked by half.

Ireland

Magnitude: The latest figures from 2004/2005 Household Budget Survey show that 10 % of Irish do not have a bank account while around 23 % have no access to a current account²². According to 2009 Flash Eurobarometer 282, 3 % of adults do not have a bank account and according to earlier 2008 Flash Eurobarometer 243, 5 % do not use a bank account.

According to the response to the 2009 consultation by Society of St Vincent de Paul²³, the Irish Consumer Protection Code requires providers to not prevent consumers from accessing basic financial services such as bank accounts but evidence shows that some consumers are being denied, e.g. social welfare recipients. Some banks impose conditions to free banking which the underbanked cannot fulfil. Increasing numbers are reliant on social welfare due to increase in unemployment. Therefore, as the Code is not systematically applied, it is of little benefit in preventing the exclusion of low income consumers.

Italy

Magnitude: Bank of Italy survey of 2005 found 14 % without a bank account.

Situation in Italy is governed by the Patti Chiari Charter, a range of commitments provided by banks that includes also the provision of a basic payment account. Employment, Social Affairs and Equal Opportunities DG and CSES studies found that overall there does not seem to be evidence of promotion of basic banking, and the high level of transaction banking exclusion compared to the other of the EU15 Member States suggests ineffectiveness.

Apart from that the Italian Banking Association (ABI) has recently promoted several initiatives to facilitate people's access to banking services. Among others, an action was initiated by the Bank of Italy within the revision of the rules on transparency of banking services: the 'Conto Corrente Semplice' agreement²⁴ which was signed between the Italian Banking Association ABI and consumer associations in 2009. Following the agreement, Italian banks may offer the simple current account to their customers, however without any obligation to do so. According to the Bank of Italy, at the end of 2010, the service of a basic bank account stipulated in that agreement was offered by only 23 (mainly small) banks out of approximately 800 banks in Italy. The Bank of Italy is not satisfied with the result and is planning to take action to encourage other banks to subscribe.

Slovenia

Magnitude: According to Flash EB 282, 92 % have access to a bank account. The Bank Association of Slovenia has adopted general terms and conditions for maintaining transaction accounts, which determines that the credit institution cannot refuse opening of a bank account if all the necessary information and documents have been provided. In addition, all payment

²² *Financial exclusion in Ireland: an exploratory study and policy review*, CORR C., 2006, Combat Poverty Agency.

²³ http://circa.europa.eu/Public/irc/markt/markt_consultations/library?l=/financial_services/financial_inclusion/society_organisations/societystvincentdepaul/ EN 1.0 &a=d

²⁴ For more information, see http://www.bancaditalia.it/vigilanza/banche/normativa/disposizioni/provv/trasparenza_operazioni/Provv_27-11-2009_c_c_Accordo_ABI.pdf.

service providers are obligated to comply with the Consumer Protection Act, which prohibits unequal treating of consumers.

Austria

Magnitude: According to Flash EB 282, 99 % have access to a bank account. An estimated 40 000 to 50 000 do not have access to a bank account.

There is no specific legislation to tackle financial exclusion in Austria. Austrian banks are under no obligation to accept a prospective customer. A few banks have voluntarily developed schemes targeting the socially weak and over-indebted: die 'Zweite Sparkasse' (or the Second Saving Account). This is an independent bank which is run and staffed exclusively on a voluntary basis. It was launched in 2006 and provides basic bank accounts, essentially free of charge, to individuals who are in financial difficulties and are being assisted by a debt advice agency or Caritas. It is seen as a route back into a normal banking relationship, availability is restricted to a fixed term (between 3 and 5 years). The bank does not currently offer its services Austria-wide, although plans to extend the service do exist. Neue Chance Konto (New Chance Account) was launched on 1 April 2009, Austria-wide and aimed at socially weak individuals more generally, not just over-indebted ones.²⁵

²⁵ *Better Access to Adequate Financial Services*, Conference on Better Access to Financial Services, ASB Schuldnerberatungen GmbH, GP Forschungsgruppe, SKEF - Society for Promotion of Financial Education (PL) and Observatoire du Cr dit de l'Endettement, Warsaw, 9.-11.3.2006, p. 10.

Annex 7: Causes of financial exclusion in 14 countries

Within the framework of Employment, Social Affairs and Equal Opportunities DG's study causes of financial exclusion have been studied in 14 countries: Austria, Belgium, Bulgaria, France, Germany, Ireland, Italy, Lithuania, Norway, Poland, Slovakia, Spain, the Netherlands and the United Kingdom. The causes have been associated with three groups of factors: societal factors, supply factors and demand factors. The study has analysed barriers to access or use of different services: transactional banking (bank accounts), credit and savings. For the assessment of the problem drivers concerning access to transactional banking we have analysed those drivers, which have been identified in at least seven countries and also confirmed but the SCES study on Costs and benefits of Policy Actions in the field of ensuring access to a basic bank account.

Table 1: Causes of financial exclusion in 14 European countries

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

* Fourteen countries have been studied: Austria, Belgium, Bulgaria, France, Germany, Ireland, Italy, Lithuania, Norway, Poland, Slovakia, Spain, the Netherlands and the United Kingdom

Source: Financial Services provision and prevention of financial exclusion, Study of Employment, Social Affairs and Equal Opportunities DG, March 2008

Annex 8: Availability of banking facilities

The availability of access to banking facilities differs across, and within, Member States. Banking facilities can include the availability of bank branches and automatic teller machines (ATMs), as well as internet access to on line banking. For some types of transactions – e.g. obtaining cash – a branch or ATM is needed and we therefore reviewed existing indicators of the availability of these facilities.

The availability of branches or ATMs may be related to population numbers, or to geographical area. Clearly, banking facilities in sparsely populated areas may be less available than in towns.

An analysis of the availability of bank branches and ATMs was carried out in 2005 by researchers in the World Bank’s research department²⁶. This presented the situation in EU Member States to be as follows. No data was provided for Latvia, Luxembourg or Cyprus.

Table 1: Availability of banking facilities

	Branches per 1 000 km ²	Branches per 100 000 people	ATMs per 1000 km ²	ATMs per 100 000 people
Slovenia	2.14	2.19	64.56	66.14
Lithuania	1.81	3.39	15.34	28.78
Poland	10.25	8.17	21.72	17.31
Slovakia	11.33	10.28	32.21	29.21
Czech Republic	14.73	11.15	25.84	19.57
Romania	13.26	13.76	12.02	12.47
Bulgaria	9.81	13.87	21.09	29.79
Estonia	4.85	15.19	18.43	57.7
United Kingdom	45.16	18.35	104.46	42.45
Finland	3.26	19.06	13.55	79.21
Sweden	4.74	21.8	6.43	29.56
Ireland	13.41	23.41	27.78	48.49
Hungary	31.04	28.25	32.3	29.4
Malta	375	30.08	462.5	37.09
Greece	25.53	30.81	39.39	47.55
Netherlands	163.81	34.23	223.02	46.6
Denmark	47.77	37.63	66.51	52.39
France	46.94	43.23	76.33	70.3
Germany	116.9	49.41	144.68	61.16
Portugal	57.45	51.58	121.5	109.09
Italy	102.05	52.07	131.71	67.2
Belgium	181.65	53.15	229.28	67.09
Austria	52.47	53.87	84.95	87.21
Spain	78.9	95.87	104.18	126.6

Source: Thorsten Beck, Asli Demirguc-Kunt and Maria Soledad Martinez Peria after CSES Study

²⁶ *Reaching out: Access to and use of banking services across countries*, Thorsten Beck, Asli Demirguc-Kunt and Maria Soledad Martinez Peria, 2005, Table 1.

The table has been ranked in ascending order by availability of bank branches per 100 000 people. Many of the EU10 countries, who also have lower levels of bank accounts penetration, also have lower levels of availability of branches. However, this relationship is not universal. For example Slovenia, which now has a high number of bank accounts, has a low number of branches. Overall however the table supports a suggestion that one factor affecting the use of bank accounts may be the availability of bank infrastructure.

Annex 9: Prices of retail bank account services in the EU

Table 1: Average prices for bank account services in the EU in 2007 (four consumer profiles, prices in euro/year) and average number of banking operations per capita.

Member State	Payment service user profile (average prices in EUR/year)				Number of payment transactions per capita (yearly)
	Average	Basic	Passive	Active	
Austria	140.47	83.95	99.54	197.46	175
Belgium	58.15	16.28	29.05	82.07	132
Bulgaria	26.94	9.30	17.14	42.83	6
Cyprus	84.59	48.74	6.52	184.99	65
Czech Republic	95.37	54.81	39.65	156.52	59
Denmark	74.27	38.91	37.92	128.41	229
Estonia	50.51	46.98	25.57	93.08	96
Finland	104.42	94.04	44.65	206.56	268
France	154.11	91.21	91.35	232.15	217
Germany	89.13	78.92	62.85	114.71	129
Greece	53.98	45.06	14.81	111.67	11
Hungary	76.20	64.08	28.39	144.42	48
Ireland	81.85	37.17	56.40	118.39	84
Italy	253.14	143.19	134.99	401.72	48
Latvia	115.24	107.33	63.26	192.28	52
Lithuania	34.76	14.69	11.20	112.92	43
Luxembourg	56.64	25.64	40.37	95.99	121
Malta	71.85	45.38	53.21	99.47	52
Netherlands	45.95	28.85	30.13	55.60	193
Poland	73.21	50.55	45.97	114.01	56
Portugal	44.89	13.19	26.01	81.97	119
Romania	82.59	69.79	30.28	141.90	11
Slovakia	73.68	55.59	44.49	125.08	45
Slovenia	100.40	70.13	43.50	200.76	125
Spain	178.21	134.06	104.72	303.57	103
Sweden	61.84	53.35	25.16	128.21	165
United Kingdom	103.20	28.34	94.99	111.40	225
EU27	111.62	61.47	74.41	159.18	130

Four consumer usage profiles are identified in the EU, based on the intensity of usage and in relation to payment preferences (average, active, passive and basic user). Depending on the usage profile, a specific mix of payment instruments (credit transfers, direct debits, payment cards) is assumed.

Average user profile corresponds to the entire population of current account holders, providing an understanding of how a random individual from the relevant population behaves.

Active user profile comprises the top 1/3 users when individuals are ordered according to their usage intensities.

Passive user profile comprises the bottom 1/3 users ordered according to usage intensities.

Basic user profile comprises users with a low-cost 'basic account', where the permitted transactions are clearly defined.

Source: Van Dijk Management Consultants study for the European Commission, 2009²⁷

²⁷ Some figures have been questioned by some Member States and Banking associations, like ABI.

For example, in EU15, the average price of basic bank accounts (designed for vulnerable, low-income consumers) ranges from EUR 143 (country average) in Italy to free of charge in France. In some countries, the pricing of a bank account for a basic user is higher than the pricing of a bank account for a passive user, although a bank account for the former should be more affordable (Italy, Germany)²⁸. In the case of EU12, which do not actually offer basic bank accounts, the price of a bank account for passive users can range from EUR 63 in Latvia (country average) to as low as EUR 11 in Lithuania or EUR 7 in Cyprus. Pricing of accounts for average users also reveals significant differences (EUR 115 in Latvia to EUR 34 in Lithuania or EUR 27 in Bulgaria).

The price differences cannot be simply explained by disparities in purchasing power across EU Member States. This is demonstrated by the fact that many countries with high per capita GDP have low account prices and vice versa. One of the reasons for the large differences in basic bank accounts pricing stems from the differences in cost efficiency of payment systems. The analysis showed that in absolute terms Austria, France, Italy and Spain are among the most expensive countries for banking services, while Bulgaria, Netherlands, Belgium and Portugal display the lowest price levels. The issue of the price level of a bank account is linked with price transparency. The Van Dijk Management Consultants showed that in countries where bank fees are more transparent, the charges for a bank account tend to be lower²⁹.

²⁸ Basic user profile comprises users with a low-cost 'basic account', where the permitted transactions are clearly defined. Passive user profile refers to those who engage in transactions rarely, comprising the bottom 1/3 users ordered according to usage intensities.

²⁹ Van Dijk Management Consultants study, see footnote 26, pp. 35-36.

Annex 10: Charges for cashing cheques

Table 1: Charges for cashing cheques

Country	Charges for cashing cheques	Estimated charge to cash cheque of EUR 1 000
BE	Cheques only exist for very limited things and usually cost EUR 1 to cash.	EUR 1
DK	It is not possible to cash a cheque without an account/ foreign cheques cost EUR 17 (DKK 125).	n/a
SE	All cheques can be cashed at any bank branch irrespective of the bank on which they are drawn.	nil
DE	Not possible to cash a cheque without an account (according to Commerzbank).	n/a
UK	Commission rates for cashing cheque start at 1.96 % to 3 % of cheque value.	EUR 20
HU	Consumers incur extra cost (around HUF 100-150) (EUR 0.37-0.55) if they have their paycheque cashed at the post office.	EUR 0.55
IE	Commission charge ranges from 4-7 % of the value of the cheque. A small handling fee also applies.	EUR 40 to EUR 70
EE	It is not possible to cash cheques without owning an account.	n/a
EL	For cashing a cheque without depositing into the account there is a charge (on average) of 0.2 % of the value but not less than EUR 5-15.	EUR 5
LT	It is possible to cash cheques without owning an account; however there is a standard 1 % charge, the minimum charge is EUR 7.24 (LTL 25) and maximum is EUR 86.89 (LTL 300).	EUR 10
LU	0.2 % + EUR 4 handling fee.	EUR 6
LV	It is possible to cash cheques without owning an account, however charges are: EUR 7.06 for cheques over EUR 144.10, EUR 14.11 for cheques over EUR 705.52, EUR 21.17 for cheques above EUR 705.52 plus 0.4 %.	EUR 21.17

Source: CSES study

Annex 11: Process and costs to banks

Table 1: Process and costs to banks

Process	Costs
Opening an account – Meeting	Likely to be labour intensive, requiring a discussion with the customer (in order to carry out due diligence required by the AMLD). Less time may be needed for a basic account, since credit facilities will not be offered.
Operating an account – Electronic transfers and inputs	Largely automated, so the marginal cost of an additional account will be small.
Operating an account – Paper based and face to face transactions	If cheques are not included, relatively expensive paper based transactions can be minimised unless paper statements are provided. Costs of withdrawing money at the bank branch.
Operating an account – Delinquent accounts	If an account becomes overdrawn, costs to the banks (and also the charges by the bank) are likely to include labour costs and can be substantial. However, if a basic account excluded the possibility of becoming overdrawn, these costs should not apply.

Source: CSES study

ANNEX 12: Assessment of impacts and comparison of policy options

This section provides an analysis of the impacts and comparison of options for three different areas: 1. products and services, 2. price and 3. conditions of access. A quantification of costs and benefits for the preferred options is given in Annex 13. The schema used for assessment and comparison purposes is the following: ✓✓✓ (strong positive contribution), ✓✓ (moderate positive contribution), ✓ (weak positive contribution), ✕✕✕ (strong negative contribution), ✕✕ (moderate negative contribution), ✕ (weak negative contribution), 0 (neutral contribution).

1. PRODUCTS AND SERVICES

1.1. Option 1: No policy change

Under the baseline scenario, the status quo would be maintained and the problem of limited or no availability of products targeting the excluded consumers would remain unaddressed. Some banks may voluntarily design new products for excluded consumers. However, it is unlikely that in the short term, banks in 18 Member States (where it was found that such products were not available) would target excluded consumers by offering simple bank accounts that would suit their needs. As a result, the objective of improving access to payment accounts and electronic means of payment would not be met. Consumers without a bank account would not be able to fully benefit from the internal market with their choice of goods and services being limited. They would still face financial exclusion which could lead to social exclusion.

The lack of products designed for the unbanked population would certainly have negative impact on those consumers. No access to a payment account means higher costs for consumers due to high charges for occasional use of banking services, charges for money transmission, cashing cheques, loss of discounts for electronic payments or online discounts. We have assessed the annual opportunity cost of not having access to a payment account to range from EUR 185 to EUR 365 per consumer (see Annex 10). The financial impact on payment account providers is expected to be neutral since they would not need to introduce new products.

1.2. Option 2: Ensure that basic payment services are offered by payment services providers (PSPs)³⁰

Providers would offer a basic payment account specially designed to meet the characteristics of commercially unattractive consumers, which would allow them to: (i) deposit and withdraw cash; (ii) receive salaries, benefits, pensions and other credit transfers directly, (iii) pay bills or taxes electronically, pay for goods and services electronically (either by credit transfers, standing orders or direct debits); (iv) but not obtain a payment card or (v) credit in the form of an overdraft.

This option would improve the availability of payment accounts throughout the EU and therefore would have moderately positive impact on consumers (✓✓) who face problems with

³⁰ See Glossary. We are using the term Payment Services Providers in order not to restrict provision of a basic payment account to banks.

opening a bank account. Currently existing differences in consumers' circumstances, depending on whether in the Member State in which they want to open a bank account, a basic bank account is offered by the financial services providers, would be removed. Consumers' situation would improve since the majority of unbanked consumers are situated in Member States where basic bank accounts are not offered, mainly in EU12. Consumers would benefit from savings due to avoidance of charges for cash transactions as well as being able to avail of various discounts for electronic payments. The benefit could be even larger than the currently estimated as the low income segment is likely to grow to the detriment of the mainstream middle income consumer market.

