

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

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

Yes.

We agree with the Commission's general objective aimed at guaranteeing that, within a certain date, every EU citizen or resident has access to a basic bank account - BBA. This decision is, in fact, a useful measure to favour financial inclusion of all the Community citizens and European residents.

In Italy, in order to promote financial inclusion, PattiChiari (a separate legal entity, independent from the Italian Banking Association, with a multi stakeholders governance), launched a very simple product accessible for ease-of-use and low cost, called "Basic Banking Service". This service is specifically tailored to those who still do not hold a current account with a bank, from very young to retired people. The "Basic Banking Service" offers clients a set of essential instruments and services: ATM card, salary or retirement pension deposit, direct debit, bank transfers, information on balance and transactions, and access to simple investment plans.

With this product clients can:

- **deposit** salary or pension;
- **pay in** cash and cheques;
- **withdraw** cash at the counter;
- make and receive payments using **bank transfers**;
- **pay** utilities bills (electricity, gas, telephone) and make other regular payments (e.g. rent or subscriptions);
- use a **debit card** or a **prepaid cash card** which enables them to withdraw cash from all banks' cash dispensers and to make purchases at 900,000 partnered stores and other establishments;
- invest their **savings** by making regular payments (in mutual funds, life assurance policies, etc.);
- access information and carry out transactions by **Internet** or **telephone** as well;
- periodically receive **statement of account**, with a list of revenues and expenses.

The Basic Banking Service lets clients:

- access money in a **completely safe** way, and avoid carrying cash or keeping it at home;
- **save time** and simplify life (for example by using direct debit to pay utilities bills);
- **use** a simple service devised for people that do not have a current account;
- **reduce current account costs**: only a few euros per month.

The “Basic Banking Service” may also be offered by participating banks **in the form of a special prepaid cash card**.

The Italian Basic Banking Service **is not a real current account**, but a simplified account. Specifically, it does not include:

- a chequebook;
- a credit card;
- various forms of finance (overdraft, loans, mortgages, etc.);
- the purchase of securities such as Italian Treasury Bonds (BOT), bonds, shares, etc.

On 31 July 2007, the Italian Banking Association encouraged the execution of the “Framework for the prevention of usury and assistance for victims of racketeering, extortion and usury”, signed by the Ministry of the Interior, numerous trade associations, credit guarantee consortia and anti-usury associations. This Agreement pursues the goal of favoring financial inclusion, also by undertaking a series of actions aimed at strengthening procedures that facilitate access to claims and with recovery of claimants, as to whom the right to access basic banking services is recognized.

From this cooperation standpoint, we believe that financial inclusion should be addressed comprehensively, engaging all interested stakeholders. Coordinating the latter, at all levels, represents the most important challenge we face.

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

Yes.

We agree with the causes and consequences of financial exclusion as described in the consultation document prepared by the Commission and transmitted in the context of the study on “*Financial services provision and prevention of financial exclusion*”, published in March 2008 and presented during the high-level Conference organized by the European Commission on 28 May 2008. More than 400 people participated in this Conference

including ABI. We highlight that, moreover, the causes and consequences described in the document are of a general character and there is no specific focus on SBB.

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

Yes.

We believe that it is possible to reconcile legitimate business interests with adopting “social” initiatives.

ABI believes that financial inclusion can be seen as a combination of accepted methodologies, products/services, innovative practices, which, by meeting low-cost criteria, favour the financial inclusion of low-income individuals and/or of those who find themselves in disadvantaged social conditions. This may represent an opportunity for business growth and development for interested banks, which would enable them to broaden their banking business and play a new role that sees them active in, and as promoters of, financial inclusion.

Speaking on the behalf of the Italian banking industry, ABI supports actions not with a welfare purpose, that can be developed with new cost-effective operating methods, which allow interested banks to achieve corporate social responsibility (CSR) strategies.

- CSR vs. profit: there is no dichotomy. CSR can become a vehicle to create widespread value.
- CSR aims to make different stakeholders' interests “compatible”, in other words maximize business profits for shareholders as well as meet other stakeholders' expectations: from a single-shareholder approach (Milton Friedman 1970, “The only social responsibility of business is to increase its profits”) to a multi-stakeholder approach (Freeman 1984).
- CSR as a strategic option appears to be a way to achieve business goals and help guarantee value creation as well as a company's long-term presence on the market.

