Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

Consumer Panel response to DG Markt consultation document: Financial inclusion: ensuring access to a basic bank account

The Financial Services Consumer Panel was established under the Financial Services and Markets Act 2000 by the Financial Services Authority to represent the interests of consumers. The Panel is independent of the FSA. The main function of the Panel is to provide advice to the FSA, but it also looks at the impact on consumers of activities outside the FSA's remit. The Panel represents the interests of all groups of consumers.

This is the Panel's response to DG Markt's consultation paper on ensuring access to a basic bank account. We welcome the Commission's initiatives to address financial exclusion and we support the objective of ensuring that every EU citizen or resident has access to a basic bank account. Our comments on the specific questions in the paper are set out below.

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 broadly support the view that the Commission's overall objective should be to ensure that by a certain date every EU citizen or resident has the opportunity to access a basic bank account (BBA) facility.

Appropriate access to banking services is critical to promoting financial inclusion. As the UK Treasury Select Committee stated in 2006[1]

"People who do not have access to banking services are limited in undertaking a wide range of everyday financial transactions, and those limitations are arguably increasing as such transactions become more sophisticated. For example, without a bank account a person may not be able to obtain competitive loans or insurance policies or enter into a mobile telephone contract. Those without bank accounts often lack security in storing money, leaving them vulnerable to theft or loss. Employers very often require that wages are paid into a bank account, limiting employment opportunities for the unbanked. It can also be difficult to start a business or engage in entrepreneurial activity without a bank account."

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[1] "Banking the unbanked: banking services, the Post Office card account, and financial inclusion" at www.publications.parliament.uk

In addition, research by the Joseph Rowntree Foundation (2008) showed that financial exclusion is an important policy area because financial exclusion is a current policy concern as it creates financial problems in the following ways:

- Exclusion from affordable loans leaves people who need to borrow money with no option but to use high-interest credit.
- A lack of insurance and savings makes families vulnerable to financial crises following unexpected events such as burglary or flooding. A lack of savings can lead to poverty in old age.
- Many employers will only pay wages into a bank account.
- Cheque cashing agencies may charge 7 to 9 per cent of the value of the cheque plus a fee for the transaction.
- Not having a bank account with a direct debit facility excludes people from this method of paying bills. Most utility suppliers charge more for using other methods of payment, such as pre-payment meters, pay-point cards in convenience stores, postal orders or cash.

The main challenge to meet this objective will be to find a solution that can be applicable across Europe and to determine how positive consumer outcomes from such an objective can be effectively monitored and assessed.

Question 2: Do you agree with the description of the causes and consequences of financial exclusion? Please provide additional information if available. Financial exclusion occurs when people lack access to appropriate and affordable financial services that they need or want.

Financial exclusion is a broad, generic term, covering issues of both supply and demand, for example:

- Financial access: access to appropriate and affordable financial products and services, and
- Financial capability: the knowledge skills and confidence to choose and use these products appropriately and effectively

Financial exclusion can be experienced in many ways during ones lifetime. Typical examples include a lack of access to an appropriate bank account, savings products, insurance or affordable credit, or a lack of ability to choose and use the most appropriate product features.

A lack of access to financial advice, whether for crisis debt management or for simple longer term financial planning, is also part of the pattern of financial exclusion.

As financial exclusion can take many different forms, with many different potential combinations of access and capability issues for different groups and individuals, it can be challenging to identify and address through simple one dimensional interventions.

Financial exclusion is further complicated by the fact that people can move in and out of financial exclusion. Financial exclusion is a dynamic not a static phenomenon.

There is a general lack of commonly agreed priorities, targets and associated indicators for financial inclusion as a meaningful whole, which makes measurement and assessing outcomes of policy interventions challenging.

Nevertheless, there is consensus that access to a bank account is a fundamental component of financial inclusion.

Financial exclusion is both a cause and a consequence of poverty. Social and income inequality are the root causes of financial exclusion.