The impact on providers largely depends on the chosen assumptions (notably with regard to the pricing of such an account) and could accordingly range from weakly positive to weakly negative (✓-✗). Providers may incur costs associated with the maintenance of a new product. It is obvious that costs to a bank would vary depending on services provided (see Annex 11). However, these costs may be offset by the revenues from charges for accounts. This would depend on the level of charges for a basic payment account (see Sections 8.2 and 8.4). The experience of Santander bank, which offers basic bank accounts in the UK, shows that a product designed for excluded consumers can be profitable. In addition, PSPs could benefit in the medium term from an extended client base and improved customer perception of the corporate social responsibility of the banking/PSP industry.³¹

This option should have a weakly positive impact on Member State administrations (✓). If a product allowing vulnerable consumers to make and receive electronic transfers were to be offered, Member States administrations would be able to reduce transaction costs for social benefits payments. In the long run improved social inclusion may reduce the need for social security benefits. Member States may have to incur certain compliance costs related to the implementation and enforcement of rules, if binding legislation is chosen. However, since the supervisory framework for banking and payment services are well developed, costs should be marginal.

1.3. Option 3: Ensure that basic payment services and a payment card are offered by payment services providers

Providers would offer a basic payment account specially designed to meet the characteristics of commercially unattractive consumers, which would allow them to (i) perform all functions specified under Option 2 and (ii) use a payment card³² allowing for electronic payments.

This option, like Option 2, would facilitate the achievement of the objective of ensuring that a product designed for consumers perceived as commercially unattractive is offered throughout the EU. The overall impact on consumers would be strongly positive (✓✓✓). In addition to the benefits described under Option 2, consumers would get quicker access to funds and be able to buy goods and services on the internet. Most online purchases and bookings are possible only with a card, and more and more providers are offering payment with a debit card in addition to a credit card. As a result, consumers would benefit from an increased choice of goods and services, and savings due to various discounts for electronic

³¹ *Reach out. Banks that ignore the huge numbers of people who remain outside the financial system may be missing an opportunity to improve their image and increase their profits*, The Banker, June 2010, pp. 14-15.

³² Payment card with real time authorisation not allowing payment transactions which exceed the current balance of the account.

payments and access to online services. Being able to buy goods and services without the need to leave home should improve the standard of living of people with disabilities, or older people. This would further enhance their participation in the internal market and improve their position in the society. Like Option 2, the benefit could be even larger than currently envisaged as the low income segment is likely to grow to the detriment of the mainstream middle income consumer market.

The impact on providers largely depends on the chosen assumptions (notably with regard to the pricing of such an account) and could accordingly be positive or negative (see Sections 8.2 and 8.4). However, a payment card, enabling money withdrawal from ATMs should reduce the need for over-the-counter withdrawals and thus reduce costs for banks. Therefore, the overall impact is expected to range from moderately negative to weakly positive (✖✖-✓). Impact on Member State administrations is expected to be neutral or weakly positive (0-✓). Benefits and costs would be the same as in the previous option.

1.4. Option 4: Ensure that basic payment services, a payment card and an overdraft (credit line) are offered by payment services providers

Providers would offer a basic payment account, which would allow consumers to (i) perform all functions specified under Option 3, and (ii) get into a negative balance (overdraft).

While this option would look positive at first sight, it would in reality not achieve the objective of ensuring that a product designed for consumers perceived as commercially unattractive is offered throughout the EU. In order to grant a credit line, banks would need to carry a risk assessment. Therefore, this product would not meet the needs of consumers with bad credit histories, indebted, unemployed or on low income. Similarly in the case of non-residents, the lack of access to credit histories would prevent banks from offering them such a product.

Again, the impact on providers is uncertain. PSPs would incur costs for designing a new product, carrying out risk assessments, and provisioning for bad debts. Problems with access to the credit histories of non-residents would add to labour costs of carrying out due diligence and risk assessment. The labour costs, and eventually risks, could grow as there could be more applications for such types of accounts due to the increase of the low income segment. On the other hand, whether PSPs would be able to recover costs would depend on the price level they would or could set. Therefore the overall impact is expected to range from strongly negative to weakly positive (✖✖✖-✓).

The impact on consumers would at first sight appear to be positive as growing numbers would get access to a wide range of services. But due to creditworthiness assessment, many of the unbanked consumers as well as non-residents would in reality not be offered such a product. Furthermore, from a societal viewpoint, one should avoid that vulnerable consumers are exposed to costly charges for going into a negative balance, as this could push them into over-indebtedness and a poverty trap. Therefore the overall impact is expected to be weakly negative (✖).

To conclude, this option would not meet the objective of ensuring that unbanked consumers have access to a suitable product.

While at first sight potential granting of access to growing numbers of consumers would appear to have positive impact on Member States, it is expected to be neutral or negative due

to the missed opportunity of transaction cost reductions. It is also likely that some consumers receiving social benefits could not pass the creditworthiness assessment, reduction of transaction costs for social benefits payments are likely not to be very extensive. Therefore the overall impact is expected to range from neutral to weakly negative (0-✖).

Comparison of options

The 'Do nothing' scenario (Option 1) has no impact on achieving the objectives outlined in the table below. Options 2 and 3 were both found to be particularly effective and efficient in achieving the objectives pursued under this initiative. Option 3 however was found to be the most effective concerning achieving the objective of promoting full participation of EU citizens in the Internal Market. Option 3 would ensure that PSPs in EU Member States offer a product designed so as to take into account consumers perceived as commercially unattractive. A basic payment account together with a payment card would allow consumers to benefit from a wider choice of goods and services, lower costs of living (online discounts, access to cheaper goods and services) and would contribute to financial and social inclusion. Option 4 was found to be ineffective since the need for a creditworthiness assessment for the purpose of granting a credit line in the form of overdraft would constitute an obstacle for non-residents and vulnerable consumers.

In terms of efficiency both Options 2 and 3 scored equally well. They both would have a positive impact on consumers and mixed impact on Payment Services Providers. In conclusion, Option 3 is the preferred option since it better promotes full participation of EU citizens in the Internal Market.

Table 1: Type and design of a product (a bank account) – Comparison of options

Options	Effectiveness in achieving the objectives below			Efficiency in achieving all objectives
	Operational objective	Specific objective	General objective	
	Ensure availability of a product designed for commercially unattractive consumers	Improve access to payment accounts	Promote full participation of all EU citizens in the Internal market	
1: Do nothing	0	0	0	0
2: Ensure that basic payment services are offered by payment services providers	✓✓✓	✓✓✓	✓✓	✓-✓✓
3: Ensure that basic payment services and a payment card are offered by payment services providers	✓✓✓	✓✓✓	✓✓✓	✓✓
4: Ensure that basic payment services, a payment card and an overdraft (credit line) are offered	✖	✖	✖	✖

The 'Do nothing' scenario has no impact on stakeholders. Options 2 and 3 were found to have a positive impact on consumers and society. They have been found to have a mixed impact on PSP, due to costs of setting up and operation of new products. It is uncertain whether these costs could be offset by revenues and improved image of corporate social responsibility. Although Member States' administrations may incur marginal compliance costs³³ due to the need to implement and ensure enforcement of rules (if a legislative approach is chosen), the overall impact should nevertheless be neutral to positive. Member States would benefit from the reduction of transaction costs for social benefits and, in the long-run, from a more inclusive society. If the banking industry were to commit to offer special products for consumers perceived as commercially unattractive or non-profitable, the overall impact on the administration would be very positive. Option 4 was found to be the least effective, both for consumers, PSP and Member States.

Table 2: Type and design of a product (a bank account) – Impact on main stakeholders

	Consumers and society	Payment Services Providers	Member States
1: Do nothing	0	0	0
2: Ensure that basic payment services are offered by payment services providers	✓✓	x-✓	✓
3: Ensure that basic payment services and a payment card are offered by payment services providers	✓✓✓	xx-✓	0-✓
4: Ensure that basic payment services, a payment card and an overdraft (credit line) are offered	x	xxx-✓	0-x

2. PRICE CONDITIONS

Before defining the policy options, it is important to point out that these would set out broad principles rather than detailed measures. The more detailed measures would need to be defined at a later stage, either at the national level or through Commission delegated and/or implementing acts. Quantified impacts of all preferred options are provided in Section 8.4 and in Annex 13. The impacts of the Commission delegated/implementing acts will be analysed in accordance to established rules.

2.1. Option 1: No intervention at EU level

Doing nothing would not be effective in ensuring that a suitable product, i.e. a reasonable priced basic payment account is offered. The price of a basic bank account³⁴ would be determined by market forces. According to the findings of the Van Dijk Management Consultants study on prices of current accounts, this would preserve the significant discrepancies in basic bank account prices across Member States: consumers, provided those accounts are offered, would continue to pay anything between EUR 0 (France, the United

³³ Compliance costs will be marginal since the supervisory architecture for banking and payment services providers is very well established.

³⁴ By price we mean total charges applied to a consumer: annual charges, account charges (opening, closing, insufficient funds, OTC withdrawals and deposits, credit transfers, direct debits, internet and phone banking) and payment card charges.

Kingdom) to EUR 143 (Italy) per annum.³⁵ It would also preserve inadequate pricing conditions. The maintenance of the status quo would fail to improve the level of consumers holding a bank account, and would thus be ineffective in reducing financial and social exclusion.

Doing nothing would mean maintaining the present status quo which negatively impacts many consumers who would be prevented from opening bank accounts because of inadequate pricing conditions. Concerning providers, the impact is expected to be neutral as they would not need to effect any changes to their product pricing. Member State administrations would not incur any costs in relation to implementation, supervision, or enforcement, but would continue to experience the negative financial and social impacts caused by exclusion due to price conditions and would not be able to benefit from reduced costs in paying welfare benefits.

2.2. Option 2: Ensure that where a basic payment account is not free of charge, the price is reasonable

PSPs incur significant fixed costs when providing current accounts as well as variable costs. Face to face transactions are more costly to provide than their internet or telephone equivalents so banks usually lose money on them overall. Traditionally, PSPs have operated in such a way that some services to an account holder are financed through other potentially profitable revenues from the customer. In addition, PSPs do not disclose the relationship between the costs of operating a bank account and charges levied on consumers. According to a UK study³⁶, current accounts are priced in a way that does not reflect the underlying costs of any one account, although total costs are recovered.

Another study³⁷ has found that some banks' pricing policies do not suit well the needs or profiles of users, e.g. where a bank prices up a basic account by offering e.g. a higher number of credit transfers than actually needed by the basic profile users.

This shows the importance of ensuring that basic payment accounts are reasonably priced³⁸. The aim is to arrive at a price for a basic payment account that would be affordable for basic profile users, including those on low incomes. In some countries, the basic bank account is provided free of charge; e.g. in UK, France. However, since PSPs are commercial entities, it may not be economically valid for all of them to provide a basic payment account free of charge.

The present initiative would aim at establishing the principle that a price of a basic payment account should be reasonable for consumers. This would be effective in ensuring affordable basic payment accounts (✓✓). The concept of a reasonable price and the methodology/criteria to be used for assessment of the reasonableness of prices would be developed at national level as this notion of reasonable price is likely to differ from one Member State to another, due to differences in account pricing strategies, GDP and consumer income levels. However, if

³⁵ Van Dijk Management Consultants study, p. 29.

³⁶ *Competition in UK Banking: A Report to the Chancellor of the Exchequer*, Cruickshank, Don, HM Treasury, 2000, http://www.hm-treasury.gov.uk/fin_bank_reviewfinal.htm.

³⁷ Van Dijk Management Consultants study, p. 29.

³⁸ By price we mean the total sum of charges applied to a consumer: annual charges, account charges (opening, closing, insufficient funds, over-the-counter withdrawals and deposits, credit transfers, direct debits, use of internet and phone banking) and payment card charges.

Member States request a common European definition of the 'reasonable' price and criteria for its establishment (e.g. relation to lowest income deciles), these could be developed through Commission delegated/implementing acts. To that aim the new European banking supervisory authority (EBA) could be asked to provide advice on how to develop a methodology to define a 'reasonable' price. The challenge of agreeing a common definition/methodology of the 'reasonable' price will be evaluated in the context of the Impact Assessment accompanying that delegated act.

Where the concept of a reasonable price and criteria for its assessment are developed, either at national (or EU level), Member States would need to monitor the pricing of basic payment accounts in relation to e.g. national consumer prices and income (or other established criteria) in order to verify whether or not the price is reasonable and the account affordable. Pro memoria, the costs of price monitoring and costs of adoption of national measures are assessed in Annex 13. In the case where prices would not be 'reasonable', Member States could provide for an adjustment of PSPs' pricing for low-income consumers. If, as a result of a Member State intervention, PSPs were to lower their prices and suffer losses, to avoid such a situation, they will either develop a cross-subsidization strategies or call for compensation (funded by the industry or the state, according to the Treaty provisions). The latter approach might be the preferred path of small and medium-sized PSPs, if they were to disproportionately shoulder most of the cost, which might be the case for cooperative banks and savings banks.. It is however very likely that take-up of consumers would be proportional to the size of the infrastructure and economic importance of the provider. Consumers would naturally tend to choose the nearest provider, meaning the provider with the widest infrastructure in their particular market. Belgian legislation has foreseen the creation of a compensation fund to be availed of in the event that the number of basic bank accounts is disproportionate to the economic importance of the individual provider. To date, no bank has applied to avail of such compensation.

This option is expected to have a positive impact on consumers (✓✓). By improving the affordability of basic payment accounts, especially to those on low income, this option would allow many previously excluded consumers to gain access to payment services and thus improve their financial as well as social living conditions. However, if the basic payment account would be loss making, consumers other than those applying for a basic payment account might be marginally negatively influenced either by cross-subsidisation (if providers chose this way of avoiding losses) or by the marginal increase in taxes (if Member States would need to find revenues for compensating losses to providers). The extent of this potential negative impact would be marginal and certainly smaller than the positive impact of the greater take-up of bank accounts and more inclusive society.

The overall impact on providers is uncertain and mainly depends on how this 'reasonable price' is established in each Member State and whether a basic payment account will be loss making (see Annex 13). It could range from negative (when an individual PSP would have to bear losses) to neutral (when losses will be compensated) or slightly positive (when prices are above costs and providers make profit) (××-0-✓).

For instance, if the 'reasonable price' in a given Member State were set below providers' total costs, providers would suffer a negative impact – although they may, in turn, pass this cost to consumers through cross-subsidisation resulting in an almost neutral impact. If a basic payment accounts is priced below the market prices, it could trigger a demand for this type of account and the switching of accounts from regular ones could take place, resulting in the negative impact on providers (assessment of the impact of switching, see Annex 13). If

Member States were to provide financial backing to the loss-making activity, the impact on PSPs would be neutral (provided Member States would compensate all the losses). If an industry compensation fund were to be established then the costs would be shared among PSPs and PSPs again could either bear lower revenues or cross-subsidise losses.

The impact on Member State administrations may range from being slightly negative to neutral or slightly positive, depending on their choice on whether or not to grant compensation to the PSP industry and the expected benefits (✖-0-✓). Benefits would principally arise from savings stemming from lower costs for remittances in the short term and lower expenditure on welfare schemes and from a more inclusive and participative society in the long term. Costs could relate to a potential need for implementing and enforcing a mechanism to oversee the reasonable pricing of basic bank accounts and, potentially, to the compensation mechanism. Since the supervisory architecture for payment services is well established, compliance costs³⁹ should be marginal. If a Member State were to provide compensation to PSPs up to the level of their savings (from lower costs of remittance), then the impact on a Member State would be neutral. If compensation were to exceed savings, then the impact would be negative (see Annex 13). It could have then marginal negative influence on taxpayers, as Member States would need to find revenues for additional compensation.

2.3. Option 3: Free of charge provision of a basic payment account

This option would be very effective (✓✓✓) in ensuring reasonable priced and affordable basic payment accounts. All eligible consumers would be granted such an account free of charge. As a result, many of the existing consumers who have no bank account would be likely to obtain one. This would result in substantial benefits for these consumers, such as improving their financial and social conditions.

According to the UK study an account needs to have a positive balance of about EUR 1 100 per annum to be profitable if no account fee is levied⁴⁰. The level of the positive balance would differ from country to country due to differences in the GDP level. Nonetheless, it is very unlikely that basic payment accounts would have a substantial positive balance. Thus, the costs of a free basic payment account would need to be borne either by individual PSPs, the PSP industry, Member States or other consumers. Providers, in the absence of the compensation mechanism, would most probably attempt to pass the cost of providing free basic accounts to other consumers through cross-subsidisation. This could for instance lead to an increase of charges for other products and services, and e.g. an increase in a few basis points in interest rates for credit might thereby affect demand. In the latter respect, one might however expect that this negative effect on demand would be offset by a greater participation in the economy of that part of the population that is currently unbanked.