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

In Italy, the “Basic Banking Service” is part of a large banking code established since 2003; today the BBS is available at over 22,285 branches at an average monthly price of 2.75 Euros (based on 54 yearly transactions); 77% of the products offered cost less than 3.5 Euros per month. Since January 2004, when the initiative was launched, the number of banks that decided to offer this product has almost doubled: from 40 to 74. 17% of the approximately 90,000 Basic Banking Service subscribers are foreigners, with almost half of these from Albania, Romania and Morocco. 21% are young people between 18 and 30 years of age (+7 percentage points compared to current account holders of the same age).

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

Apart from several countries where there is a legal right to a basic bank account, banks are not obliged to open bank accounts. This freedom to contract is a fundamental principle of market economy, guaranteed in several Member States' constitutions. Banks must be left free to make a decision on whether to accept a client on the basis of their risk management assessment.

The TILEC report on universal service in banking outlines different policy options and alternative solutions available to implement such universal service obligation. (<http://www.tilburguniversity.nl/tilec/publications/report/usobanking.pdf>). In order to balance and choose among the alternative options, an in-depth cost/benefit analysis is required

Since the basic bank account is seen as a tool to foster financial inclusion, it is important to take into account that financial inclusion is a very complex issue, which could benefit from a complex set of measures and policies proposed by different stakeholders. Requiring generalized access to a basic bank account wouldn't solve the challenges arising from the current financial exclusion present in many countries.

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 order to truly accomplish the goals of financial inclusion of the economically weaker groups of society, a basic bank account should be offered at an accessible cost, through a joint effort by all the involved stakeholders including the government with respect to the fiscal part. In Italy, the tax burden on product exceeds the actual cost of the product.

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?

According to the new findings of the ABI EU Laboratory on financial inclusion, **partnership** between banks and non-financial institutions can help in setting alternative criteria to those traditionally used to evaluate the targeted audiences. Partnership can be useful to enhance access to several financial services, included the basic banking account. The establishment and management of partnerships between banking and non-banking entities is one of the **innovative methods** through which several projects of financial inclusion are developing. The entities involved could include bank foundations, service industry organizations and banks. Service industry organizations have a crucial role in retrieving data necessary to evaluate each case. They primarily carry out an informal screening of the applicants seeking financing, and then offer them support after granting credit. Through managing guarantee funds, banking foundations perform their function by means of practical intervention in social issues; the banks likewise provide their services by collecting information on reliable parties, which are instrumental in their intervention in the community of reference.

The projects resulting from the aforementioned partnerships evidence the fact that the interaction between entities with such diverse characteristics and missions is a sign of the great “value” that can be generated by the opening and coordination of different ways to operate, along with distinct ways of being.

Financial institutions, civil organizations and consumer associations can also work together to develop programs on financial education.

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

We believe that the primary role of institutions to favour financial inclusion is that of taking part in the struggle against financial exclusion, by adopting a series of non-regulatory measures coordinated by them and cooperating with other stakeholders (see answer to question 9).

Regulatory measures would create overlapping with important self-regulation initiatives already present in various Member States – as illustrated above – and at the same time it would risk negatively impacting free market principles and the freedom to contract, *vis-à-vis* the bank, which would make its contractual decisions on the basis of important criteria such as assessing creditworthiness.

Institutions have an essential duty to diffuse existing initiatives and collaborate with and sustain new financial inclusion projects sponsored by the banking system and institutions. This entails the need, by the institutions, to assess and remove any obstacles (whether regulatory and not) that negatively impact a bank's decision to offer basic banking services, specifically at a cross-border level (see answer to question 11).

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?

Public authorities of individual Member States could be take part in the struggle against financial exclusion by adopting a series of measures coordinated by them and cooperating with other various types of stakeholders (e.g. Consumers Associations, industry, NGO, trade associations, etc.). They could: define, based on the data and information available to them, a general framework of the problem; assess the effectiveness of the implemented policy measures and how they impact financial inclusion; promote and sustain the actions concerning self-regulation adopted by the market; make the public aware of the issue; plan meetings and seminars on the subject, organized with the help of other stakeholders; and adopt adequate measures such as fiscal incentives, subsidies, etc.