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

No one benefits from financial exclusion – individuals, banks or government. However, it is important to bear in mind that the banks are businesses accountable to their shareholders. In the UK providing BBAs is not immediately profitable for the banks. In part, their offering is based on recognition of a responsibility to promote financial inclusion or to look to longer term profitability.

Banks are not the only providers of BBA. In the UK the Post Office and Credit Unions also provide a valuable service that can be expanded and supported to meet the needs of this client group.

The current market conditions place even more emphasis on the need for the adequate provision of BBA. The current levels of Government intervention in the banking system through part and full nationalisation, offer possible leverage to expand the provision and uptake of BBA.

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

Voluntary codes of practice are fairly common in the UK and can work well when supported by effective trade associations.

While the Commission can do a great deal to support and enhance voluntary codes of practice it is important that industry views are counter balanced by views of end users and consumers themselves.

Voluntary codes of practice need to be monitored and evaluated in a transparent way to encourage compliance and if required enforcement.

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

Only where this seems sensible and practical to do so.

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?

In the UK BBAs are provided free of charge, banks either operate BBAs as a loss leader, like student accounts, migrating people onto more profitable accounts at a latter stage. There is some limited evidence to suggest that cross subsidisation between products does exist.

In principle BBAs should be free of charge and fully protected. If supported as a key policy objective by Government, then there should be some form of public subsidy.

Further research is required into the cost structures of different BBAs and if required the imposition of fixed annual fees for BBAs.

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?

We believe there is an important role to be played by alternative commercial and not-for-profit financial services providers in addressing financial exclusion.

Those organisations operating in the Third Sector, particularly those working day-to-day with those experiencing financial exclusion, and who collaborate with banks at both local and strategic levels to offer BBA can be encouraged to undertake the following:

- Identify target groups at the local level
- Raise awareness amongst clients of the relevance of BBA and other banking services
- Increase the capability of clients to access and manage accounts effectively
- Develop skills of front line staff to support clients
- Work in partnership with banks to offer support to specific client groups that can place undue demands on branch staff – e.g. working with people with mental health issues.

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

This seems sensible but should be undertaken on a national basis.

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

We believe that public authorities have an important role to play in combating financial exclusion through a number of initiatives:

- Access to affordable credit
- Access to affordable savings products
- Free impartial money and debate advice
- Financial capability – including financial education in schools and the workplace
- Access to basic financial products and services.

Public authorities should seek to work with consumers, the regulators and industry to address such issues as improving access to BBA. Public authorities have a responsibility to monitor the uptake of BBAs for particular vulnerable group – e.g ethnic minorities and the 'usability' and functionality of the products available for low income groups.

Innovative policy responses to the problems of financial exclusion and access to BBA at the local level, including the development of 'Community Banking Agreements' should be encouraged and supported by Public authorities and the Commission should investigate and disseminate best practice.

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 EU is in a strong position to promote and share best practice as well as encourage self-regulation by the industry, although the Panel would not necessarily wish to see self-regulation in this area.

Enhancing knowledge on the impacts and consequences of financial inclusion is also essential.

At the EU level, an operational and effective standardised monitoring of BBA should be investigated.

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

The EU should look at the following issues:

- Overcoming language barriers
- The issue of proof of identity to support account opening
- Meeting the needs of vulnerable groups – those with mental health issues, disabilities

Other factors should be considered:

- Account closure
- Account upgrade
- Compliance monitoring

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

To ensure a robust and comprehensive approach to financial inclusion the scope of interventions should be more than just access to basic banking facilities and include a integrated approach with such services as affordable credit, incentivised savings schemes (for example the UK Government Savings Gateway), appropriate and affordable insurance products, long term savings products and free basic money and debt advice (for example in the UK the FSA is working with the UK Government to roll out the National Strategy for Financial Capability and a Money Guidance pilot)

Nick Lord
For Adam Phillips
Acting Chairman
Financial Services Consumer Panel

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