Overall impact on providers would range from very negative to neutral (✖✖✖-0). In the absence of any de jure or de facto compensation mechanism, providers would bear the extra cost and be negatively impacted. To cover the cost of the free accounts, they would either have to accept lower profitability (and hence a lower return on equity) or increase the price of other products (cross subsidisation). In the latter case, if the price elasticity of demand for those products is low, total revenue would drop. Free of charge provision of a basic bank account

³⁹ See footnote 56.

⁴⁰ *Competition in UK Banking: A Report to the Chancellor of the Exchequer*, Cruickshank, Don, HM Treasury, 2000.

could also result in growing demand for this type of account and the switching of accounts from regular ones (at market prices) to free basic bank accounts. If, on the other hand, PSPs were to receive compensation for the loss-making product, then the impact on providers would be neutral (see Annex 13).

Cumulative impact on consumers could range from slightly positive to very positive (✓-✓✓✓) Consumers without a bank account, and particularly those on low/no incomes would substantially benefit from free accounts. However, consumers other than those applying for a basic payment account could be negatively influenced either by cross-subsidisation (if providers would not be compensated for the loss making product) or by the marginal raise in taxes (if providers would be compensated by Member States beyond Member States savings from costs of remittance). Even in those cases, the negative impact of cross-subsidisation on regular customers will be offset by the positive impact of social inclusion of the 6.4 million unbanked people as the latter are much fewer than the population of regular customers.

The impact on Member State administrations would range from negative to neutral or positive (✖✖-0-✓), depending on whether or not they would provide compensation for the loss making product, and on whether or not the amount of compensation would exceed the expected savings from lower remittance costs and benefits from more inclusive society (see Annex 13). If compensation were to exceed savings and other benefits, then the impact would be negative. It could have marginal negative influence on taxpayers, as Member States would need to find revenues for compensation.

Comparison of options

The objectives outlined in the table below cannot be achieved under the 'Do nothing' scenario (Option 1). Options 2 and 3 were both found to be particularly effective in achieving the objectives pursued under this initiative. Option 3 however was found the most effective: by offering the account for free it makes it most affordable, thereby maximising the potential number of consumers that would request and obtain it. These effects constitute the strongest contributors to the general objectives relating to market participation and financial and social inclusion. In terms of efficiency (cost-effectiveness) of the options, however, it was found that Overall Option 2 was found more efficient than Option 3. The inefficiency of Option 3 is due to the more negative impacts on one group of stakeholders, explained further below. In conclusion, Option 2 is the preferred option thanks to its combined score of effectiveness and efficiency in achieving the objectives.

Table 3: Product price – Comparison of options

Options	Effectiveness in achieving the operational objective below	Efficiency in achieving the operational objective below
	Inclusive conditions for consumers perceived as commercially unattractive	
1: Do nothing	0	0
2: Ensure reasonably pricing of a basic payment account	✓✓	✖-0/✓
3: Free of charge basic bank account	✓✓✓	✖

The 'Do nothing' scenario was found to have little or no negative impact on stakeholders. Option 2 was found to have a positive impact on consumers and society. Impact on Member State administrations would be uncertain and range from positive to negative; on the one hand, the positive impact could be experienced mainly due to greater inclusion and a reduction in transaction costs; on the other hand, Member States might need to bear the costs for partly or fully compensating losses of PSPs. Likewise, impact on providers was found to be range from negative to neutral and depend on how the reasonable price would be established and whether PSPs would need to bear costs of basic payment accounts. Option 3 could have more negative impact one group of stakeholders since somebody will have to bear the costs of a basic payment account: either other consumers (cross-subsidisation or marginal increase in taxes) or providers or Member States. Since it is uncertain which stakeholder will bear the costs (it would be decided at the national level) the range of possible impacts is given.

Table 4: Product price – Impact on main stakeholders

	Consumers and society	Account providers	Member States
1: Do nothing	0	0	0
2: Ensure reasonable pricing of a basic payment account	✓✓	xx-0-✓	✓-0-x
3: Free of charge	✓-✓✓✓	xxx-0	✓-0-xx

3. CONDITIONS FOR ACCESS TO MINIMUM BASIC PAYMENT SERVICES

It is pointed out from the outset that the issue of determining which payment services provider(s) will be assigned as the one(s) from which consumers can access a basic account (i.e. all providers, some providers or categories of providers, a single provider) is left to the discretion of the Member States.

3.1. Option 1: Do nothing

Doing nothing would be largely ineffective in achieving the objective of ensuring inclusive conditions for opening bank accounts for consumers perceived as commercially unattractive or non-profitable. It is not expected that any unilateral action taken by providers in the Member States (or by Member State administrations) would improve accessibility for these consumers to such a substantial extent so as to eliminate or minimise the problem. The current level of financial and social exclusion, as well as the inability of many EU citizens to fully benefit from the opportunities created by the internal market, would largely persist.

The financial impact is expected to be neutral; providers would neither incur costs (such as those relating to changing standard operating procedures), nor would they derive any benefits (such as any that may result from greater market size, cross-selling, etc). Many consumers would continue facing restrictions in accessing a bank account. Member State administrations will not realise the opportunity of reducing remittance costs and promoting wider consumer participation that could lead to considerable financial and social benefits, particularly for the unbanked.

3.2. Option 2: Access for unbanked households

Under this option, any household of which all the members are unbanked in the Member State where it seeks access to an account, will have access to a basic bank account that will be held jointly by the members of that household. For the definition of a household, the definition of 'family member' in Directive 2004/38/EC could be used as is or with adjustments⁴¹.

It is expected that this option will be marginally effective (0-✓) in achieving the objective. Firstly, if even one household member has an individual account, the household is excluded from accessing a basic account, thus leaving the rest of the members unbanked. There is no guarantee that the banked member will want to allow the unbanked members to use his individual account (concerns about trust, control, etc). Even if he was to allow them, this would still be far from rendering the unbanked members into banked; they would still be officially unbanked (no formal/direct access), completely dependent on the banked member for everything: withdrawing money, making credit transfers, etc.

Secondly, where a household is unbanked and obtains a basic account, this account, if it is to be any effective, will be a joint account: it would allow each member to effect transactions via the same account (withdrawals, payments) without needing to seek the others' consent each time, and would involve joint and several liability. This can be quite problematic for many, especially where anything less than full trust and confidence is the case.

The first major shortcoming of this option could be remedied by changing the option to "access for households with at least one unbanked member". This however is not too dissimilar to the granting of access to individuals rather than households; the benefit in terms of having to open less basic accounts is marginal, particularly nowadays where in our societies, households or families are less stable than some 30 years ago.

It is expected that this option will have a weak positive impact on consumers (✓). Providers are expected to experience a weak negative impact (✖) mainly relating to the verification of unbanked status for household members. Providers would only reach substantial economies of scale regarding the monitoring of the basic account where more than one member of the household or the whole household is unbanked. However, to the extent that the basic bank account will not allow for overdraft, monitoring costs will in any case be minimal, whether the right to a basic bank account is restricted to a household or open to all unbanked individuals. Member State administrations are expected to experience a neutral impact (0), as some potential costs related to the introduction of rules and the creating of a register (used by banks to verify unbanked status) would be offset by savings from lower costs for transferring social payments and from improvements in some individual's financial situation.

3.3. Option 3: A requirement that all unbanked consumers are granted access

Under this option, a consumer in a Member State would be considered 'unbanked' if he does not have a bank account in that Member State where he is seeking access to a basic payment account; whether or not he has a bank account in another Member State is irrelevant. An unbanked consumer would be entitled to access a basic payment account. An underside of this is the possible stigma that a product available only to the unbanked could carry. This

⁴¹ See Articles 2 & 3. Family members are the spouses or registered partners, the spouses' direct descendants under the age of 21, the dependant direct relatives in the ascending line of the spouses, and certain other family members.

option would also require a means for determining the applicant's unbanked status. This could be achieved through the establishment of national registries of bank account holders (potentially expensive) or through reliance on self-declaration (already applied in Belgium).

3.3.1. Option 3.1: Access only for unbanked residents in their home Member State

This option is assessed as partially effective in achieving the objective of ensuring inclusive conditions for opening bank accounts for consumers perceived as commercially unattractive (✓). This is mainly due to the two conditions: residency, and unbanked status. While this option would facilitate access for all consumers in each Member State that are residents of that state and can demonstrate that they are unbanked, it would fail to facilitate access for consumers who want to open a payment account in another Member State. Specific classes of consumers that are most likely to be excluded from the accessibility benefits of this option are students, trainees, and temporary workers in a host Member State.

The impact of this option on consumers is expected to be weakly positive to positive (✓-✓✓). Many consumers perceived as commercially unattractive or non-profitable would be enabled to obtain access to bank accounts, with all the advantages that this entails in terms of financial and social advancement. Many other such consumers however (such as unbanked non-residents), would not be eligible. Consumers may also potentially have to shoulder costs relating to the setting up of national registries of bank account holders (via taxes or cross-subsidisation).

Providers will benefit from the fact that some of the new previously unbanked customers succeed in turning themselves around financially and become a valuable source of revenue and profits in the medium/long run. On the other hand, providers will have to bear some costs related to changes in reporting, standard operating procedures, IT tools, staff training, and manuals, and they may have to bear the costs of a mechanism for verification of the unbanked status of customers who are residents of the Member State where the provider is located. It follows that the impact on providers is likely to range between neutral to weakly negative (0-✗).

Member State administrations may incur certain limited costs relating to implementation (in case of legislation), enforcement, supervision, and reporting, as well as costs relating to a potential shouldering of part or all of the cost associated with the setting of the above-mentioned mechanism. At the same time, savings are likely to be realised from the fact that previously unbanked consumers that were receiving social welfare payments will now receive them electronically at lower cost. Moreover, a number of unbanked consumers that would take advantage of this easier access are likely to improve their financial situation in the medium/long run, and end up benefiting the state by reducing their needs in welfare support and even by starting to pay taxes. In conclusion, the impact is expected to be weakly positive to neutral (✓-0).

3.3.2. Option 3.2: Access for unbanked residents and non-residents

This option is expected to be effective (✓✓) in achieving the objective pursued. This is because, unlike the previous option, this option would lift the restrictive condition relating to residency. This means that more consumers that are perceived as commercially unattractive and non-profitable would be able to obtain access to an account. In concrete terms, the additional benefit goes to unbanked consumers in one Member State that are not residents of that Member State. Such consumers are usually, but not exclusively, temporary workers,

students, and trainees. This option thus facilitates cross border mobility; individuals taking advantage of the opportunities offered by the internal market would not be burdened by difficulties in accessing a bank account in the host state.

The impact on consumers is thus expected to range from positive to strongly positive (✓✓-✓✓✓). The additional positive effect of this option compared to the previous one relates to the greater accessibility that this option allows (all of EU's unbanked), resulting in more consumers obtaining a bank account and deriving the associated benefits. The effect could be reduced to positive from strongly positive if the cost of a mechanism for the verification of unbanked status is passed on to the consumer.

A negative impact on providers would occur if they would have to bear the costs of a mechanism for verification of the unbanked status of customers who are both residents and non-residents of the Member State where the provider is located. It is possible however that Member States may partly or fully shoulder this cost, or that the providers opt for a simple sworn declaration that entails no costs. Providers will also have to bear some costs related to changes in reporting, standard operating procedures, IT tools, staff training, and manuals. A positive impact would result where some of the new previously unbanked customers succeed in turning themselves around financially and become a valuable source of revenue and profits in the medium/long run. Overall, the impact on providers is expected to range from neutral to weakly negative (0-✖).

The costs and benefits for Member State administrations will be about the same as under the previous option, leading to the same overall impact (weakly positive to neutral, ✓-0).

3.4. Option 4: Access for every EU consumer

Under this option, every European consumer would have a virtually unconditional right of access to a basic payment account, regardless of whether or not he is unbanked. Provided consumers fulfil requirements stemming from the legislation (e.g. anti-money laundering), no other conditions would be imposed. This would lead to the creation of a universal service. Compared to Option 2, this option removes the stigma associated with making the product only available to unbanked consumers. Additionally, it is more inclusive, since it makes basic accounts available to everyone; this means that a small number of consumers who may be perceived as unattractive or non-profitable and who do already have an account but may have valid reasons to want to obtain a basic account, will be able to do so.

On the other hand, this option goes beyond what is necessary to achieve the objective; it provides access to all consumers, meaning also those that are not perceived as unattractive or non-profitable. From this latter class of consumers, some could open (or switch to) basic rather ordinary bank accounts, causing detriment to the providers. This option, as with Option 2, is divided into two sub-options that are analysed and assessed below.

3.4.1. Option 4.1: Access only for residents in their home Member State

Under this option, the only condition imposed on accessing a basic payment account would be the requirement of residency; that is to say, a consumer could obtain a basic bank account in a particular Member State only if he were to be a resident of that Member State. The effectiveness of this option in ensuring inclusive conditions for opening bank accounts for consumers perceived as commercially unattractive or non-profitable is assessed as partial (✓).

On the one hand, it facilitates access for every resident in a given Member State, whether unbanked or not (thereby being more inclusive than Option 3.1⁴²). On the other hand however, it blocks access to consumers who, while also being perceived as commercially unattractive or non-profitable, are not residents of that particular Member State. This is particularly prejudicial to the functioning of the internal market which is underpinned by the principle of free movement; individuals who exercise their right of free movement are likely to be burdened by problems in their host state due to lack of a residence permit. In addition, as said under Section 3.4, this level of access goes beyond what is necessary to achieve the stated objective.

The impact on consumers is expected to be positive (✓✓). All residents in each Member State (banked or unbanked) would be able to obtain a basic payment account. Many consumers perceived as commercially unattractive or non-profitable would be enabled to obtain accounts, with all the advantages that this entails in terms of financial and social advancement. Many other such consumers however, would not be eligible, for lack of a residence permit. There is also a possibility that providers pass on to consumers some of the detriment that they are likely to suffer from some ordinary consumers opening (or switching to) basic payment accounts.

Providers are likely to experience a loss of revenue on regular accounts: if basic payment accounts were to be attractive for average customers (because of i.e. price, simplicity, functionality), switching could occur. Taking into account the low rate of switching between regular accounts, combined with the fact that a basic payment account would not entail access to credit (in the form of an overdraft facility or/and a credit card) or potentially other services (i.e. online banking, direct debit, etc) it is unlikely that switching would be substantial. As described above, the data shows that basic bank account holders tend to move to accounts with additional services with time⁴³. Providers will also have to bear some costs related to changes in standard operating procedures, IT tools, staff training, and manuals. On the other hand, a positive impact would result where some of the new previously unbanked customers succeed in turning themselves around financially and become a valuable source of revenue and profits in the medium/long run. Overall, the impact on providers is expected to be weakly negative (✗).

Member State administrations may incur certain limited costs (in case of legislation) relating to implementation, enforcement, supervision, and reporting. At the same time, savings are likely to be realised from the fact that previously unbanked consumers that were receiving social welfare payments will now receive them electronically at lower cost. Moreover, unbanked consumers that would take advantage of this easier access are likely to improve their financial situation in the medium/long run, and end up benefiting the state by ceasing to receive welfare support and even pay taxes. In conclusion, the impact is expected to be weakly positive (✓).

⁴² At the same time it is plausible to assume that banked residents who are perceived as commercially unattractive and non-profitable and who would benefit from this access to a basic account are quite limited in number. This means that the greater accessibility that Option 3.1 allows probably improves access for the commercially unattractive to a very limited extent.

⁴³ *Reach out – banks that ignore the huge numbers of people who remain outside the financial system may be missing an opportunity to improve their image and increase their profits*, The Banker, June 2010.

3.4.2. Option 4.2: Access for residents and non-residents

Under this option, all European consumers would have access to a basic payment account in any Member State regardless of their residency or unbanked status. This effectively means that no conditions would be attached to opening such an account (apart fulfilling legal requirements). It is expected that this option would be effective (✓✓) in ensuring inclusive conditions for opening bank accounts for consumers perceived as commercially unattractive or non-profitable. This is because any such consumer seeking access to a bank account would be unconditionally granted such access. At the same time, it can be argued that this level of access goes beyond what is necessary to achieve the stated objective. This is because it facilitates access not only for the specific category of consumers stated in the objective, but for all consumers.

In practice, this option would facilitate cross-border mobility because it would allow all those who exercise their right of free movement not to be burdened by problems with opening a bank account in their host state on the reason that they are either not unbanked or non-residents. Workers, trainees, students, and others in need of access to a bank account in a host Member State would be particularly advantaged.

It follows that the impact on consumers would be positive to very positive (✓✓-✓✓✓). This is because this option maximises the number of consumers that can obtain basic bank accounts, thereby maximising the benefits associated with such access. There is however a possibility that providers pass some of the bank account switching costs to consumers, thereby reducing somewhat the benefit.

The impact on providers is expected to be slightly more negative than in the previous option (weakly negative to negative: ✕-✕✕). They are expected to experience costs and benefits of about the same magnitude, except in the case of switching. It is estimated that switching under this option can be slightly higher because banked non-residents will also be entitled to switch to a basic bank account.

