European Association of Co-operative Banks
Groupement Européen des Banques Coopératives
Europäische Vereinigung der Genossenschaftsbanken

EACB answer to the European Commission's 'Consultation on 'Financial Inclusion: Ensuring Access to a basic bank account'

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The **European Association of Co-operative Banks** (EACB) is the voice of the co-operative banks in Europe. It represents, promotes and defends the common interests of its 28 member institutions and of co-operative banks in general. Co-operative banks form decentralised networks which are subject to banking as well as co-operative legislation. Democracy, transparency and proximity are the three key characteristics of the co-operative banks' business model. With 4.200 locally operating banks and 63.000 outlets co-operative banks are widely represented throughout the enlarged European Union, playing a major role in the financial and economic system. They have a long tradition in serving 160 million customers, mainly consumers, retailers and communities. The co-operative banks in Europe represent 50 million members and 750.000 employees and have a total average market share of about 20%.

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General remarks

EACB sincerely welcomes the initiative of the European Commission to carry out a public Consultation on: *'Financial Inclusion: ensuring access to a basic bank account'*, aiming to collect stakeholders' views on how financial inclusion can be improved and on how best to ensure access to a basic bank account for every resident by a certain date.

Ensuring effective financial inclusion and social integration represents a crucial issue for co-operative banks. Indeed, the EACB strongly agrees with the Commission's statement that '*financial exclusion forms part of a much wider social exclusion faced by some groups who lack access to housing, education or health care as well as employment'*. Co-operative banks, as socially committed banks, are continuously at the forefront in the fight against financial inclusion. The notion of social inclusion is enshrined in the very core of their co-operative governance model.

Indeed, through their large decentralized networks and high degree of local presence, they seek to establish specific relationships with their customers, based on *trust* and *proximity*. They are not focused on short-term profit but engaged in a policy of longstanding relationship, in the best interest of their clients. Their specific governance model allows people who do not have access to a competitive offer for financial services to unite their forces in a co-operative society and mutually help each other enhance their negotiation power.

Because territorial logics also contribute to creating situations of exclusion and vulnerability, one of co-operative banks' vital added-values is their high presence on the ground and in remote geographical regions (remote-access areas, rural areas, 'problem' areas, etc.), thus alleviating the problem of geographical exclusion.

This specific governance model based on solidarity and responsibility brings a pragmatic contribution to resolve financial exclusion and represents a relevant framework to rebuild shattered economic and social structures.

Furthermore, the EACB strongly concurs with the Commission's diagnostic that increasing numbers of consumers are likely to be affected as a result of the ongoing financial crisis, and that '*access to basic financial services could become harder as the capacity of indus-*

try to meet the needs of consumers will be impacted, potentially resulting in an increased number of people being excluded from mainstream financial services'. The need to enhance the efficiency of poverty alleviation mechanisms, namely by providing disadvantaged communities with access to information, resources, and access to financial services is an urgent challenge that has only been intensified by the current financial and economic crisis.

In this context, the awareness of the added-value and superior efficiency of co-operative-type financially inclusive strategies has been enhanced by the turmoil of the current financial and economic crisis. In the current economic crisis, they have proven that responsible lending practices, proximity banking and intuitu-personae relations are essential and have helped them – to a certain extent of course - maintain their resilience.

The EACB also wishes to emphasize it shares the Commission's views on the need for productive dialogues. The EACB is convinced true financial inclusion can only be reached by involving the full range of key actors (the financial sector, non-bank MFIs, academics, think tanks, consumer organizations, NGOs, public authorities, telecom operators, insurance companies, etc.) in fruitful and cross-sector dialogues, partnerships and exchanges of best practices. Such coordination will trigger synergies and the know-how transmission process between networks.

However, the EACB disagrees with the generalization stated by the Commission: '*In a market-based economy, financial services providers often focus on those consumers who represent a commercially attractive proposition, leaving vulnerable consumers without the same choice of products and voice to ensure their interests are taken into account. Efforts need to be made to ensure access to a basic bank account which is effective and provided at a reasonable cost*.' Indeed, the EACB strongly trusts there is more merit in recognizing the various existing strategies of financial inclusion offered by a diverse financial sector. Indeed, co-operative banks, as socially committed banks, based on proximity and trust, apply the 'mutualization' principle and have a long experience of welcoming all types of clients, and being present in areas that tend not to be considered as profitable by commercial banks. In this respect, the fundamental importance of the diversity of the banking sector must be upheld and preserved. It constitutes a decisive dynamic when determining the success of financial inclusive schemes by serving different segments of the population in different geographic zones. It encourages innovation and allows access to different categories of customers. Our experience in financially inclusive schemes shows that the main leverage effect is determined by the degree of local anchorage of mechanisms and actors. Co-operative banks, with their high presence on the ground and in remote geographical regions, resolve the problem of ‘geographical exclusion’.

