

Date: 07 April 2009
DG Internal Market and Services
Unit H3 – Retail issues, consumer policy and payment services
European Commission
SPA2 4/69
BE-1049 Brussels

Dear Sir/Madam

Consumer Focus Response to Consultation on Financial Inclusion: Ensuring access to a basic bank account

Consumer Focus is the new statutory organisation campaigning for a fair deal for consumers in England, Wales, Scotland, and, for postal services, Northern Ireland. We will be the voice of the consumer, and work to secure a fair deal on their behalf. We were created through the merger of three consumer organisations – Energywatch, Postwatch and the National Consumer Council (including the Welsh and Scottish Consumer Councils). The new approach allows for more joined-up consumer advocacy, with a single organisation speaking with a powerful voice and able to more readily bring cross-sector expertise to issues of concern.

We welcome the opportunity to comment on this consultation.

Question 1: Do you share the Commission's overall objective to ensure that, by a certain date, every EU citizen or resident has access to a basic bank account? What could constitute the main challenges in meeting this objective?

We agree with the Commission's overall objective. Access to a basic bank account is an important factor in enabling low-income groups to participate fully in society. It is increasingly difficult for individuals to manage their welfare benefits and bills without a bank account. Furthermore, charges for many utilities and other household bills can be reduced as a result of payment by direct debit. In addition, access to certain key goods and services, such as insurance and financial services, is dependent on having a bank account, as they cannot be paid for in cash. Landlords and employers also often require an individual to have a bank account.

However, a basic bank account must have features which meet the needs of low-income groups in terms of giving them flexibility to manage their money. It is not enough for banks simply to be

required to provide bank accounts, as take-up of accounts depends on the accounts being responsive to the needs of low-income consumers and the way in which the service is provided. In November 2006, the National Consumer Council (NCC), one of the predecessor organisations of Consumer Focus, published research into basic bank accounts and the needs of low-income consumers¹. This showed that in order to keep control of their limited income, consumers from low-income groups tended to manage their finances in cash and budgeted on a weekly basis. Traditional bank accounts did not accommodate their specific needs in respect of being able to control and keep a track of their finances. Low-income consumers felt intimidated by banks and their staff. They also feared being subject to fraud and exposed to default charges or debt as a result of opening bank accounts rather than managing their money in cash. These factors combined to prevent low-income consumers from opening bank accounts and using them once they had opened them.

In its report, NCC made a number of detailed recommendations for an inclusive basic bank account with a level of flexibility and control for the consumer that would meet these needs. Amongst others, these recommendations included:

- consistent application by banking staff of the special rules on identification and verification for basic bank accounts (to be backed up by staff training)
- face-to-face explanation of the account to the consumer
- easy access to accounts through local bank branches and local post offices
- free cash withdrawals from ATMs
- availability of cash card and/or debit card
- availability of weekly direct debit and standing order payments
- small “buffer zone” (free overdraft) facility
- low default charges
- savings facility

¹ Three steps to inclusive banking: compliance, standardisation and innovation (NCC, 2006)
http://collections.europarchive.org/tna/20080804145057/http://www.ncc.org.uk/nccpdf/poldocs/NCC140rr_three_steps.pdf

- regular monthly statements and free weekly text alerts

The NCC concluded that basic bank accounts incorporating these features would help to meet the challenge of responding to the needs of financially excluded consumers and it remains the view of Consumer Focus that it is for the banking system to adapt to meet the needs of financially excluded consumers in order to gain their trust and confidence.

The policy of the UK government under its financial inclusion strategy has been to encourage the financial services sector towards financial inclusion measures and in 2005 £120m over three years was allocated to the Financial Inclusion Fund. A further £130m over three years was allocated in 2008. A number of high street banks provide basic bank accounts (with varying degrees of functionality) which give a range of banking services without overdraft facilities and there has been an overall reduction in adults and households without bank accounts since 2002/3. Nonetheless, according to the 2008 Annual Report of the Financial Inclusion Taskforce, in 2006/7, there remained 2.09 million adults without bank accounts, living in 1.37 million households without bank accounts. Furthermore the data suggests that the pace of reduction of adults/households without bank accounts may have slowed or stopped between 2005/6 and 2006/7.

A key challenge in the current financial climate will be to convince the banking sector to be proactive about basic bank accounts, which are for consumers from low income groups, who are generally seen as high-risk and low-profit. Nonetheless, the 2008 Annual Report of the Financial Inclusion Taskforce refers to recent work they have carried out in association with the British Bankers' Association which suggests that "many basic bank account customers go on to take up other financial services from their account providers". In addition, accounts must have flexible facilities and features that are useful to low income groups in terms of enabling them to retain a high degree of control over their expenditure, in order to avoid going into debt. Another challenge will be to raise awareness of the availability of basic bank accounts and reach those vulnerable consumers who remain wary of banks and bank accounts, due to their fears of going into debt.

Question 2: Do you agree with the description of the causes and consequences of financial exclusion?

The causes and consequences of financial exclusion are multi-faceted and the description given appears to capture these in summary.

Question 3: Do you think that one can reconcile financial services providers' legitimate need to make profit, with any social obligation they may have vis-a-vis excluded groups? Should financial service providers play a stronger 'social' role in society, in particular in combating financial exclusion?