The impact on Member State administrations is expected to be roughly similar to the previous option (weakly positive ✓).

Comparison of options

Option 1 (Do nothing) is not effective as it preserves the status quo and its associated problems, and it is not expected that any disparate actions by providers or Member States are likely to effectively achieve the objective. Option 2 was found to be marginally effective. The assessment of Options 3 and 4 has found that they are effective to a greater or lesser extent in achieving the objective of ensuring inclusive conditions for opening bank accounts for consumers perceived as commercially unattractive or non-profitable. Options 3.2 and 4.2 however were found to be the most effective. The latter however was also found to go beyond what is necessary to achieve the objective, by ensuring inclusive conditions not only for the commercially unattractive or non-profitable, but for all European consumers. In terms of efficiency, it was found that Option 4.2 scored best. In conclusion, the preferred option is the latter as it is effective in achieving the objective without going beyond it, while at the same time being the most efficient.

Table 5: Conditions for access – Comparison of options

Options	Effectiveness in achieving the operational objective below	Efficiency in achieving the operational objective below
	Inclusive conditions for consumers perceived as commercially unattractive	
1: Do nothing	0	0
2: Access for households	0-✓	0
3.1: Access only for unbanked residents	✓	✓-✓✓
3.2: Access for all unbanked	✓✓	✓✓-✓✓✓
4.1: Access for all residents	✓	✓✓
4.2: Access for all residents and non-residents	✓✓	✓✓

The 'Do nothing' scenario preserves the status quo and has no impact on stakeholders. Options 2, 3 and 4 all demonstrated positive impacts on consumers and generally moderate positive impacts on Member States, while they are expected to have negative impacts on providers, albeit to a different extent. Option 3.2 was found to have a strong positive impact on consumers, same as Option 4.2, but fared better in respect to providers (mainly because Option 3.2 did not burden providers with the costs of account switching).

Table 6: Conditions for access – Impact on main stakeholders

Options	Consumers and society	Account providers	Member States
1: Do nothing	0	0	0
2: Access for households	✓	✗	0
3.1: Access only for unbanked residents	✓-✓✓	0-✗	0-✓
3.2: Access for all unbanked	✓✓-✓✓✓	0-✗	0-✓
4.1: Access for all residents	✓✓	✗	✓
4.2: Access for all residents and non-residents	✓✓-✓✓✓	✗-✗✗	✓

Annex 13: Maximum benefit to be obtained

1. POTENTIAL COSTS AND BENEFITS TO CONSUMERS

Section 7 on the assessment of impacts has identified a number of possible impacts that the selected options are likely to have on consumers, demonstrating that the overall impact is expected to be very positive. In an attempt to quantify this impact, we have used a number of data and assumptions.

Firstly, we cannot expect that all the unbanked consumers would open payment accounts once a reasonably priced basic payment account becomes available (mainly due to self-exclusion). In addition, take-up of a new product would be most probably gradual. Impacts are calculated for three different uptake scenarios: the pessimistic, expected and optimistic scenarios.

- (1) Pessimistic: 2 million unbanked consumers open a basic payment account.
- (2) Expected: 6.4 million unbanked consumers open a basic payment account.
- (3) Optimistic: 10 million unbanked consumers open a basic payment account⁴⁴.

The CSES has estimated the quantifiable cost savings and benefits per consumer to be of EUR 315 per annum. According to our estimation this may be too optimistic a scenario, therefore we take the CSES's estimation as the highest in the range of possible savings⁴⁵.

Table 1: Summary of quantifiable benefits to consumers

Cost savings or benefits per annum	Range (EUR)	Range (EUR)	Range (EUR)
Charges for cashing cheques	80-120	80-120	80-120
Charges for money transmission	40-60	40-60	40-60
Discounts for electronic payment	75-125	75-125	75-125
On-line discounts	40-60	40-60	40-60
Total	235-365	235-365	235-365
Costs incurred for bank account charges (price of account)	(55)	(13)	(0)
Net benefit per consumer per annum	180-310	222-352	235-365

⁴⁴ While the number of European consumers who desire access to a bank account but are deprived of it have been estimated to amount to about 6.4 million, an additional optimistic scenario considers the possibility of a 10 million uptake. The additional demand of 3.6 million basic accounts could come from previously disinterested unbanked consumers who notice the new product and become interested (especially if it is low-priced). It could also come (albeit to a small extent) from some consumers who although not unbanked, will close their existing ordinary account in case they can get a basic account for a lower price.

⁴⁵ Thus the numbers 120, 60, 125, 60 are the CSES figures and are considered as the high end of the savings range. For each figure we assume that the high end of the range (i.e. 120) is 20 % above the middle range (thus 100), whereas the low end of the range is 20 % below the middle of the range (thus 80). So the middle points of each of the ranges is 100 (cashing checks), 50 (money transmission), 100 (elect. Payments), and 50 (discounts), with the high and low ends lying 20 % above and below respectively.

It is estimated that the quantifiable cost savings and benefits per consumer can amount to EUR 180-365 per annum depending on the range of savings and level of the price for a basic payment account. The three columns differ with each other only in respect to the price level of the account. It is noted that the average price for a basic payment account in EU27 is estimated to be approximately EUR 55. This figure constitutes a middle ground between the findings of the CSES study and the findings of the Van Dijk study. Van Dijk's analysis showed an average price for a basic payment account in the EU27 of EUR 61. The CSES research in 16 EU countries where data was provided arrived at a price of EUR 51. After an analysis of both of these studies' assumptions, approximations, and other limitations, we decided to use a figure that lies between the two, that being a price of EUR 55.

Table 2: Total annual savings to consumers per annum

Savings per consumer per annum (EUR)		Total savings for 2 million consumers (million EUR)	Total savings for 6.4 million consumers (million EUR)	Total savings for 10 million consumers (million EUR)
180	Price of account EUR 55	360	1 152	1 800
310		620	1 984	3 100
222	Price of account EUR 13	444*	1 420*	2 220*
352		704*	2 252*	3 520*
235	Price of account EUR 0	470*	1 504*	2 350*
365		730*	2 336*	3 650*

Scenario 1 (pessimistic): 2 million unbanked consumers open a basic payment account

In order to estimate an overall benefit to consumers in Europe we have applied the minimum annual benefit to 2 million consumers without bank accounts (6 % of the unbanked population). The total net benefit was assessed at falling within a range from EUR 360 million to EUR 730 million across Europe as a whole.

Scenario 2 (expected): 6.4 million unbanked consumers open a basic payment account

The total net benefit was assessed at falling within a range from EUR 1 152 million to EUR 2 336 million per annum.

Scenario 3 (optimistic): 10 million unbanked consumers open a basic payment account

The total net benefit was assessed at falling within a range from EUR 1 800 million to EUR 3 650 million per annum.

***Note:** Realistically, it is likely that the benefits to consumers can be significantly lower than what the table above illustrates for figures relating to pricing of accounts below cost or for free (see figures in italics). This is because the above-stated benefits will accrue to a specific class of consumers, namely the unbanked. The rest of the consumers maybe called to indirectly foot part of or the whole bill in case the accounts are offered at a price which is below cost or for free. That is to say, if the providers' loss is covered by cross-subsidisation or government financial support, the average consumer will suffer detriment either in the form of taxes or in the form of more expensive financial products.

A different picture is provided in the table below. You can see that in this table the savings figures for the cases where the account is priced at EUR 13 or EUR 0 are now lower⁴⁶. And that basically you have roughly the same savings ranges regardless of the level of price. The purpose of this table is simply to demonstrate that in the worst case scenario where all of the providers' losses (from selling below cost) are passed on to the average consumer (via tax or cross-subsidisation), this is how benefits to consumer will roughly look like. As said, this is a worst case scenario, because it is unlikely that the consumer will be called to foot the total bill for the providers' losses. We nevertheless considered it likely that a substantial part of those losses will burden the consumer.

Table 3: Total savings for consumers

Savings per consumer per annum (EUR)		Total savings for 2 million consumers (million EUR)	Total savings for 6.4 million consumers (million EUR)	Total savings for 10 million consumers (million EUR)
180	Price of account EUR 55	360	1 152	1 800
310		620	1 984	3 100
222	Price of account EUR 13	366	1 170	1 830
352		626	2 002	3 130
235	Price of account EUR 0	366	1 171	1 830
365		626	2 003	3 130

2. POTENTIAL DIRECT COSTS AND BENEFITS TO PROVIDERS

Section 7 on the assessment of impacts has identified a number of possible impacts that the selected options are likely to have on account providers, demonstrating that the overall impact largely depends on the level at which the 'reasonable price' would be established. This was partly a result of the assumption that the concept of reasonable pricing would lead to the setting of account pricing below cost in some countries and above cost in others. The issue of price is of particular importance because it is a key determinant of the impact. The previous section has explained that we assume the average price of a basic payment account in EU27 to be EUR 55, and explained how we arrived at that figure. The next step was to estimate the average full cost to providers of such an account across EU27. This was found to be approximately EUR 52⁴⁷. We thus designed three different scenarios in order to demonstrate the impacts on providers that occur as a result of different price levels.

Scenario A: A reasonable price is set above the cost of EUR 52 with a net profit for providers of EUR 3 per consumer per annum (about 5 % net profit margin).

Scenario B: A reasonable price is established below cost, with a net loss for providers of EUR 39 per consumer per annum (assuming the price would be capped at the level of EUR 13 as seen in Belgium).

⁴⁶ This is calculated by reducing from the original amounts the losses to providers from selling below cost, as they are calculated in Section 2 & Table 4.

⁴⁷ According to OECD data for net profit margins in the banking industries of France, Germany, Poland, and Spain for the years 200, 2004 and 2008, <http://stats.oecd.org/Index.aspx?DataSetCode=BPF1>, we arrive at an average net margin of about 10 %. Assuming that basic payment accounts is not a high margin product, we assume for it a net margin of 5 %. Applying this 5 % margin on the average EU27 price (95 % x EUR 55) gives a total (fixed + variable) cost of EUR 52 and a net profit of EUR 3.

Scenario C: A basic payment account is offered free of charge, assuming a net loss for providers of EUR 52 per consumer per annum.

Table 4: Total annual costs/profits to providers

	Recovery of cost per annum	2 million consumers	6.4 million consumers	10 million consumers
Case A	Cost (EUR 52) + EUR 3 profit	6 million profits	19.2 million profits	30 million profits
Case B	Below costs – EUR 39 loss	78 million loss	250 million loss	390 million loss
Case C	Free of charge – EUR 52 loss	104 million loss	333 million loss	520 million loss

The relation between costs and profit would depend on how the 'reasonable price' would be set and would vary across the EU. It is also pointed out that any negative monetary impacts may not necessarily (fully) inflict the providers themselves or not inflict them to the extent indicated above; Member States may assume part or all of the negative impact (using tax payer money, thus burdening consumers), and providers may partly or fully use cross-subsidisation (which means passing some of the burden on consumers).

Additionally, certain Member State administrations may consider that losses should not be calculated on the basis of full activity-based costing. While approximately 98 % of the costs are fixed overhead costs, it may be argued that due to the nature of the service, the existence of spare capacity, and the relatively low additional burden on resources, certain types of overheads should not be included in the cost calculation. This approach would lead to a lower cost figure and could thus reduce the estimated losses on providers as they are stated in the table above.

Special mention should be made to the outlier cases of Bulgaria and Romania, where the banking network is much less developed than in other Member States. Given this situation, one tends to consider that granting access in these two countries (which currently have about 15 million unbanked individuals) requires heavy investment to expand the banking network. A number of points can be made about this.

- Many or most of the unbanked are unlikely to be interested in having a bank account in the short run as these societies for a large part still operate in cash, but they are likely to gain interest in the medium/long run.
- As both countries progressively develop (i.e. in real GDP PPP), the banking network will organically grow to meet the rising demand in bank accounts.
- The estimated 0.7 million⁴⁸ (or a bit more) unbanked that desire but cannot obtain an account now, could cause a surge in demand for BPA in the short/medium run.
- The evolving capacity of providers in the short/medium run (1-3 years) could be enough to accommodate this surge in demand.
- If however demand would exceed existing capacity, investment by providers in additional capacity would be worth it (i.e. it would have a positive Net Present Value) provided that banks recover full costs plus some profit from new clients, ordinary as well as 'unbanked'. Marginal/variable costing would probably not work in

⁴⁸ See Impact Assessment, Section 4.2: The magnitude of the problem.

this case, especially if the provision of BPAs is a key driver of investment recovery and profitability, because banks would not have any incentive to make such an investment. At worst, it would be possible to meet unexpected demand but with some lead times, i.e. until the needed capacity becomes available.

- However, one has to acknowledge that there is uncertainty as to the ability of the banking sector to absorb the kind of surge in demand that could possibly result if these countries decide that the 'reasonable' price should mean significantly below full cost or free of charge. This could raise the number of interested consumers well above the 0.7 million figure, thus causing a hike in demand as well as making providers unwilling to invest to increase capacity and supply (unless the State offers support or takes a provider role).
- In the previous case where price is set significantly below full cost or free, the Member State could shoulder the financial burden of meeting the inflated demand for BPAs, but such a burden would likely be very high as it would imply footing the bill for creating the banking capacity necessary to respond to the hike in demand that such a price tag will create.

Revenue reduction – credit transfers and cashing checks: Furthermore, providers are also likely to experience revenue losses that reflect some of the savings that the unbanked will realise as they move to being account holders. These relate for instance to often high charges for non-account holders wanting to cash checks or make credit transfers. In the table above, these charges were stated to jointly amount to EUR 120–180 per consumer per annum, and they apply regardless of the level at which the price of the account is set (Scenarios A, B and C). The table below attempts to provide a picture of these revenue losses. It is based on the assumption that only 10 % of the consumers that will request and obtain a basic account are consumers who were previously using banks (credit institutions) to cash checks and make credit transfers without possessing a bank account. Those consumers not using traditional credit institutions for these services are using specialised companies that offer clearance, remittals, etc. (i.e. money transfer companies) and which will suffer the most from revenue loss.

Table 5: Credit institutions' loss of revenue from services to non-clients

Number of consumers	2 million consumers (EUR million)	6.4 million consumers (EUR million)	10 million consumers (EUR million)
Foregone revenue from 10 % of consumers obtaining a BPA	24-36	77-115	120-180
Foregone profits from 10 % of consumers obtaining a BPA ⁴⁹	2.4-3.6	7.7-11	12-18

Revenue reduction – account switching effect: Additional revenue losses may occur where existing basic users holding a bank account and paying on average EUR 55 across the EU would close that account because under the present initiative providers would have to introduce and offer a free or below cost basic payment account. These potential revenue losses relate therefore to scenarios B and C. Given our estimate of 5 % net profit margin, it follows that this will cost providers EUR 3 per switching consumer per annum in foregone profits. An additional cost to providers can result where switching customers obtain BPAs priced below cost. That is the loss that the provider makes on those accounts (as said, such

⁴⁹ Assuming a net profit margin of 10 %.

losses may be recovered from Member States or general consumers). An estimation of the number of existing basic users that will switch in case of Scenarios B and C (and therefore the loss of revenue and profit for providers) is very difficult to make given limited data availability. It is believed nevertheless, that the impact can be quite significant and compound the negative impact on profitability as shown in Table 4 above for Scenarios B and C.

In conclusion, and given all the above considerations, it appears that the impact on providers will be detrimental.

- In Scenario A (price above costs at EUR 55), it seems that any profits generated will be significantly eaten away by revenue reductions relating to credit transfers and cashing of checks by non-account holders. We do nonetheless maintain the position that profit will be generated, particularly given possibilities for customer growth and product cross-selling in the medium/long run.
- In Scenario B (price at EUR 13), provider detriment will be substantial given the losses indicated in Tables 10 and 11 and the negative effect of switching. Some of the losses are likely to be recovered though, as some or many of the BPA holders improve their financial situation and become a greater source of revenue/profits for providers in the medium/long run. In case financial support is provided by governments that, say, compensates for below-cost prices, providers will still experience negative impacts as a result of lost revenue (table above) and switching effect, but this can be offset by some or many of the BPA holders improving their financial situation and becoming a greater source of revenue/profits for providers in the medium/long run.
- In Scenario C (free of charge), the same applies as in Scenario B, but with the negative impact being of greater magnitude.

Overall, it can be concluded that Scenario A has a moderate positive impact on providers, Scenario B a strong negative impact (unless losses compensated, leading to a neutral impact), and Scenario C a strong negative impact (unless the state compensates losses, leading to a neutral/slightly negative impact).

3. POTENTIAL DIRECT COSTS AND BENEFITS TO OTHER STAKEHOLDERS

The study has also analysed potential costs and benefits to other stakeholders. The principal beneficiaries are Member State administrations (central and local) and utility firms. The reasons are:

- These stakeholders already have, or are separately developing, the infrastructure to accept and deliver payments through bank accounts (the administrations of all Member States have already infrastructure in place⁵⁰).
- Cash is becoming a higher cost transaction method than cards and electronic payments in view of the need for physical processing and security and transmission.

⁵⁰ Answers to the Commission's questionnaire on migration of public administration to SEPA.