Moreover, the EACB would like to unmistakably emphasize that it disagrees with the Commission’s suggestion to oblige all financial service providers to offer every EU citizen with a bank account. Indeed, stigmatisation and hard-law approaches should be avoided in this field, as the most essential feature in the long term remains the relationship between the bank and the client. Moreover, the EACB wishes to vigorously underline that a hard law approach in this field can create incoherencies and severe conflicts with other currently regulated areas, such as anti- money laundering, illegal immigration, identity control and proof. Market rules and financial inclusion can work succesfully hand in hand, if the right incentive structures are put in place, and this is where, in the EACB’s opinion, public authorities at EU and/or national levels, can develop a rewarding and succesful margin of manoeuvre, as will be developped in the answers provided further on.

Q1: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?

The EACB supports the Commission’s efforts to further investigate the aim of ensuring access to a basic bank account and shares the Commission’s overall objective to ensure that, by a certain date, every resident has access to a basic bank account.

However, it is imperative to distinguish people who are formally excluded from the banking system from the others in order to avoid confusion in the solutions the Commission may propose, as is develeopped further on in the answers provided to questions 5 and 6.

Moreover, EACB members are of the opnion that, if it were to be imposed on financial services providers to offer access to basic bank accounts, it would be of the utmost importance to limit this access to residents only, and not extend it to all EU citizens, namely because access to a bank account for non-residents is strictly regulated by EU legislation on anti-money laundering and closely linked to fiscal questions.

The main challenges in meeting this objective can, among other causes, stem from cultural sensitivities (mistrust and cultural preferences not to engage with financial institutions), the demographic curve that will only be accentuated in the coming years, a financial landscape in some EU Member States that is too uniform, therefore only addressed to the more profitable segments of the population, the necessity to bridge the information gap and the technological gap, and finally the EU15-EU10 divide.

Indeed, concerning the EU15-EU10 divide, according to a Eurobarometer survey, at the end of 2003, 10 % of adults aged 18 and over in the EU-15 had no bank account, versus 47 % of adults in the EU-10. Furthermore, the current lack – or even total absence – of debate in the EU-10 will constitute a further challenge that must be tackled before attempting any other type of initiative.

Another fundamental challenge to undertake is to stimulate the debate, and firmly encourage the full range of involved stakeholders to participate in the financial inclusion dialogue, create platforms for the exchange of financially inclusive best practices, and foster cooperation between different types of actors.

Q2: Do you agree with the description of the causes and consequences of financial exclusion? Please provide additional information if available

The EACB concurs with the following causes presented in the Commission's current Consultation document and in the Commission fact-finding study of 2008 entitled '*financial services provision and prevention of financial exclusion*':

- stricter money laundering rules,
- demographic changes,
- mistrust in financial institutions,
- the technological gap, such as lack of access to internet

Concerning the two following factors: the liberalization of markets leading to a disappearance of institutions targeted to low income segments of the population and the geographical access factor ("*Those most likely to be financially excluded are vulnerable groups -people on low income, unemployed, lone parents, people with disability-, as well as people living in areas where no financial services are offered.*"), the EACB considers them as a major challenge. We wish to emphasize that by applying the 'mutualization' principle, cooperative banks have a long tradition of welcoming all types of clients, including the most disadvantaged, as well as being present in remote-acces areas. This only serves to further highlight the imperative necessity for public authorities to create and maintain a functionning '*level-playing field*' for the various actors of the financial sector. The crucial importance of the diversity of the banking sector must be preserved, as it constitutes a key dynamic factor when determining the success of financial inclusive schemes by serving different segments of the population in different geographic zones. Our experience in financially inclusive schemes shows that the main leverage effect is determined by the degree of local anchorage of mechanisms and actors. In this respect, co-operative banks offer a pragmatic and efficient contribution to the pursuit of poverty alleviaion and social cohesion.

However, EACB members wish to remind the Commission of the methodological importance of providing evidence-based statements that allow a clear distinction to be made between social causes from strictly financial causes, as this is not always patent in the causes invoked by the Commission.

Furthermore, the EACB members must acknowledge that the following sentence has drawn their attention, as they tend to disagree with the implication that '*the conditions and high costs associated with bank accounts deter both access and use*'. Indeed, the inevitable structural framework, day-to-day operation costs and over-regulation in other fields prevent the banking industry from offering these services free of charge, but we nevertheless believe prices are not excessive and therefore do not act as deterrents *per se*.

Regarding the consequences of financial exclusion, the EACB marks its complete adherence with the fact that financial exclusion forms part of a much wider social exclusion phenomenon faced by some groups who lack access to housing, education, health care as well as employment, general access to social welfare, and may lead to self-isolation.

Q3: Do you think that one can reconcile financial services providers' legitimate need to make profit with any social obligation that 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?