Provision of a basic bank account to low-income groups should be seen as part of financial services providers' social responsibility. Making basic banking services accessible to more disadvantaged members of society is an integral part of creating a more inclusive society with the ultimate aim of breaking cycles of deprivation. This is particularly the case as it becomes more and more difficult for people on benefits to manage their finances effectively without access to a bank account and thus those without bank accounts become increasingly marginalised, as well as subject to higher costs for goods and services.

Financial service providers must be aware that by taking steps to combat financial exclusion, they are providing a gateway to financial inclusion for disadvantaged groups. Thus it is in their long-term interests to take pro-active steps to promote financial inclusion.

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

The effectiveness of a voluntary code of conduct will depend on the commitment individual institutions, the authority of the monitoring body, the way in which compliance is monitored and the consequences of non-compliance with the code. Thus, unless the code is supported by effective compliance measures there will be inconsistencies in approach to application across the financial sector and overall a voluntary code will have a limited effect.

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

We would be supportive of this measure across the EU. Many banking institutions in the UK now offer basic bank accounts. However, different institutions offer varying levels of service. Therefore a minimum level of service for a basic bank account should be specified to meet the needs of low-income groups: eg unrestricted access to face-to-face counter services, the availability of direct debits and standing orders, a "buffer zone" facility (ie, a low value, penalty free overdraft facility), the availability of debit cards.

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

We consider that basic bank accounts should be provided on a not-for-profit basis. In the UK, the majority of bank accounts are provided without a fee and the same should be true for all basic bank accounts. It is impossible to reconcile trying to increase access to basic bank accounts with the payment of fees for such bank accounts, as this is likely to put off potential consumers, who are fearful of using banks for this reason. It would be another example of the poorest members of society paying more for services. In addition, where charges are made for unauthorised expenditure, then these charges should be reasonable, covering administrative costs only, and not punitive due to the nature of the account. Basic bank account holders should not bear a disproportionate share of the costs of banking in order to cross-subsidise services to better off customers.

Question 7: Could the role of alternative commercial and not for profit financial services providers in addressing financial exclusion be enhanced? What could be done to encourage more such providers to help with access to basic bank accounts?

There is some scope for alternative financial service providers to assist in addressing financial exclusion. In the UK, a small number of credit unions are a credible alternative to traditional banking services and there is some scope to build capacity in this area. However, not all credit unions are able to provide current accounts and in any event they currently operate on a relatively small scale and have a limited infrastructure. There is a role for the Commission to support the development of these alternative providers, in terms of encouraging the creation of alternatives where they do not currently exist and maintaining and strengthening the capacity of those alternative providers that are already in place.

In addition, voluntary and community organisations may play a role in supporting financially excluded individuals to open bank accounts and access financial services. In the UK, for example, Toynbee Hall has set up an initiative called SAFE (Services Against Financial Exclusion), which helps people open bank accounts, as well as supporting them with their debt issues.²

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

² Toynbee Hall – SAFE (Services Against Financial Exclusion)

<http://www.toynbeehall.org.uk/page.asp?section=000100010001000800010004&pagetitle=SAFE>

It is essential that regulators consider the impact of regulation on financially excluded groups and ensure that regulation both protects financially excluded groups and does not adversely impact on their ability to access affordable services (eg as has happened in relation to money-laundering regulation).

In a recent report, *Rating Regulators*³, Consumer Focus recommended that:

- regulators should include a section in their annual reports describing the impact of their work on vulnerable consumers
- the National Audit Office should conduct a study into how effectively regulators are taking into account the needs of vulnerable consumers

Question 9: What is the most effective role public authorities can play in combating financial exclusion – e.g providing an understanding of the problem; assessing the efficiency of policy measures implemented and their impact on financial inclusion; promoting and supporting market initiatives; contributing to the provision of financial services; raising awareness; intervening in cases of exclusion (eg via tax incentives, subsidies or regulatory penalties); introducing legislation?

In the UK, the government has adopted a strategy towards challenging financial exclusion which encompasses a number of different approaches, including dialogue with the financial services providers to encourage financial inclusion measures and funding affordable credit and the provision of face-to-face advice through voluntary and community sector providers. In order to be effective, public authorities need to address the problem of financial exclusion through diverse measures aimed at coming at the problem from both the provider (supply) perspective and the consumer (demand) perspective. The expertise in working with excluded groups is often found in the voluntary and community sector and hence programmes aimed at financial inclusion may be more effective when they take place in conjunction with or through the services of voluntary and community organisations. It is also essential that public authorities, including central and local government, ensure that their interactions with consumers promote financial inclusion and that they apply the same principles with regard to access and service quality as are expected of the private and third sector.

³ Rating Regulators, Consumer Focus (2009)

http://www.consumerfocus.org.uk/en/content/cms/Consumer_Focus_Publi/Consumer_Focus_Publi.aspx

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

The Commission will be in a position to lead the approach with regard to minimum standards for financial inclusion in terms of basic bank accounts and other financial inclusion measures. In addition, the Commission will have an overview of financial inclusion practices across the EU, which it may encourage to be reproduced between member states that are at different stages of development in terms of addressing financial exclusion.

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

We have set out above the particular problems for low-income groups in the UK in relation to basic bank accounts. Insofar as these problems apply to opening basic bank accounts cross-border or in relation to other EU countries, we consider the Commission would have a role in ensuring that these problems are dealt with consistently across member states.

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

Financial inclusion is a wide concept and can be taken to have a number of different meanings. In our view, as well as access to basic bank accounts, it should, as a minimum, cover access to affordable credit, savings facilities, insurance services and access to free and independent advice for those experiencing financial difficulties.

Yours faithfully

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