3.1. Savings to Member States

The direct savings to Member State administration arise from the reduced transaction costs of making social security payments. The CSES study has estimated that where consumers receive benefits on a monthly basis into an account, the cost savings per transaction are between EUR 0.6 and EUR 1, and the annual cost savings per consumer between EUR 7 and EUR 12. There is no available data as to how many unbanked consumers receive social benefits but the studies have revealed a strong correlation between low/no income and no access to bank accounts⁵¹. We know also that there are 84 million people at risk of poverty in the EU. Therefore it is likely that some portion of that group does not have a bank account and at the same time receives social security benefits. We have assumed -and tend to consider that this is a conservative assumption- that only 50 % of the unbanked citizens that will open a basic payment account also receive social benefits (because of the strong correlation with being on low income and not having a bank account).

We also assumed that those 50 % of the unbanked population will keep receiving social benefits even in the case of the opening of a basic payment account. Therefore, under these assumptions, potential savings to Member State's administration would be the following.

Table 6: Savings to Member States

Savings to Member States per consumer annually	50 % of consumers obtaining a BPA receive social benefits		
	1 million consumers	3.2 million consumers	5 million consumers
EUR 7	7 million	22.4	35
EUR 12	12 million	38.4	60

On the basis of data sent by MISSOC correspondents in 24 Member States (with the exception of Austria, Spain and Romania) to the European Commission in December 2010 (see table below), up to 47 % of benefits are still paid by non-electronic means in Member States. The situation varies widely, with the EU12 having comparatively higher percentage of payment of benefits by non-electronic means. Therefore the potential savings to Member States would most likely be distributed geographically.

Table 7: Percentage of benefits paid by non-electronic means

Member State	Total benefits	Pensions	Social insurance	Social welfare	Family benefits
AT	1				
BE		10-15			7.3
CY		0	25	40	
CZ		55			37
DE	0-1	1	0		
DK	0				
EE		3	0.7		6
ES	1				

⁵¹ Anderloni, 2003; Anderloni and Carluccio, 2006; Bank of Italy 2004, BMRB, 2006; Barr, 2004; Bayot, 2005; Błędowski and Iwanicz-Drozdowska, 2007; Corr, 2006; Devlin, 2005; Disneur et al, 2006; Gloukoviezzoff, 2005; Kempson, 2006; Kempson and Whyley, 1998; Idzik, 2006; IFF, 2000; IFF, 2006; Marketing Partners Ireland Ltd, 2006; Mintel, 2005; Test Achats, 2001; after DG Employment study, pp. 31-35.

FI	0				
FR	4				
EL	0				
HU		55.5			35
IE	8				
IT	20-42				
LV	15	19	1		0
LT		47.2	30		0
LU		0.01		0.2	
MT	28				
NL	0				
PL	47				
PT		35			
RO					
SE	0				
SI	7.7				
SK	0				
UK	2				

Source: MISSOC Data, December 2010.

Costs for Member States

Costs that Member State administrations may incur relate to: (1) adoption of national measures complementing the EU Framework Regulation⁵², supervision, monitoring (including prices) & reporting, and enforcement of the law, (2) information provision and awareness-raising campaigns (administrative burden), and (3) assuming partially or fully costs relating to the provision of accounts at below-cost prices or for free. It is noted that any costs are ultimately shouldered by the average consumer from whom the government collects taxes.

It is expected that costs relating to (1) and (2) above will be moderate. It is assumed that on average each Member State will incur one-off costs equivalent to about 1 500 man hours and recurring costs equivalent to about 2 500 man hours per annum. Given that the EU average employee cost per hour is estimated to be around EUR 31.5⁵³, EU wide one-off and recurring costs should amount to roughly EUR 1 million and EUR 2 million respectively. Of course actual man-hours for each country will differ depending on already existing frameworks in some countries, efficiency and effectiveness and bureaucracy levels, etc. The costs will also differ because the EUR 31.5 figure is an EU average, masking the fact that hourly costs among countries can be quite different.

On the other hand, costs relating to (3) can be very large and would lead to a net negative financial impact on Member States. A good illustration of this is provided in the table below.

⁵² I.e. defining the reasonable price, setting up a providers' compensation mechanism, etc.

⁵³ Eurostat 2008, Average Hourly Labour costs , Nace Rev. 1.1.

Table 8: Costs to Member States

	Recovery of cost per annum	2 million consumers	6.4 million consumers	10 million consumers
Case B	Below cost – EUR 39 loss	78 million loss	250 million loss	390 million loss
Case C	Free of charge – EUR 52 loss	104 million loss	333 million loss	520 million loss

Of particular importance is the fact that the losses that may need to be compensated can be in the order of hundreds of millions of euro. Of course, it can be the case that only partial compensation is provided, in which case costs would be reduced accordingly. It can also be the case that the reasonable price is set at a level which, while still below costs, is not so low as to create losses of the order that we see in the table above. Finally, it is also possible that certain administrations decide that full (fixed + variable) cost is not an appropriate measure, and that perhaps some of the most indirect overheads are taken out of the cost calculation, leading to a loss reduction.

In conclusion, it is expected that the direct net financial impact on Member State Administration will be positive, on the condition that no costs are incurred relating to losses for below-cost account pricing. If administrations will also need to assume costs for partly or fully covering losses from pricing of accounts below cost, then the net impact is expected to range from neutral/moderately negative to strongly negative.

3.2. Impact on utility firms

The principal cost reduction is estimated to derive from the switch of previously unbanked consumers to electronic payments for utility bills⁵⁴. These estimates need to be treated with particular caution because in many cases utility providers offer discounts for electronic payments that reflect the lower cost they incur compared to cash payments. That is to say, when one pays cash, one may be charged extra to cover the added cost of non-electronic payment; when you pay electronically, you do not cause such an extra cost so you are not charged anything extra. This can mean that when consumers switch from paying utilities in cash to paying electronically, utilities do not really save money because they receive less revenue equivalent to the savings made from the use of electronic payments.

Table 9: Savings for utility firms

Savings per transaction	2 million consumers	6.4 million consumers	10 million consumers
Number of transactions p/a	10 million transactions	32 million transactions	50 million transactions
EUR 0.6	EUR 6 million	EUR 19.2 million	EUR 30 million
EUR 1	EUR 10 million	EUR 32 million	EUR 50 million

Source: CSES data, see Annex 14.

⁵⁴

Assumptions:

- The whole of this group use electricity and water, and 69 % use gas, Gallup Organization Flash Eurobarometer 243.
- 50 % of consumers decide to and are able to pay energy bills by monthly direct debit, Ofgem Report on direct debit energy payments, December 2008.
- One in 2 consumers pay such bills, reflecting household size.
- Payments are made monthly and separately for electricity and gas.

The table above illustrates the possible savings that utility firms may realise from consumers switching to electronic payments. Simply put, electronic payments incur processing costs to the firm that are EUR 0.6-1 less than for cash payments. On the other hand, when discussing savings for consumers, it was mentioned that consumers would realise substantial savings from paying bills electronically; this works through discounts offered by many firms for choosing to pay electronically. It follows that a more accurate assessment should reduce the savings indicated in the table above to reflect these discounts. A very rough assumption can be that these savings are only realised in 50 % of the cases, where discounts for switching to e-payment is not offered. Based on this, the ranges of savings for utility firms become EUR 3-5 million (for 2 million consumers), EUR 10-16 million (for 6.4 million consumers), and EUR 15-25 million (for 10 million consumers).

4. CUMULATIVE DIRECT IMPACTS

To summarise, the impacts on stakeholders are expected to be in the following ranges, depending on the level at which the price of basic accounts is set.

Table 10: Scenario 1 – 2 million unbanked consumers open basic payment accounts

Loss/profit/savings	Providers (million EUR)	Consumers savings (million EUR)	Member States ⁵⁵ (million EUR)	Utility firms
Scenario A (EUR 55)	~5 profit	360-620	~9 savings	~ 3-5 million savings
Scenario B (EUR 13)	~80 loss*	444-704	*	
Scenario C (EUR 0)	-100 loss*	470-730	*	

Table 11: Scenario 2 – 6.4 million unbanked consumers open basic payment accounts

Loss/profit/savings	Providers (million EUR)	Consumers savings (million EUR)	Member States (million EUR)	Utility firms
Scenario A	~12 profit	1 152-1 984	~25 savings	~10-16 million savings
Scenario B	~250 loss	1 420-2 252	*	
Scenario C	~340 loss	1 504-2 336	*	

Table 12: Scenario 3 – 10 million unbanked consumers open basic payment accounts

Loss/profit/savings	Providers (million EUR)	Consumers savings (million EUR)	Member States (million EUR)	Utility firms
Scenario A (EUR 55)	~20 profit	1 800-3 100	~40 savings	~15-25 million savings
Scenario B (EUR 13)	~400 loss*	2 220-3 520	*	
Scenario C (EUR 0)	~500 loss *	2 350-3 650	*	

* If Member States decide to compensate some or all losses to providers, depending on the level of compensation, losses to providers will diminish and costs to Member States will increase (ultimately impacting the average consumer whose tax money finance government expenditure). In case financial support is provided by governments that, say, compensates for below-cost prices, providers will still experience negative impacts as a result of lost revenue (see section: costs to providers), but this can be offset by some or many of the BPA holders improving their financial situation and becoming a greater source of revenue/profits for providers in the medium/long run.

⁵⁵ The figures in this column are averages calculated on the basis of Table 6 above.

Italics: It can be seen that the benefits to consumers are stated in italics, except for Scenario A. This is to draw attention to the fact that these figures are not reduced by any amounts relating to passing some or all of the providers' losses to the consumer. The paragraph above explains the case where providers' losses are shouldered fully or in part by Member States. This burden can translate to a burden on consumers because of the use of tax money. Consumers can also be burdened in case where some or all of the providers' losses are compensated not by State support, but by passing them on to the consumer. If all of the losses are passed on to consumers one way or another, the benefits to consumers will be in all scenarios roughly the ones calculated for Scenario A (see Section 1, Table 3).

5. SUMMARY OF NON-QUANTIFIABLE COSTS AND BENEFITS

Table 13: Comparison of the preferred options in terms of stakeholder impact

Stakeholder	Benefits	Costs	Overall effect
Consumers	<ul style="list-style-type: none"> Ability to receive salaries, benefits, pensions Ability to rent property where a bank account is required Ability to take jobs on the market (as opposed to illegal/black market) Quicker access to funds Lower transaction costs payments and receipts Increased security through lower level of cash transactions Increased choice of goods and services through internet where electronic payment is required Savings due to various discounts for electronic payments and access to online services Reduced sense of financial exclusion Increase social inclusion Increased participation in the Internal Market Improved mobility of consumers 	Charges for an account and operations	+++
Banks	<ul style="list-style-type: none"> Improved perception of banking Increased customer base for selling of additional services Potential benefits from charges for bank account 	<ul style="list-style-type: none"> Labour/staff costs in opening and maintenance of accounts Potential costs of expanding infrastructure System costs (very low on a marginal basis) 	+/- Depending on price levels and compensation of potential losses
Public administration	<ul style="list-style-type: none"> Reduction in transaction costs for social security payments Improved integration and recognition of the individual in society overall Improved social cohesion Reduction of social exclusion Reduction in welfare benefits 	Potential need to compensate losses to providers	++/-
Utility providers	<ul style="list-style-type: none"> Reduction in transaction costs Increased efficiency of collecting payments for services provided 		++
Retailers	<ul style="list-style-type: none"> Increased market for online services 	Potential lost of revenues for cash-based retailers (marginal in extent)	++/-

Financial services providers	Increased market for financial services products in the longer term		+
SME	Potential increase of consumer base		0/+

Overall effect compared to the baseline scenario

+++ (strong), ++ (moderate), + (weak) positive effect

--- (strong), -- (moderate), - (weak) negative effect, 0 neutral effect

Annex 14: Cost-benefit analysis by CSES

Cost-benefit analysis of establishing a right to a basic bank account carried out by the Centre for Strategy and Evaluation Services (hereinafter CSES), July 2010.

1. POTENTIAL COSTS AND BENEFITS TO CONSUMERS

This section analysis the potential costs and benefits to consumers of holding a basic bank account.

Table 1: Costs and benefits to consumers

Costs and benefits to consumers	
Costs or disbenefits	Benefits
Specific charges for account operation	Ability to take jobs, rent property etc where a bank account is a requirement
Potential charges for inappropriate use of accounts	Access to money transmission services
Potential fraud losses if account access details are lost or stolen	Lower transaction costs on payments and receipts
Possibility of easier legal seizure of funds by court judgment	Access to discounts for electronic payment
	Quicker access to funds
	Increased security through lower level of cash transactions
	Increased choice of goods and services through internet where electronic payment is required
	Reduced sense of financial exclusion

1.1. Costs to consumers

1.1.1. *Specific charges for account operation*

Many of the direct costs to consumers of a basic bank account refer to the specific charges for account operation. These charges inevitably vary between banks. Above and beyond possible charges for account maintenance, they may include charges:

- for certain types of banking (e.g. online banking, telephone banking, branch banking);
- for transactions (e.g. cheque payments, online payments);
- for issuing (debit) cards and for cash withdrawal (e.g. from cash machines not attached to the home bank, cash machines abroad).

Moreover, while some banks may not specifically charge 'account maintenance fees', by aggregating individual fees for some of the services listed above account holders may still incur a cost.

A comparison of average account charges across the European Union based on a detailed study of bank charges by DG Health and Consumers, shows that an average charge for a basic

bank account is EUR 61.47 per annum, or EUR 74.98 per annum if cross-border transactions are included.⁵⁶

CSES report has carried out its own analysis and concluded that an average charge to consumers for a basic bank account is EUR 51, slightly lower than the charge seen in the DG Health & Consumers study which had an average charge of EUR 57 for basic domestic accounts.

Where there is a basic bank account available, charges vary substantially between Member States depending on policy. In Belgium the statutory basic account has an annual fee of approximately EUR 12 (this is index-linked). On the other hand, a basic account in France is free of charge. The charges shown in the DG Health and Consumers study for Member States with mandatory basic accounts averaged EUR 54, not materially different from the charges for accounts in general.

A comparison of banking charges in Germany shows that a private individual with a monthly income of EUR 1 000 paid into an account with no overdraft facility or credit card attached, who has a debit card, makes an average of five transactions at the branch (e.g. paying in cheques) and five transactions online (e.g. direct debits, standing orders) and withdraws cash only from cash machines attached to the home bank, can expect to incur monthly charges ranging between zero and EUR 11.⁵⁷ A similar comparison of banks in the UK shows that many of the high street banks do not apply account maintenance charges for basic bank accounts, although there may be high charges for defaulting accounts and in some cases there may be a requirement for a minimum balance.

1.1.2. Potential charges for inappropriate use of accounts

Banks may charge for inappropriate use of bank accounts. These charges may include fees for overdrafts, interest and account fees when (for example) the bank refuses to honour a cheque or direct debit instruction because insufficient funds are available.

The definition of a basic bank account used in this study excludes the provision of credit or overdraft facilities. So, unless an account becomes overdrawn because of bank charges, there should be no overdraft fees or interest. The area in which charges may be made to a consumer relate to the failure to pay a direct debit or cheque. These charges can be high and have formed the subject of competition authority investigations in the United Kingdom and in France.

In the case of Sweden, banks offer a service for direct debits called 'Retry' in connection with debit transactions (i.e. autogiro). Through this service, if funds in the payer account are insufficient on the requested day of posting the order is automatically retried up to five times. Continued failure to withdraw the money will lead to termination of the transaction and corresponding charges may be levied.^{58 59} In addition to administrative charges levied by the

⁵⁶ According to the report, p. 13, 'active users' engage in the provided transactions very frequently, 'passive users' engage in the provided transactions very seldom; 'average users' are calculated from the entire population considered in the study. A 'basic user profile' comprises users with a low-cost basic account, where the permitted transactions are clearly defined.

⁵⁷ *Der Girokonto Vergleich*, Mano Dienste, 2009.

⁵⁸ *Autogiro Direct Debiting - General Description*, Nordea Bank, 2002.

⁵⁹ This information has been corroborated by the Swedish Banking Association.

bank, fines may also result for failing to pay a bill on time. In Germany, banks would previously levy charges for unsuccessful direct debits, but by law are no longer allowed to do so.⁶⁰ In the United Kingdom, a charge of £15 or £20 (EUR 17 or EUR 22) may be made for a failed transaction and a similar level of charge exists in France.

Such charges represent a considerable barrier to the use of basic bank accounts in the countries where they are levied. Vulnerable consumers may wish to avoid using this service where charges are levied on failed direct debits, but will not then receive the benefits shown in the previous section.

1.1.3. Potential fraud losses if account access details lost or stolen

Figures for the United Kingdom, for instance, demonstrate that financial fraud is a problem not to be underestimated. For instance, a 4.5-fold increase in plastic card fraud losses has occurred between 1998 (£135 million, EUR 148.5 million) and 2008 (almost £610 million, EUR 671 million). After a temporary decline to £30.6 million in 2006 (EUR 33.66 million), cheque fraud losses have also increased in recent years to £41.9 million in 2008 (EUR 46.09 million). Finally, online banking fraud losses accounted for £52.5 million in 2008 (EUR 57.75 million) – a 132 % increase compared to 2007.⁶¹

However, many forms of Basic Bank Account protect consumers against loss due to fraud where this is not due to the gross negligence of the consumer. Accordingly, there is unlikely to be a substantial loss of benefit for consumers in this area.