More specifically, institutions have a role to play in contributing to social cohesion and at the same time reducing their direct intervention with respect to the weakest groups of people. Several activities can be developed by institutions, such as:

- the most publicly recognized awareness of financial inclusion issues, increasing awareness of existing and potential public tools to support financial inclusion policies,
- the development of social policies that, also on the basis of the conducted surveys, offer a framework to develop concrete tools to intervene, also through national networks involved in their planning and management (regions, local authorities, non-profit organizations);
- the promotion of microfinance and responsible use of money through information and education actions towards banks and citizens;
- boosting the proactive behaviour of market players, for example, by helping the circulation of banking products designed to satisfy the needs of unbanked clients, associated with public security, efficiency, simplification;
- implementation of initiatives aimed at facilitating financial inclusion of new immigrants who have been excluded from the process of bancarization (such as, for example, guidelines in the language of the most representative immigrant groups);

- the development and circulation of inexpensive, simple and secure services to transfer funds home for immigrants;
- development of financial education training programmes, aimed at honing, from a usability and effectiveness viewpoint, the use of banking services, e.g. for senior citizens.

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?

General initiatives on financial exclusion (studies, organizing seminars, financial education programmes etc.) could be adopted at the Community level and could result in substantial benefits at the national level. Specifically it would be opportune to:

- Provide a common European platform to share practices and enhance the dialogue among interested parties, contributing in setting up a clear context of references – also at the defining level - for players involved and the specific role they can play. See for example the experience of the European Multi-Stakeholder Forum on CSR http://circa.europa.eu/irc/empl/csr_eu_multi_stakeholder_forum/info/data/en/csr%20ems%20forum.htm
- Ensure transparency through a better level of coordination among the different activities the EU Commission is running (DG Internal Market; Social Affairs; Enterprise; Regional Affairs, etc.) that relate to some extent to financial inclusion.

Nonetheless, we believe that SBB should only be regulated at the national level, by self-regulation initiatives that are, however, effective.

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

The European Union could encourage the *best practices* already undertaken in various Member States and favour them, encouraging the road to self-regulation by the banking sector. Moreover, it would be opportune to monitor access to basic bank accounts in the various Member States, above all at a cross-border level, also for purposes of timely identifying any obstacles.

Banks are obliged by national or Community legislation to apply anti-money laundering rules, "know your customer" rules, and differing tax rules when opening a bank account to both domestic and cross-border clients. Furthermore, the third Anti-Money Laundering Directive imposes a higher standard on entities in terms of identifying customers who are conducting business through non face-to-face channels. According to banking industry experts, the most frequent reason for refusing the opening of an

account is the insufficient knowledge of the customer and therefore the non-compliance with the “know-your-customer” rule.

The impact of divergent legal and regulatory requirements for opening of bank accounts (documentation, storage etc.) in the EU and the impact of existing anti-money laundering rules on customer mobility should be analysed by the Commission.

The above matters have already been the subject of analyses and observations also by the *Bank Account Expert Group on customer mobility*, in which ABI participated with its own expert. The work carried out by the group helped identify many barriers, in particular regulatory, that negatively impact on the opening of current accounts at the *cross-border level*. Based on the results of the report by BAEG, important initiatives were undertaken, such as a code of self-regulation at the European level on “*high level principles*” concerning *switching*

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

ABI believes that the Commission should aim to broaden the concept of basic bank accounts to **financial inclusion**, as a “whole of methodologies, instruments, innovative practises that, corresponding to the inexpensiveness criteria, facilitate the financial inclusion of low-income people and/or those who are socially disadvantaged”.

Examples of services that might be taken into considerations are:

- microfinance services, such as credit services, saving systems, current accounts (including a basic bank account), payment services and fund transfer;
- the domestic selling practises;
- the purpose-built structures;
- financial educational projects;
- *partnerships* with non-banking entities.

Adopting such a broad definition of financial inclusion means focussing on activities that a large number of people could benefit from, becoming more active economically and more integrated in society, thanks to a set of existing financial services and/or adapted to new special needs.

It is obvious that the goals of financial inclusion, addressed in connection with microfinance – migrant banking, also require more far-reaching policies not limited to the confines of bank operations. Banks, as undertakings, operate in a business environment and must necessarily pay strict attention to the cost-effectiveness of their management activities. Now, if this principle is not fully complied with, and in order to ensure that banks may, in any case, develop projects and tools aimed at meeting new

demands and needs, based on their own strategic decisions, it is necessary to resort to a complex set of policies aimed at promoting and supporting development. A development of society that would be beneficial for all the parties concerned, implemented by a variety of different stakeholders, where everyone does their share of the work: not just the banks, but also the institutions, governments, international organizations, and those representing or who are close to these new customer groups.