The EACB is in fundamental agreement with the Commission's assumption that "*For the financial services sector, it can be said that financial inclusion is both a societal challenge and a business opportunity – a win-win situation in the long run*".

As 'social businesses', the members of the EACB have indeed managed to successfully merge elements that are too often considered as antinomic, although the results-driven experience of co-operative banks is that, when amalgated, they constitute a successful and efficient business model and an inclusive governance model.

In this optic, co-operative banks have sought out and developed new products and services that fit better with the needs of people who are financially excluded, and have established partnerships with not-for-profit organizations and/or public authorities to decrease the possible reluctancy of the financially excluded to engage in relations with financial service providers.

Q4. In your experience, where voluntary codes of conduct are in place, are they well applied?

Voluntary charters and codes of practice to provide basic bank accounts, developed by the banking industry itself, through self-regulation, are a widespread response to financial exclusion in the EU-15. Examples include Italy, France, Germany, the United Kingdom, Spain and the Netherlands. In many cases, these developments have been prompted and encouraged by public authorities, and success varies from one country to another, but globally results have been satisfactory.

The EACB therfore believes that there is more merit for public authorities in focusing on acting as facilitators. This facilitating role could involve giving the impetus to the banking industry to come up with viable self-regulation to stimulate fiancial inclusion, as well as to create platfroms for the exchange of best practices on financial inclusion initiatives between all stakeholders. Such coordination will undoubtly trigger synergies and the know-how transmission process between actors and their networks.

Q5. Should all providers be obliged to offer basic bank accounts to all citizens throughout the EU?

The EACB members consider that all residents should have access to a bank account.

However, a fundamental distinction must be made between most customers, for whom market solutions are available without further need for intervention, and those who are excluded from the banking system.

Regarding the latter, co-operative banks are firmly convinced that hard law is not necessarily the solution.

Indeed, as the situation varies considerably among EU countries , a case by case assessment is necessary. The national dimension is essential in this respect, since solutions depend on existing public social policies and on the social and economic reality of each Member State.

Moreover, co-operative banks believe the principle of contractual freedom is fundamental. Freedom of contract constitutes a deep-seated part of EU member states' legal systems.

Stigmatisation and hard-law approaches should be avoided in this field, as the most essential feature in the end-result and in the long term remains the relationship between the bank and the client.

Moreover, the EACB wishes to vigorously underline that a hard law approach in this field can create incoherencies and severe conflicts with other currently regulated areas, such as anti- money laundering, illegal immigration, identity control and proof.

Market rules and financial inclusion can work succesfully hand in hand, if the right incentive structures are put in place.

Q6.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?

EACB members wish to underline, again, that in this field a fundamental distinction must be made between most customers, for whom market solutions are available without further need for intervention, and those who are excluded from the banking system.

Regarding the former category (most customers, who are not formally excluded financially) the EACB is opposed to a system of basic bank accounts provided on a free of charge basis. Basic bank accounts should be provided at an affordable price, as most often competition factors engender lower prices, and often there are already price limits for different operations, as well as diverse laws protecting people with social difficulties.

The EACB members however believe the situation should be analyzed on a case-by-case basis, carefully distinguishing the mass of customers who have regular access to financial services, from those who are truly excluded

Q7.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?

Co-operative banks have developped a wide array of financial inclusive schemes, and they believe these could serve as successful examples of best practices, that could be encouraged elsewhere: large coverage of territories through a network of numerous light branches (proximity), mutualization principle (co-operative governance model), intuitu personae relation (trust), developing new products and alternative financial services, mentoring, technical assistance and debt-counselling, cap on banking fees for payment incidents, process of coaching financially disadvantaged people, solidarity savings (profits from mutual funds shared with Associations - Crédit Coopératif), possible partnerships with the community of social cooperatives and associations, with local governments, and finally promoting initiatives in two correlated and critically essential fields: financial education and microfinance.

It would therefore be counter-productive not to use this experience and these skills in an exchange of best practices.

Nevertheless, the EACB wishes to emphasize the fundamental importance in this area of maintaining a level playing field, and of applying the principles '*same business, same risks, same rules*'. Favoring certain financial services providers, such as non-bank MFIs and credit unions, at the detriment of others, would be counter-productive in that the inevitable side-effect would be not only the distortion of the current functioning of the market but, more importantly, the "ghettoization" of some segments of the population. Subsidised products could pose a moral hazard problem and could lead to the crowding out of viable products from the market. Any support for financial inclusion should not lead to market distortions.

Furthermore, EACB members believe that the best way to fight financial exclusion is to allow citizens to develop a normal banking relation with mainstream institutions. Special mechanisms should aim at facilitating the transition towards a normal banking relation, where necessary

Q8.Should regulators be required to consider the impact of regulation on financially excluded groups?