The main financial costs to consumers are those related to the operation of an account. Estimates are available from various sources but this study has found that the annual charge to consumers for a basic account may be of the order of EUR 50. There are other potential costs from holding a Basic Bank Account. These may include charges levied for inappropriate use (although by careful use of the account, consumers may avoid these), and the possibility of seizure of funds, although some Member States have restricted such seizures.

1.2. Benefits to consumers

1.2.1. Access to money transmission services and lower transaction costs on payments and receipts

One area of benefit to consumers relates to easier money transmission services and lower transaction costs on payments and receipts. Clearly, these benefits occur mainly where most payments are made through a bank account – the benefits may be less evident in a cash-based society. Quantifiable benefits may accrue to consumers in obtaining value for a cheque or other receipt, and in making payments. CSES has considered both these issues in the following paragraphs.

Where a consumer receives a payment, such as a cheque, and has no access to a bank account, the consumer may need to pay a fee or use an intermediary to cash the cheque. Charges vary substantially from country to country and CSES shows below information obtained from twelve Member States.

⁶⁰ Entscheidungen des Bundesgerichtshof in Zivilsachen. XI ZR 5/97 (137,43), Urteil von 21.10.1997; Entscheidungen des Bundesgerichtshof in Zivilsachen XI ZR 154/04 (162, 294), Urteil von 8.3.2005.

⁶¹ *Fraud, the Facts 2009*, APACS, 2009.

Table 2: Charges for cashing cheques

Country	Charges for cashing cheques	Estimated charge to cash cheque of EUR 1 000
BE	Cheques only exist for very limited things and usually cost EUR 1 to cash.	EUR 1
DK	It is not possible to cash a cheque without an account/ foreign cheques cost EUR 17 (DKK 125).	n/a
SE	All cheques can be cashed at any bank branch irrespective of the bank on which they are drawn	nil
DE	Not possible to cash a cheque without an account (according to Commerzbank).	n/a
UK	Commission rates for cashing cheque start at 1.96 % to 3 % of cheque value.	EUR 20
HU	Consumers incur extra cost (around HUF 100-150) (EUR 0.37-0.55) if they have their paycheque cashed at the post office.	EUR 0.55
IE	Commission charge ranges from 4-7 % of the value of the cheque. A small handling fee also applies.	EUR 40 to EUR 70
EE	It is not possible to cash cheques without owning an account.	n/a
EL	For cashing a cheque without depositing into the account there is a charge (on average) of 0.2 % of the value but not less than EUR 5-15.	EUR 5
LT	It is possible to cash cheques without owning an account; however there is a standard 1 % charge, the minimum charge is EUR 7.24 (LTL 25) and maximum is EUR 86.89 (LTL 300).	EUR 10
LU	0.2 % + EUR 4 handling fee.	EUR 6
LV	It is possible to cash cheques without owning an account, however charges are: EUR 7.06 for cheques over EUR 144.10, EUR 14.11 for cheques over EUR 705.52, EUR 21.17 for cheques above EUR 705.52 plus 0.4 %.	EUR 21.17

The diversity of information from Member States makes it difficult to obtain a firm average charge for cheque cashing across all Member States. However, commission rates can reach 3 %, although much lower rates are common. Fixed charges also vary similarly. From the above table however it may be reasonable to suggest that a consumer trying to cash cheques of EUR 1 000 per month could face monthly costs of EUR 10 (1 %) – or EUR 120 per annum.

A similar position arises where a consumer with no bank account wishes to make a payment. He may need to purchase a cheque or payment order, or use a payment transmission service. For example, current prices for postal orders issued by UK post offices range between £0.50 (EUR 0.55) and 10 % depending on the value of the orders purchased. Fees are capped at £10.00 (EUR 11.00).⁶² The charges for domestic postal orders in France range between EUR 5.80 (for orders up to EUR 160) and EUR 11.70 (for orders between EUR 1 000 and EUR 1 500).⁶³ Using Western Union Deutschland, the minimum charge for a domestic postal order in Germany is EUR 4.90 and the maximum charge is EUR 19.60. Postal orders are capped at EUR 999.99.⁶⁴ In Greece, fees for a domestic postal order range between EUR 4.00 and EUR 8.00 with orders capped at EUR 6 000.⁶⁵

⁶² <http://www.postoffice.co.uk/portal/po/content1?catId=86500737&mediaId=73500709>

⁶³ <http://www.lapostespm.net/fr/6-tarifs-mandats.html>

⁶⁴ <http://www.westernunion.de>

⁶⁵ <http://english.elta.gr/index.asp>

International money transfer services may cost substantially more, and there is a currency exchange fee as well as a transaction fee. It might not be unreasonable to assume a monthly cost to the consumer of EUR 5 for money transmission services, resulting in an annual cost of EUR 60.

1.2.2. Ability to take jobs, rent property

Employers increasingly use automated clearing services to pay their employees' wages. Common schemes are the BACS (Bankers' Automated Clearing Services) in the United Kingdom or ELLE (Early Late/Late Early) in Scandinavia. While having a bank account may not strictly be a legal requirement to take up a position, payment schemes have advanced to such a degree over the years that paying out salaries in cash or by cheque may simply no longer be possible. In recent years, for instance, the number of cheque transactions has decreased substantially in Sweden, most significantly because Swedish banks have implemented a clear policy of reducing the number of cheque payments as these are considerably more costly than alternative means of payment, such as by card.⁶⁶

Again, while there may be no legal requirements to pay rent by electronic transfer or cheque (and some private landlords may in fact prefer cash payments), renting property from a letting agent without the necessary bank account would be very difficult. In the UK, many prefer rent to be paid by standing order. At some German universities (e.g. Universität Stuttgart), even foreign exchange students need a bank account since rent for student halls is also paid by standing order.

Clearly, there are substantial benefits to consumers in these areas. However, these benefits are not readily quantifiable in monetary terms.

1.2.3. Access to discounts for electronic payment

Consumers may obtain discounts, or reduced transaction fees, through making payments by direct debit or electronic transfer rather than cash. As part of this study CSES was able to obtain information on such discounts from 15 Member States. In Poland, Latvia, Hungary, Belgium, France and Estonia, electronic payment is widespread but there are generally no discounts.

In three countries, an additional charge is applied to cash transactions which can be avoided by using electronic payments. In Cyprus, energy bills may be paid by direct debit for which there is a one-off fee of EUR 0.82 stamp duty to set up. Cash payments at the counter incur a charge of EUR 1 for each new bill. In Denmark, if you pay utility bills at the Post office there is a charge of DKK 25 (EUR 3.35) per bill.

The remaining Member States for which were able to obtain information offer discounts as follows.

⁶⁶ *Payments Systems in Sweden*, Bank for International Settlements, <http://www.bis.org/>.

Table 3: Discounts for electronic payment⁶⁷

Country	Discount	Framework
DK	2 % (enercity), between EUR 15 and EUR 36 per year (entega).	Binding
UK	EDF offers 6 % discount when paying by direct debit. Southern Electric offers 5 %.	Specific industry charter
IE	Up to 10-14 % cheaper (Electricity Supply Board, Bord Gais).	General industry charter
AT	Two days of free electricity for setting up direct debit.	None
EL	Electricity: EUR 5 one-off discount at the initiation of service.	
LU	There is usually a small discount when payment is made via direct debit (around 5 %).	

Source: CSES research

This analysis indicates that discounts for electronic payment tend to be available in those countries where a higher proportion of consumers use bank accounts. It is noticeable that discounts are less frequent in countries such as Romania, Poland and Bulgaria with lower bank account penetration. If that is the case, then as the use of bank accounts increases it may be expected that the availability of electronic payment discounts, or cash payment charges, could rise.

The countries that offer percentage discounts for direct debits or electronic transactions appear to offer discounts of up to 15 %. The widespread variation in practices between Member States means that potential benefits vary substantially. It would not however be unreasonable to quantify a benefit in the region of 5 % on annual expenditure per consumer of EUR 2 500, i.e. a benefit of EUR 125 per consumer. Studies in some Member States indicate even higher benefits – a study in the UK estimated that vulnerable consumers in the UK could be paying £800-£1 000 (EUR 880-1 100) a year in higher costs because they are excluded from mainstream financial services.⁶⁸

1.2.4. *Quicker access to funds*

A bank account is likely to provide a consumer with quicker access to funds, particularly where payments are made electronically. Whilst this is a benefit, it is not readily possible to quantify the amounts involved. For example, if a consumer receives a cheque and does not have a bank account, then obtaining value from the cheque requires the use of an agent and time, while speedy alternative methods of sending funds can be expensive.

1.2.5. *Increased security through lower level of cash transactions*

The situation is similar on increased security through lower levels of cash transactions. There are inherent security risks in the use of cash in large amounts. Whilst the use of a bank account provides higher levels of security, it is again not possible to quantify the benefits involved.

⁶⁷ This data has been provided by CSES associates in individual Member States who obtained the information from local utility providers.

⁶⁸ Family Welfare Association, <http://www.inclusioncentre.org.uk/3.html>.

1.2.6. *Increased choice of goods and services through Internet where electronic payment is required*

Finally, most online purchase and bookings are possible only with a plastic card. Online purchases may in many cases result in discounts – if a 1 % discount is available on purchases of EUR 500 per month, then the annual saving is of the order of EUR 60.

Overall, many areas of benefit to consumers are not readily quantifiable, including in particular areas such as a reduced sense of financial exclusion, access to jobs and property rentals, security, and quicker access to funds. Where benefits can be quantified, the amounts are likely to vary substantially from Member State to Member State and indeed from person to person. It would not however be unreasonable to assume a quantifiable benefit to consumers of EUR 300 to EUR 400 per annum, including the following elements: charges for cashing cheques (EUR 120), charges for money transmission (EUR 60), loss of discounts for electronic payment (EUR 125), and online discounts (EUR 60).

1.3. Summary of costs and benefits to consumers

This section has identified both quantifiable and non quantifiable costs and benefits to consumers. The quantifiable costs and benefits per consumer are of the order of EUR 315 per annum as follows:

Table 4: Summary of quantifiable benefits to consumers⁶⁹

Cost savings or benefits	EUR
Charges for cashing cheques	120
Charges for money transmission	60
Loss of discounts for electronic payment	125
On line discounts	60
Total	365
Less charge for bank account	50
Net benefit per consumer per annum	315

Source: CSES study

These costs and benefits assume no charges for inappropriate use of accounts. There are also a number of non-quantifiable benefits including:

- the ability to take jobs, rent property etc where a bank account is a requirement;
- quicker access to funds;
- increased security through lower level of cash transactions;
- increased choice of goods and services through internet where electronic payment is required;
- reduced sense of financial exclusion;

⁶⁹ These estimates of benefits are a summary of the quantifiable benefits described in this section of the report.

- set against that, there are some potential non quantifiable disbenefits including;
- potential fraud losses if account access details lost or stolen;
- the possibility of easier legal seizure of funds by court judgment.

CSES has uses the typical net annual quantifiable benefit of EUR 315 per consumer to estimate a likely overall benefit to consumers in Europe. CSES has estimated in Section 2 of this report that there were between 11.58 and 18.19 million consumers without a bank account where the lack of an account might be an indicator of financial exclusion, and a further 11.87 million in countries where the penetration of bank accounts was low. The benefits shown above do not fully apply to those 11.87 million consumers living in a society where the use of bank accounts is not yet almost universal. However, applying the net benefit of EUR 315 per consumer to the range between 11.58 and 18.19 million consumers without a bank account suggests an overall net benefit of between EUR 3.6 and EUR 5.7 billion across Europe as a whole.

In total there are 30.06 million consumers without bank accounts. If we apply the whole of the annual benefit of EUR 315 to all these consumers, the total benefit would be EUR 9.5 billion across Europe as a whole.

2. POTENTIAL COSTS AND BENEFITS TO BANKS

This section of our report considers the impacts of the provision of a basic payment account on banks. CSES has considered the costs to banks of the provision of a basic account, the income to banks and other issues such as the benefit of holding deposits.

This section analysis the potential costs and benefits to banks of the provision of a basic payment account. The areas of potential costs and benefits identified during this study are shown in the table below. Subsequent parts of this section of our report discuss the costs and benefits in further detail.

Table 5: Costs and benefits to banks

Costs and benefits to providers (e.g. banks)	
Costs or disbenefits	Benefits
Labour/staff costs in opening accounts	Revenue from charges for basic bank accounts
Labour/staff costs in dealing with delinquent accounts	Improved perception of banking
System costs (very low on a marginal basis however)	Increased customer base for selling of additional services
Any incremental costs related to fraud	Reduced costs and risks from cash-based payments
Costs of ensuring more widespread access to services (e.g. branch network, cash machines in rural areas)	Contribution to capital

2.1. Costs to banks

Banks offer an interlocking range of financial services including money transmission and a wide range of other services. Their overhead costs are spread across the range of services offered, so it is not a straightforward task to identify the costs of any individual services.

Traditionally, banks have operated in such a way that some services to an account holder (e.g. a 'free' current account) are financed through other potentially profitable revenue streams from

the customer. Banks do not generally publish information on their costs, although some information is available from external investigations, such as competition authority investigations, as was confirmed to us in the various interviews CSES carried out. No bank or association offered an analysis of the costs of operating a bank account, as opposed to the charge they make to consumers for the account.

There is a further important conceptual issue to be considered. Banks have invested heavily in automated payment systems and the development costs of those systems have to be recovered from customers through charges or other revenue streams. These large fixed costs (which have already been incurred) need to be taken into account in arriving at an average cost of services to a customer. It will however be appreciated that the marginal cost of services, i.e. the cost of adding (say) one account to the existing infrastructure, will be below the average cost of services.

For example, if a bank spends EUR 1 million on providing infrastructure for 10 000 customers the average cost to be recovered over a period will be EUR 100 per customer, but the additional cost of using the infrastructure to provide for an additional customer will be nil. There are of course other costs to be taken into account, but in considering the cost to banks of a basic bank account, we need to try to distinguish between the average cost and the marginal cost. The average cost of providing a bank account is likely to be substantially higher than the marginal cost of providing an additional account. In discussion with bank associations, this conceptual issue was accepted.⁷⁰

Several studies have tried to assess the profitability of the provision of basic bank account services. A helpful study is the investigation by the UK Competition Commission into the provision of banking services in Northern Ireland.⁷¹ This study sought to assess the return on capital employed by eight banks in providing banking services in Northern Ireland. The study looked at the average costs to banks and the marginal cost of providing an additional account. Unfortunately, individual profitability estimates have been removed from the final report due to commercial confidentiality considerations. Overall however the study concluded that the banks' returns on the provision of basic bank account services, on the basis of average costs, were not excessive.

2.1.1. Basic bank account process

The main processes that need to be undertaken to provide a basic bank account are outlined in the table below and are based on our interviews with banks and associations. The processes apply to all accounts. CSES has also noted beside each process whether it is labour intensive, or whether it entails using an existing system. Labour intensive processes are likely to incur specific direct costs, whereas providing an account using existing IT systems can be costed on a marginal basis. Bank systems will of course vary, and the table can only provide a general guide to the processes.

⁷⁰ Information obtained during interview programme.

⁷¹ *Personal Banking Services in Northern Ireland*, Competition Commission, 2007, http://www.competition-commission.org.uk/rep_pub/reports/2007/fulltext/527.pdf.

Table 6: Process and costs to banks

Process	Costs
Opening an account – Meeting	Likely to be labour intensive, requiring a discussion with the customer. Note that regulations on money laundering and the need to ‘know your customer’ are likely to add to the time involved. It is possible that less time may be needed for a basic account, since credit facilities will not be offered.
Opening an account – Other processes	Largely automated, so the marginal cost of an additional account will be small.
Operating an account – Electronic transfers and inputs	Largely automated, so the marginal cost of an additional account will be small.
Operating an account – Paper-based transactions	If cheques are not included in the working definition of a basic bank account, relatively expensive paper based transactions can be minimised unless paper statements are provided. Removing paper statements can reduce costs.
Operating an account – Delinquent accounts	If an account becomes overdrawn, costs to the banks (and also the charges by the bank) are likely to include labour costs and can be substantial. However, if a basic account excluded the possibility of becoming overdrawn, these costs should not apply.

The above costs may be considered as falling into two groups, on the assumption that paper based money transmission services such as cheques are excluded. One represents labour/staff costs in opening an account, and in dealing with delinquent accounts. The others are system costs.

Considering first system costs, the key issue is whether we look at the costs of providing a small number of additional accounts using existing systems (the marginal cost) or the average system costs of all accounts. It may not be unreasonable to suggest we should look at the marginal cost. This marginal cost, according to the Competition Commission study referred to above, is likely to be very low where there are existing systems in place.

The main additional cost in providing a basic bank account is therefore the staff costs. As CSES has indicated above, these include the costs both of opening an account, and potentially the costs of dealing with a delinquent account. The latter costs could be large and indicate the importance of designing a basic bank account in such a way that it cannot go into overdraft, or incur charges which makes it go into overdraft. The main cost of providing the account is therefore likely to be the labour cost associated with a meeting to obtain details about the customer and to check references.

2.1.2. Costs of bank accounts

Although banks do not generally disclose the costs of providing services, some regulatory investigations and other reports have published cost estimates. In the United Kingdom a major study into the provision of banking accounts, the Cruickshank Review⁷², contained estimates of bank costs using average costs. The relevant section is reproduced below, with money amounts converted to euros.

Current accounts are priced in a way which recovers total costs but does not reflect the underlying costs of any one account. There are significant fixed costs in providing a current account, as well as transaction costs. Face to face transactions are more costly to provide than their internet or telephone equivalents so banks usually lose money on them overall. To give an idea of actual costs, ATM withdrawals cost up to 33 cents, automated credit transfers about

⁷² *Competition in UK Banking: A Report to the Chancellor of the Exchequer*, Cruickshank Don, HM Treasury, 2000, http://www.hm-treasury.gov.uk/fin_bank_reviewfinal.htm.

11 cents and cash back transactions about 17 cents. Paying in cheques, by whatever method, costs on average 50 cents. Using a branch counter for transactions costs about EUR 1.10. In round terms, the incremental set up cost of a current account is about EUR 27.50. Incremental fixed maintenance costs, including quarterly paper statements, add around EUR 11 a year.

On the basis of the costs estimated by Cruickshank, the costs of providing banking services to a customer who has five cash withdrawals and ten other transfers a month would be about EUR 40 per year. This amount represents an estimate of the average costs to banks and is consistent with Cruickshank's estimate that an account needs to have a positive balance of about EUR 1,100 per annum to be profitable if there is no account fee. Cruickshank goes on to say that "Banks do not have an incentive to provide a standard current account to low income customers: a current account needs an average balance of about EUR 1 100 a year to make a profit."

Another study, by McKinsey⁷³, estimates that payments systems account for 24 % of bank revenues and deliver 9 % of profits for Europe as a whole. The study suggests that the development of SEPA will cut the profitability of payments systems further. The study found significant differences in national payments systems and describes Belgium, the Netherlands and Sweden as having low-cost, efficient systems and Italy as having a high-cost, high-fee system. The United Kingdom and France have systems that generate profits from products such as credit cards.

As indicated above, the interviews carried out as part of this study did not provide any detailed cost information. They confirmed that the general approach shown above was appropriate: one interview suggested that the costs shown in the Cruickshank report above were representative for other countries. One clear message from the study is that bank costs depend on the nature of the products offered. Paper based products, such as cheques, have high costs and electronic money transfer products have lower costs. This cost difference has implications for the design of a basic bank account.

2.1.3. Extending bank infrastructure

Different cost considerations will apply in those Member States where there is a substantial need to extend the bank infrastructure to deal with a much larger number of accounts. It is possible that there may be a need in some countries with a combination of large rural populations and a high proportion of those without access to an account to extend the provision of ATMs and physical branches. However, these facilities have been provided on a market basis in more developed economies and could be seen to represent a commercial opportunity for banks. For example, earlier in this report, CSES has showed examples of countries where the penetration of bank accounts was relatively low.

The costs of providing such infrastructure and the likely revenue will depend very much on local circumstances and on the business plans of the banks concerned. Information on potential costs is commercially confidential to banks and it would not be appropriate to attempt an overall cost benefit assessment.

⁷³ *European Payment Profit Pool, casting light in murky waters*, McKinsey, 2008.

2.2. Benefits to banks

The main areas of benefits to banks are likely to be the following:

- revenue from charges for basic bank accounts;
- improved perception of banking;
- increased customer base for selling of additional services;
- reduced costs and risks from cash-based payments;
- contribution to capital.

In this section CSES has considered each of these areas as follows.

2.2.1. Revenue from charges for basic bank accounts

The revenue which banks receive for charges on basic banks accounts is of course the receipt of charges from the consumer, as discussed in detail in the previous section. CSES has shown in that section that an average annual charge for a simple bank account is approximately EUR 50, although charges vary substantially from country to country and some capped charges for basic bank accounts are lower, as for example in Belgium where the charge is capped at EUR 12 per annum. Overall, charges for basic bank accounts in Member States where these are mandatory are similar to charges for other accounts. CSES has not included in these amounts any charges for delinquent accounts since the intention of a basic bank account is not to provide that possibility of overdraft.

In addition to the charges levied for bank accounts there are a number of non quantifiable areas of benefit to the banks, including the following.

2.2.2. Increased customer base for selling of additional services

The number of consumers without bank accounts provides a market for the banks to sell additional services. The most obvious market relates to those countries where there is a lower penetration of bank accounts, and where there is scope for the banks to increase market share. However, groups such as migrant workers and those emerging from a short-term financial crisis have the scope to develop into profitable customers for the banks.

2.2.3. Reduced costs and risks from cash-based payments

In countries where cash payment of wages and salaries continues, the risks concerned with the physical security of moving large amounts of cash, and the costs associated with complex sorting of cash. Those countries are principally those with lower rates of bank penetration, as shown in Section 2 of this report. Any move towards reducing these cash-based transactions will reduce costs and risks for those banks.

2.2.4. *Contribution to capital*

The balances on current accounts, which may offer a nil or low rate of interest, provide an important source of capital for the banks. The Capital Requirements Directive⁷⁴ set out minimum capital requirements for banks. The rules are complex, but in summary institutions can adopt either the Basel II capital requirements of 8 % to 15 %, or an institution-based risk assessment approach.

In practice, adopting a minimum capital requirement based on relevant bank assets means that if additional funds are deposited with a bank, it is possible for the bank to lend a multiple of those funds to other customers. If the minimum capital requirement is 15 %, additional deposits of EUR 1 would permit additional lending of EUR 6.

Whilst this benefit may be important, quantification of the benefit would require both an average balance held on a customer account, and the average net margin on lending obtained by banks, as well as much other detailed cost information, none of which is available.

2.2.5. *Improved perception of banking*

Finally, there is the issue of corporate social responsibility by banks and improvements in the perception of the banking industry. Banks, and in particular some of our interviews with banking associations, suggested that it is important to make an appropriate charge for particular services, and that relationships between banks and consumers need to be on a market basis. However, there is an alternative view that as part of the franchise of being allowed to operate as a bank, accounts should be made available to all, in the same way that utility services are available to all. This view was particularly strongly put to us by consumer associations.

Overall, from the banks' point of view, there is a need to balance commercial needs with the potential benefits of a better perception of the industry.

2.3. Summary of costs and benefits to banks

CSES has summarised the main quantifiable and non quantifiable factors affecting banks.

The quantifiable costs to banks of operating an account are difficult to assess, but have been estimated at around EUR 40 per annum. Charges for basic accounts may now be of the order of EUR 50 per annum, suggesting that banks might make a small surplus of around EUR 10 per annum from each account. If, however, charges for basic bank accounts were capped, say at the level of EUR 12 seen in Belgium, then banks would make a loss per account of just under EUR 30. The capping of fees would result in a transfer of benefit from the banks to the consumer.

There are few other non quantifiable costs to banks, unless the increase in the number of accounts is so large as to require the provision of additional infrastructure such as cash machines or branches.

⁷⁴ *Directive Relating to the Taking Up and Pursuit of the Business of Credit Institutions*, 2006, p. 48.

Turning to non quantifiable benefits to banks, these include the following:

- improved perception of banking;
- increased customer base for selling of additional services;
- reduced costs and risks from cash-based payments;
- contribution to capital.

Finally, CSES has uses the typical net quantifiable benefit of EUR 10 per consumer to estimate an overall benefit to banks in Europe. CSES has estimated in Section 2 of the report that there were between 11.58 and 18.19 million consumers without a bank account where the lack of an account might be an indicator of financial exclusion, and a further 11.87 million in countries where the penetration of bank accounts was low.

These amounts suggest net benefits to banks of the order of EUR 115 million to EUR 182 million from increased penetration of bank accounts at current prices. If, on the other hand, the costs of a basic bank account are capped so that there is a net cost to banks of EUR 30 per account, then if these accounts were to be provided to the 11.58 to 18.19 million consumers who might be financially excluded, the net costs to banks would be of the order of EUR 350 to EUR 550 million per annum.

In total there are 30.06 million consumers without bank accounts. If we apply the whole of the annual benefit of EUR 10 to all these consumers, the total benefit to banks would be EUR 300 million across Europe as a whole. On the other hand, if the cost of the basic bank account was capped and there was a net cost of EUR 30 per consumer, the overall costs to banks would be EUR 900 million across Europe as a whole. However, the estimates shown in this paragraph must be treated with caution, because of the potential need to extend bank networks to deal with such a large increase in the number of accounts. CSES thinks that in practice, as economies develop, banks will find it profitable to develop their services in those parts of the EU that now have lower penetration of bank accounts.

3. POTENTIAL COSTS AND BENEFITS TO OTHER STAKEHOLDERS

This section reviews the costs and benefits to stakeholders other than consumers and banks from the provision of a basic bank account. It is based on the assumption that improving the provision of a basic bank account will increase the number of individuals accessing and using such a bank account.⁷⁵

This section analysis the potential costs and benefits to other stakeholders of the provision of a basic payment account.

⁷⁵ While it can never be the case that all those currently excluded consumers will take advantage of such a facility, given that there will always be a number of individuals in transition (e.g. recently arrived migrants) and some individuals may continue to choose not to avail themselves of such facility for historic, cultural or educational reasons, our assumption is that a more universal provision of the right to a basic bank account will increase the numbers using the facility even if the final penetration level achieved is uncertain and clearly will vary by country.

Table 7: Summary - Costs and benefits to other stakeholders

Costs or disbenefits	Benefits
<p><i>Utility firms</i></p> <p>Potential loss of revenue from discounts, but probably not materially given cost savings.</p> <p><i>Retailers</i></p> <p>Loss of revenue and interest for traders with cash-based business models, but not material in extent.</p>	<p><i>Government central/local</i></p> <p>Reduction in transaction costs for social security payments and a reduction of potential fraud from paper systems.</p> <p>Easier, less costly local tax collections. Improved integration and recognition of the individual in society overall.</p> <p><i>Basic utility providers</i></p> <p>Reduction in transaction costs and increased system efficiencies</p> <p><i>Retailers</i></p> <p>Marginal increase in potential market for some retailers but not material in extent.</p> <p><i>Financial services (other than banks)</i></p> <p>Increased market for financial services products in the longer term.</p>

There is no exhaustive definition of stakeholders beyond the banks themselves and their customers as it would necessarily include all organisations that could receive or send electronic or cheque payments to individuals. However, the principal stakeholders identified in the research are listed below:

- central and local government;
- basic utility firms (energy companies, water suppliers);
- retailers (store-based, mail order and internet-only);
- financial services providers other than banks (money lenders, insurance companies, investment management, pension providers).

Of these, the principal other stakeholders affected are central and local governments and basic utility providers through the extension of lower cost methods of transactions such as direct debit, rather than cash-based methods.

There is a marginal impact on some selected types of retailers but these impacts are not considered material. Impacts on financial services providers other than banks are more long-term through an increase in their market.

Estimates of cost savings

CSES has identified several studies in the UK, but not elsewhere, which quantify the amount of saving available by switching to payments and collections by direct debit and standing orders rather than using cash and other payment methods (e.g. cheques).

For the public sector, the efficiency challenge: The Audit Commission November 2005 showed that transactional costs are lower for a direct debit transaction. The Audit Commission is a government body which amongst other tasks promotes efficiency in the public sector. UK local authorities reported that it cost them between 50 p and 65 p (EUR 0.45 to EUR 0.60) to deal with a cash transaction and between 1.5 p and 15 p (EUR 0.02 and EUR 0.17) to process a direct debit.

Evidence from a more recent study (*Improving Income Collection*, The Audit Commission, May 2006) suggests there is potential to make greater savings. It found the following range of unit costs for different types of payments in local authorities:

- cash office: EUR 1.10-1.11 (but examples of EUR 2.84, EUR 3.40, EUR 6.81);
- post office: EUR 0.48-0.73;
- allpay/pay-point: EUR 0.43-0.49;
- credit card payments: EUR .147-3.97 on a payment of EUR 113.00;
- direct debit: less than EUR 0.001-0.005.

Finally, in a further study, Sir Peter Gershon's report *Releasing resources to the front line* found that a transaction (normally paper-based) to pay benefits in cash costs on average around £1 (EUR 1.13), whilst direct payment into a normal bank account costs around two pence (EUR 0.025) per transaction.

For private firms and utility providers, there is no simple or uniform monetary amount of saving as it arises in several different ways. Firstly, there are bank charges for direct debit collections in the same way as there are for banking cheques. The amount banks charge for direct debit collections and thereby the savings that can be made compared to other methods, depends on commercial decisions and negotiations between banks and their clients. Secondly, savings are made in payment administration i.e. the number of people and the length of processes involved, such as reconciliations. The amount of money an organisation can save depends on how efficient their cheque processing is currently. Finally, there are software and process investments that a company will need to make to enable collection by direct debit. If these processes do not already exist there will be an investment for establishing the system.

Private sector organisations contacted that provide direct debit collection services show a range of costs to their clients of around EUR 0.45 to EUR 0.60 per transaction. Their clients must save more than this per transaction for it to be worthwhile for them to use the service.

Reviewing the information as a whole, it is not unreasonable to assume that in those cases where a shift from cash and other payment methods to direct debit payment and collection occurs, savings can be of the order of between EUR 0.60 and EUR 1 per transaction in both the public and private sectors.

3.1. Costs to other stakeholders

There are a few instances in different groups of other stakeholders and countries where potential additional costs could arise, but overall these are not considered to be material or they are offset by corresponding savings.

3.1.1. Utility firms

There is a potential loss of revenue from the provision of discounts for payment by direct debits to individuals where there is limited or effectively no risk. However, such reduced revenues are offset by lower transaction costs from collecting payments by direct debit. Also, in the longer term there is probably effectively no net cost as it is unlikely that utility firms

would provide payment discounts greater than the savings they make in transaction and system costs.

3.1.2. Retailers

Potential loss of revenue and monetary interest for traders with a traditional cash-based business model that is attractive to selective customer groups (e.g. mail order firms, market traders in some Member States). However this loss is at the margin and probably not material to any extent.

3.1.3. Financial services: Cash-based money lenders

This form of lending is often highly regulated or possibly illegal and such lenders may not issue credit agreements and may apply extremely high default charges. Consequently, many borrowers can never settle their loan in full. An increase in the number of people with access to basic bank accounts should reduce the demand for such lending, as individuals move into more mainstream banking, acquire credit ratings and thereby an ability to borrow.

Given the nature and potential illegality of such transactions, CSES has disregarded costs to such lenders as part of this assessment.

3.1.4. Government (central and local)

There are one-off investment costs in systems and infrastructure to move towards electronic bank based social security payments and tax collection. However, CSES has only seen evidence of governments who have or wish to move in this direction for wider benefits of security and efficiency. Therefore CSES has discounted this potential one-off investment cost as it will not be incurred solely for the provision of payments to those currently without access to basic bank accounts. The decision will be taken for wider policy and operational reasons.

Overall, CSES can see little – if any – potential additional costs for other stakeholders.

3.2. Benefits to other stakeholders

There are two principal different types of benefits for other stakeholders. These are firstly, cost reduction and/or loss avoidance and secondly, additional market potential. Dealing with each of the major groups of other stakeholders CSES can see potential benefits as follows.

3.2.1. Cost reduction and/or loss avoidance

The estimation of cost savings requires an estimate of the number of individuals likely to be at risk of financial exclusion. Section 2 above concluded that of the 30.1 million consumers without access to a bank account, between 11.6 and 18.2 million are likely to be at risk of financial exclusion. The remaining 11.9 million are likely to be in a society where the use of bank accounts is not yet almost universal.

3.2.2. Government (central and local)

The potential savings to central and local government arise from the reduced transaction costs of making payments (e.g. social security payments) and receiving payments such as for social housing and local taxes by direct debit. Where consumers receive benefits on a monthly basis,

the cost saving of between EUR 0.6 and EUR 1 per transaction would result in an annual cost saving per consumer of between EUR 7 and EUR 12.

CSES has applied these cost savings to the 11.6 to 18.3 million people who do not have a bank account, then if 90 % of those persons receive benefits, the cost savings for Government are between EUR 80 million and EUR 220 million per annum⁷⁶. If we apply the cost savings to all 30.06 million people without a bank account, the number of people affected would be higher – but the proportion of people on benefit is likely to be much lower. CSES does not have sufficient information on the proportion of people on benefit to make a reliable estimate.

This excludes any additional and separate payments for supplementary benefits such as local housing. It also excludes any potential transaction savings from receipts of payments from this group, as for example for collection of local taxes and rents on publicly-owned housing.

It also assumes that all countries will move to electronic payment of social benefits.