Regulators should remain attentive to the impact of regulation on production and distribution. Over-burdensome regulations should be avoided, by previously conducting thorough impact assessments. Furthermore, regulation should allow space for services to be offered at a reasonnable price for all, thus acting as a catalyst for financial inclusion..

Moreover, as stated previously, certain regulations seem to be imposing some conflicting constraints, as ocurrs for example with anti- money laundering regulations with regards to the the access to bank accounts.

The best way to achieve this is to enhance the capacity of the sector to find best solutions to tackle financial exclusion and to avoid competition distortion between providers.

Q9. 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?

The EACB would like to stress that banking inclusion is one of the preconditions to reach social inclusion, but it cannot act on its own and solely be considered as the key engine in achieving this.

The problem of financial inclusion strongly varies from one EU country to another and there is no ‘one size fits all’ solution.

The regulatory constraint must not be the first solution put forward. The problem must be studied on a case –by-case basis and this solution should only be envisaged in very last resort. As stated previously, the EACB does not believe a hard-law approach would be efficient in this field, as it would create unavoidable incoherencies and conflicts with other currently regulated areas, such as anti- money laundering, illegal immigration, identity control and proof, etc.

In this respect, the most effective roles public authorities can endorse in the fight against financial exclusion are to act as *facilitators*,

- by supporting market initiatives,
- ensuring the vital diversity of banking models and the existence of a level-playing field between all financial services providers,
- encouraging self-regulation through voluntary charters and codes of practice,
- raising awareness by creating a public debate,
- by creating a platform for the exchange of best practices for the full range of stakeholders involved
- enhancing the exchange of knowledge by developing national indicators, financing independent research, fostering and supporting partnerships, piloting projects to identify best practices, creating working groups for stakeholder dialog and negotiations
- by actively promoting financial education – an essential prerequisite to financial inclusion- and microfinance schemes.

Q10. Should financial inclusion be addressed at EU level? How could the responsibilities and competences between the national and EU levels be shared? What could / should be the Commission’s role?

Co-operative banks genuinely welcome the Commission’s choice of combining economic development with social progress, establishing the social cohesion objective of Lisbon, by fighting poverty and guaranteeing the participation of all citizens in social and economic life.

In this respect, financial inclusion belongs to the more general sphere of social inclusion, which is a fundamental objective of the EU; However, the competence is primarily one of the Member States.

As a consequence, the EACB is of the view that the fundamental principle of subsidiarity should be fully respected in this field, and that the EU should address issues only if they cannot be performed effectively at the national or local levels.

The EACB therefore believes the Commission should act as a general facilitator, by encouraging the diversity of banking models at the EU level and the existence of a level-playing field between all financial services providers, raising awareness by creating a public debate, by creating an EU-level platform to foster the exchange of best practices between different actors and different Member States, as well as by seeking insight in the extremely innovative schemes developed in other continents and emerging economies, by promoting financial education and microfinance schemes, and by working on cultural sensitivities that can prevent certain groups from engaging with financial services providers.

Beyond these tasks, the EACB feels a unique EU-wide response would be difficult, because of the fundamental unreconciliable differences existing between financially inclusive schemes througout the various EU Member State landscapes, due to different cultural, historic, economic and social situations (for example, the difference between Spain and the UK, or more fundamentally between the EU15 and the EU10). Moreover, financial inclusion is closely linked to social inclusion, and this problem has always been approached at Member States' level as a more social issue in order to find appropriate national solutions.The right to be financially included should be a common goal, but with diversity in the national implementation, as there is no 'one size fits all' solution to financial inclusion.

Q11. What could the Commission do to address the potential difficulties in opening basic bank accounts cross-border?

Cross border bank accounts do not represent a problem of financial inclusion. In some cases, financial transfers at a reasonable cost can be a problem, but access to bank accounts and affordable services represent a local problem.

Q12. Should the concept of financial inclusion cover financial services other than the provision of basic bank accounts?

The EACB members wish to recall that the scope of this consultation has righteously been limited to basic bank accounts, to be understood as a bank account which includes services like making and receiving electronic payments for goods and services (e.g. transfers, direct debits, standing orders) and making withdrawals, but excluding any overdraft facility.

The co-operative banks are strongly convinced that a basic bank account is a natural gateway that will lead, in cases of adequate creditworthiness, to other products like savings, insurance and credit, therefore playing by itself a vital role in measures combating unemployment and to gain housing, education and health care. In their opinion, as a consequence, financial inclusion is to be considered as a progressive and evolutive notion, in the sense that access to a basic bank account *may* lead to access to other financial services, if the customer's situation becomes increasingly positive. However, this evolution should be allowed to develop naturally and in healthy conditions (for ex. Responsible lending practices), without forcing banks to systematically deliver a whole range of services that would be overwhelming and inappropriate in a first stage.

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