Given the large numbers of people involved in social benefit transactions CSES has seen another benefit as being qualitative, through the closer integration of individuals into the social payments system, their recognition and inclusion into society generally.

3.2.3. *Basic utility providers*

The principal cost reduction available to firms is from a switch by those previously excluded to paying by direct debit rather than through cash payments and other methods.

CSES has estimated cost savings for payments to utility firms using the following assumptions.

⁷⁶ The relatively wide range of potential benefit arises because the estimated benefits for each transaction varies between EUR 0.60 and EUR 1, and the number of consumers between 11.6 million and 18.3 million. The lower estimate of benefit is arrived at by using the lower of each of these estimated, and the higher amount by using the higher of these two estimates.

Table 8: Energy and water payments

Energy payments	
–	Number of consumers without a bank account and who might make savings from having an account 11.6 million to 18.3 million. The total number without an account is 30.06 million.
–	The whole of this group use electricity and 69 % use gas (Gallup Organization Flash Eurobarometer 243) and are consumers.
–	50 % of consumers decide and are able to pay energy bills by monthly direct debit (see Ofgem Report on direct debit energy payments: December 2008).
–	One in 2 consumers pay such bills, reflecting household size.
–	Payments are made monthly and separately for electricity and gas.
–	The resulting number of transactions is 58-92 million per annum if the number of consumers benefiting is between 11.6 million to 18.3 million. If all consumers without an account (30.06 million) benefit the number of transactions is 152 million.
–	Transaction cost savings are between EUR 0.6 and EUR 1 per transaction.
–	The net savings over cash-based methods of payment are between EUR 35 million and EUR 92 million per annum ⁷⁷ . If the savings are applied to all 30.06 million consumers without a bank account, then the range of savings would be between EUR 91million and EUR 152 million.
Water payments	
–	Number of consumers without a bank account and who might make savings from having an account 11.6 million to 18.3 million. The total number without an account is 30.06 million.
–	100 % of this group consume water.
–	One in 2 consumers pay such bills, reflecting household size.
–	50 % of this group decide and are able to pay by direct debit: 5.8 to 9.2 million individuals.
–	Payments are made monthly.
–	The resulting number of transactions is 35-55 million per annum if the number of consumers benefiting is between 11.6 million to 18.3 million. If all consumers without an account (30.06 million) benefit the number of transactions is 90 million.
–	Transaction cost savings are between EUR 0.6 and EUR 1 per transaction.
–	The net savings over cash-based methods of payment are between EUR 21 million and EUR 55 million ⁷⁸ . If the savings are applied to all 30.06 million consumers without a bank account, then the range of savings would be between EUR 54million and EUR 98 million.

Source: CSES study

CSES has excluded payments to other utility providers such as telecommunications firms, as the methods of payments are complex and many in the considered group of financially excluded will probably opt for mobile and pre-payment options.

3.3. Additional market potential

3.3.1. Retailers

There is an increased potential market for internet-based retail operators given an increase in the population with a bank account. However, this marginal increase in numbers with a bank account is very small in comparison with the total market. Also, it deals more with purchases related to discretionary income and is not likely to form a major component of the financially excluded expenditure. Therefore it is recognised, but not subject to a calculation.

⁷⁷ As with the savings to government, the relatively wide range of potential benefit arises because the estimated benefits for each transaction varies between EUR 0.60 and EUR 1, and the number of consumers between 11.6 million and 18.3 million.

⁷⁸ Again there is a large range of benefit for the reason shown in the note above.

There could be an increase in the potential market for retailers generally as debit card based payments would probably be easier for many purchases and purchasers than available cash-in-hand. However, this would be a very small incremental market as it represents the marginal increase in revenue from easier access to money in an account rather than cash-in-hand and therefore is recognised, but set aside from calculations.

Financial services (insurance companies, investment management, pension providers)

There should be an increase in the addressable market for some financial services products as individuals gain access to basic bank accounts since many products are increasingly only available through electronic and cheque-based payments. But this possibility is probably more in the medium to longer term or limited to specialist groups (e.g. higher wealth immigrants).

3.4. Summary of costs and benefits to other stakeholders

CSES has seen the balance of effects as being beneficial to other stakeholders, rather than in their incurring additional costs. The principal beneficiaries are central and local government and basic utility firms. The reasons are:

- These stakeholders already have, or are separately developing, the infrastructure to accept and deliver payments through bank accounts.
- There is evidence that use of direct debits is lower cost than other, often cash-based alternatives.
- Cash is becoming a higher cost transaction method than cards and electronic payments in view of the need for physical processing and security, transmission, and risk of embezzlement.
- In some Member States it is difficult to make payments in cash, as for example in the paying of wages in France.

In terms of quantifiable benefits, the annual benefits to government may be of the order of EUR 80 to EUR 220 million per annum, with a further benefit of between EUR 56 and EUR 146 million for Utility companies; a total annual benefit of EUR 136 to EUR 365 million. As explained above, the relatively wide range of potential benefit is due to variations in the numbers of consumers who may benefit, and variations in the potential unit amount of benefit.

If the benefits are applied to all 30.06 million consumers without a bank account, then the annual benefits to government would increase – but because of the likely lower take up of social benefits in this group CSES has not been able to estimate the amount of increase. For Utility companies the range of benefits would increase to EUR 146 to EUR 243 million. So, using the government benefit shown in the last paragraph, the annual benefits to other stakeholders would be at least EUR 176 to EUR 463 million.

Annex 15: Administrative burden of the preferred options

The Impact Assessment Guide defines administrative costs as "the costs incurred by enterprises, the voluntary sector, public authorities, and citizens in meeting legal obligations to provide information on their action or production, either to public authorities or to private parties".

This initiative's combination of preferred options imposes limited information obligations on Member State administrations. The burden on Member States relating to information provision requirements has to do with compiling the data received by providers (see below the information provision obligations on providers) and with their possible transmission to the Commission. It also relates to information provision to citizens concerning the availability and characteristics of basic payment accounts. This burden is considered to be limited and it is assessed together with other types of burdens on Member State Administrations (such as implementation, enforcement, providers' compensation etc) in Annex 12, Section 3.

Concerning citizens, no obligations are imposed upon them in terms of reporting or providing information to other parties. In the case of payment account providers however, certain reporting and information provision obligations do apply. These relate, in particular, to providing information/explanation to (potential) customers, and preparing and reporting to supervisory authorities the information relevant to their assessment of compliance and effectiveness of the law.

Administrative burden on providers

- (I) One-off costs for preparing information material on the availability, function, and characteristics of BPAs (flyers, booklets, website content, etc).
- (II) Recurring costs for providing (potential) customers with information and explanation on BPAs (face to face, phone, email).
- (III) Recurring costs for making available to public authorities all the information they may require to ensure compliance with the law and its effectiveness.

Table 1: Administrative burden on providers – Data and assumptions

Statistical data	
(1)	The EU average hourly cost of employees in financial institutions is EUR 31.56 ⁷⁹ .
(2)	Total number of EU credit institutions: 8 357 ⁸⁰ .
(3)	Total staff of EU credit institutions: 2.4 million (rough estimate) ⁸¹ .
(4)	In 10 Member States (0.37 %) there is already a legislative or voluntary framework for access to bank accounts ⁸² .
Assumptions	
(1)	The work described in (I) above requires 8 man hours per credit institution. It is also assumed that 25-50 % of credit institutions will in fact be affected.
(2)	The work described in (II) above requires 0.1 man hours per inquiring consumer. It is also assumed that roughly 3-6 million EU consumers will request info/explanation p/a.
(3)	The work described in (III) above requires 10 man hours per credit institution p/a. It is also assumed that 25-50 % of credit institutions will in fact be affected.

In order to prepare a model that would give an indication of the size of the above costs, we draw on a number of data and assumptions.

Given the above statistical data and the assumptions made, the following table illustrates the administrative costs that providers are likely to experience due to the preferred set of options.

Table 2: Administrative costs to providers

Type of cost	Amount (EUR million)	Total amount (EUR million)
I One-off costs (preparation of information materials) Less: cost for already existing practices in 10 Member States	0.53–1.05 (0.19–0.39)	0.34–0.66
II Recurring costs: information & explanation Less: cost for already existing practices in 10 Member States	9.48–18.9 (3.5–7)	5.98–11.96
III Recurring costs: information to authorities Less: cost for already existing practices in 10 Member States	0.66–1.32 (0.24–0.48)	0.42–0.84
Total one-off costs		0.34–0.66
Total recurring costs		6.4–12.8

⁷⁹ Eurostat 2008, Hourly labour costs, Financial Intermediation - Nace Rev. 1.1.

⁸⁰ ECB: Monetary Financial Institutions (MFI) statistics, 20 January 2010.

⁸¹ Eurostat, European Business Facts and Figures, 2009 Edition, p. 528. The total number of people in the EU27 employed in financial intermediation in 2007 (excluding insurance & pension funding) was 4.1 million. It is assumed that 40 % are involved in investment intermediation, so the figure is reduced by 40 % to 2.4 million.

⁸² See Section 3.2.1 of Impact Assessment.

It follows from the above that BPA providers will likely face one-off costs of about half a million euro and annually recurring costs of approximately EUR 6-12 million. It is reasonable to assume that providers take these costs into account in their efforts to calculate the true full cost of products (activity-based costing model). This means that these costs should not be viewed as anything additional to the EUR 52 annual cost⁸³ that account providers are estimated to incur on average across Europe for opening and running a bank account.

⁸³ CSES Study assessment.

Annex 16: Consequences for consumers

Higher costs

Occasional use of banking services is more expensive than being a regular bank customer. When a customer receives a payment, such as a cheque, and does not have access to a bank account, a consumer may need to pay a fee or use an intermediary to cash the cheque, for which the commission can reach 3 % of the amount of the cheque⁸⁴ (see Annex 8).

A similar problem arises where a consumer wishes to make a payment, and does not have a bank account. He/she may need to purchase a cheque or payment order, or may need to use a payment transmission service, for which charges range from EUR 0.5 + percentage of the value of the money order up to EUR 20.⁸⁵ Households often need to pay at least three utility bills per month (e.g. energy, gas, telecom), not to mention other occasions when they need to pay for goods and services or send money. The CSES study has estimated that on average a monthly cost for a consumer for money transmission services to be EUR 5. Similarly, cross-border or seasonal workers who have moved to another Member State may need to send money home⁸⁶, and if they carry it outside of the banking system (40 % of world wide remittance is carried outside of the banking system), they will incur high money transmission costs⁸⁷.

What is more, many utilities providers encourage electronic payment by offering discounts. In those countries where utility providers offer percentage discounts for direct debits or electronic transactions (UK, DK, BE, IE, AT, EL, LU), these range of from 1 % to 15 %⁸⁸. Likewise, without electronic means of payment, consumers cannot take advantage of

⁸⁴ For more information on charges for cashing cheques see Annex 8.

⁸⁵ For example, current prices for postal orders issued by UK post offices range between £0.50 (EUR 0.55) and 10 % of the value of purchase orders depending on the value of the purchase orders above. Fees are capped at £10.00 (EUR 11.00). The charges for domestic postal orders in France range between EUR 5.80 (for purchase orders up to EUR 160) and EUR 11.70 (for purchase orders between EUR 1 000 and EUR 1 500). Using a money-transfer service in Germany, the minimum charge is EUR 4.90 and the maximum charge is EUR 19.60. In Greece, the fees for a domestic postal order range between EUR 4.00 and EUR 8.00.

⁸⁶ Eurostat has recently started to collect and disseminate data related to the flows of household income generated by the permanent or temporary movement of people to other countries. Outflows of compensation of employees reached EUR 41.6 billion in 2009, while outflows of workers remittance reached EUR 29.6 billion – making a total of EUR 71.2 billion.

⁸⁷ CSES study, p. 44.

⁸⁸ See footnote 87, p. 46.

discounts often provided for online purchases. Furthermore, some low-cost services and goods are available only online.

It needs to be recognised that discounts for electronic payment for utilities tend to be available in countries with higher bank penetration. It is noticeable that discounts are less frequent in EU12 countries, such as Romania, Poland and Bulgaria with lower bank account penetration. However, as the use of bank accounts increases, the availability of electronic payment discounts, or cash payment charges is likely to increase.

It can therefore be concluded that customers who do not have a bank account incur higher transaction costs and cannot benefit from a number of discounts due to the related lack of access to electronic means of payment.

Annex 17: Dynamic baseline scenario

1. BULGARIA AND ROMANIA

The specific situation of Bulgaria and Romania – where almost half of the population is without a bank account due for part to an under-developed banking infrastructure and consequent lack of geographical access – would be expected to improve over time in line with their expected economic growth and the development of their financial sector. In this respect, Portugal could be used as a proxy. The relative GDP per capita on a PPP basis for both Member States (respectively 41 % and 47 % of the EU27 average) is not far below that of Portugal at the time of its EU accession (51 % of EU10 average) and their respective real economic growth rate (until 2009) are not dissimilar from that enjoyed by Portugal immediately after accession^{89 90}. Over the last 10 years the number of bank branches increased by 35 % in Portugal⁹¹ and the number of ATMs over the last 20 years grew 20 times!

A similar development of the banking network over the next 15 to 20 years would lead to a doubling of the current density of the network of bank branches per 100 000 persons, bring Romania and Bulgaria to the level of Hungary (see Annex 6) and would undoubtedly lead to a sizeable reduction of the population without a bank account. The magnitude of this reduction is however difficult to assess. In any case, there would very likely remain a significant part of the population without a bank account: today, the population without a bank account is estimated at 21 % of the total adult population in Hungary and at 6 % in Portugal, a country which experienced a formidable and exceptional development of its banking sector through privatisations, legislative reforms and substantial technological investment from the banking industry.

2. PRESENT ECONOMIC SITUATION

The question may however arise as to whether the present economic situation would not spur banks to intensify their efforts to exploit all profit opportunities, including the low income consumer segment which segment is likely to grow to the detriment of the mainstream middle income consumer market of most banks. Whilst banks may be ready to accommodate the difficulties faced by their current clientele, in order to preserve it while awaiting an economic upturn, it remains to be seen whether these banks will adopt opportunistic strategies and broaden their offer of services by including simpler and basic services that would be affordable to a broader customer range. Whilst such a development cannot be excluded⁹², it would require a change of perception and an innovative, out-of-the-box approach to the

⁸⁹ Eurostat – Real GDP growth rate – 2010, <http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/>.

⁹⁰ Bank of International Settlement, IFC Bulletin 33, August 2010, Measuring the evolution of monetary and financial services in Portugal, João Cadete de Matos and Luis D'Aguiar, Banco de Portugal.

⁹¹ See footnote 90.

⁹² The experience of Bank Santander which offers basic bank account in the UK shows that a product designed for excluded consumers can be profitable. In addition, PSPs could benefit in the medium to long term from an extended client base and improved customer perception of the corporate social responsibility of the banking/PSP industry. Reach out. Banks that ignore the huge numbers of people who remain outside the financial system may be missing an opportunity to improve their image and increase their profits, *The Banker*, June 2010; pp. 14-15.

market as well as an ability to shift from an immediate research of profit to a longer term perspective, which has not been demonstrated in the run-up to the financial crisis. Moreover, in a crisis situation, the classical first response is to focus on cost-cutting through staff and possibly branch reduction rather than on searching for new markets. Though retail banks in the EU may have been less affected by the crisis than investment banks or banks with an important corporate clientele, there is nevertheless no guarantee that their first reaction will be to conquer new market segments by remedying the current scarcity of appropriate products and services for low income consumers, rather than try maximise their relationship with their existing clientele base.

3. INFLUENCE OF OTHER INITIATIVES

The self-regulatory initiative on transparency and comparability of bank fees launched by the banking industry should allow consumers to make informed decisions. Combined with the possibilities offered by bank account switching at national level, bank account holders might benefit from a higher level of competition. A limitation of this initiative is that it is conducted at national and not pan-European level: domestic structural market conditions will remain unchanged.

Furthermore, the price elasticity of demand for this type of service is unclear: there is a high variability of prices for current accounts across the EU at present and low or no correlation between the level of prices and the consumption expenditure on this type of service⁹³. Likewise, no correlation was displayed between the level of the banking fees (either on real or PPP basis) for average passive users of bank accounts and the size of the unbanked population (see Section 4.1.2.2). Therefore, whilst it can be expected that a competitive drive to lower prices will benefit existing bank holders within domestic markets, there is no certainty that this will be sufficient on its own right to guarantee the unbanked population access to a current account.

Whilst actions at EU or Member States level regarding financial education might over time raise levels of awareness among that part of the 30 million EU adults who do not have a bank account about the advantages of holding one and therefore lead to a higher proportion of the population being equipped with a payment account; it is unlikely to remedy the situation of those who are unbanked because they have been refused access to such an account. In the present circumstances, actions in the area of financial education, as necessary and welcome as they are, will not per se solve the core of the problem at stake, a view shared by many consumer organisations.

⁹³ The Consumer Markets scoreboard, *Making markets work for consumers*, 4th edition, October 2010, Figure 12: Prices of services – variation across Member States and relation with consumption. p. 23.