

Consultation response

Ref: 1609

European Commission consultation Financial inclusion: ensuring access to a basic bank account

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Jane Vass
Jane.vass@ace.org.uk

Age Concern England, Astral House
1268 London Road, London SW16 4ER
T 020 8765 7200 F 020 8765 7211
E policy@ace.org.uk
www.ageconcern.org.uk

Registered Charity No. 261794

Help the Aged, 207–221 Pentonville Road, London N1 9UZ
T 020 7278 1114 F 020 7278 1116

E info@helptheaged.org.uk
www.helptheaged.org.uk

Registered Charity No. 272786 Company limited by guarantee.
Registered in England No.1263446. Registered Office 207–221 Pentonville Road, London N1 9UZ

The objective of this European Union consultation is 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 consultation follows a fact-finding study published by the Commission in 2008, *Financial services provision and prevention of financial exclusion*¹.

Key points and recommendations

1. Age Concern and Help the Aged strongly welcome the Commission's decision to consult on access to banking. Retired people account for a third of the 'unbanked' population in the UK.
2. We recommend that the Commission defines its objective as ensuring access to basic banking services rather than a basic bank account. This would help to ensure that those older people who already have a bank account have access to essential services within those accounts, and particularly access to cash.
3. We recommend that a universal service obligation to provide basic banking services is placed on banks. This would be a proportionate response to the support they have received in the recent economic downturn, and also recognise the benefits that banks receive from a wider market. It would also be in line with the position the European Commission has previously taken in relation to 'services of general economic interest' such as postal services and telephony, which have an essential role 'for increasing quality of life for all citizens'.
4. While voluntary codes of practice are useful, some form of statutory backing and independent monitoring is essential. We would like to see the European Commission pursue a regulatory approach.
5. Basic banking services should be free to users, paid for by banks and with funding from the government to support inclusion initiatives. Increased bank usage leads to considerable cost savings for governments. For example the cost of paying state benefits into a bank account is £0.01, compared to £1.80 for a cheque payment.
6. Regulators should be required to consider the impact of regulation, and particularly money laundering regulation, on financially excluded groups.
7. The concept of financial inclusion should be widened to include other services, including a safe way to save, access to credit and general insurance.

¹ http://ec.europa.eu/employment_social/spsi/docs/social_inclusion/2008/financial_exclusion_study_en.pdf

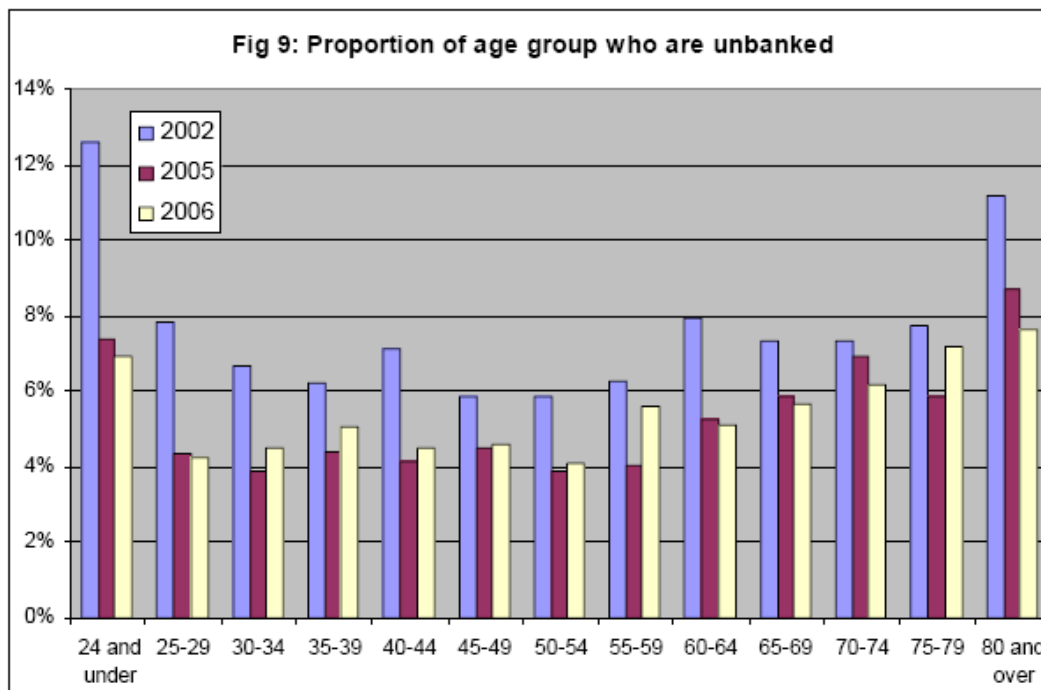
1. About Age Concern and Help the Aged

Age Concern England and Help the Aged joined together in April 2009 to form a single charity dedicated to improving the lives of older people. As the biggest charity in this sector in the UK, it will create a single voice for older people and help them to protect their rights and fulfil their aspirations. It is also a major provider of services to older people both directly and through local partners in England.

2. Financial exclusion and older people

Age Concern and Help the Aged strongly welcome the Commission's decision to consult on access to banking.

A significant minority of older people do not have access to a bank account (defined as a current account, a basic bank account or a savings account), and although there has been progress in reducing the numbers of older people without bank accounts they are still significantly more likely to be 'unbanked' than other age groups. People classed as 'retired', in terms of their economic status, account for 25% of the population, but 33% of the unbanked.



Source: Financial Inclusion Taskforce, *Third Annual Report into Progress Towards the Shared Goal for Banking*, December 2008

However, to be financially included, it is not enough just to have access to a bank account; the account must meet a consumer's needs. This is particularly the case for older people, many of whom already have a standard current account but who still suffer some of the costs and penalties associated with financial exclusion, and in particular:

- Difficulty accessing their existing banking services because of disability or digital exclusion.
- Extra costs arising out of a lack of access. For example, some people with limited mobility have to pay for a taxi to draw cash and it is likely that the economic situation will lead to the closure of more bank branches.
- Disproportionate cost attributable to being on a low income. For example, low-income older people are often reluctant to use direct debit to pay utility bills because of the fear of overdrawing. As a result, they cannot benefit from the discounts offered by utility providers for direct debit payments.
- An increased risk of theft and abuse arising from a dependence on cash.

Our report [Financial exclusion among older people](#), published in September 2006, gives further information.

3. Responses to questions

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. Individuals are increasingly required to use banking services to reduce costs for society as a whole. For example the UK Government has moved most state benefits on to direct payments, whereby payment is made directly into a bank, building society or post office account. Although payment is still made by girocheque for a minority, the Department for Work and Pensions regularly writes to these people urging them to move to direct payment.

If the governments of member states wish consumers to use banks they should ensure that suitable accounts are accessible to all.

However, we believe that the Commission's objective should be defined slightly more widely, to refer to basic banking services rather than a 'basic banking account'. There are two aspects to basic banking services: first, ensuring that the unbanked have access to a basic bank account, and second ensuring that those who already have bank accounts have access to essential services within those accounts. We would define essential services as:

- Cash withdrawals from a reasonable number of accessible outlets.
- Ability to receive state benefits.

- Acceptance of cash and cheque payments into the account.
- Provision of statements which account holders can use both to track spending but also as a means of proving their identity.
- Availability of payment methods (such as standing orders or direct debits) that allow account holders to pay utility bills by the cheapest method. To ensure the payment of direct debits and standing orders do not lead the account to overdraw, the account should provide a buffer zone of say £30 before any charges are applied and alert account holders if the buffer is used up.

We see the following challenges to achieving this objective for older people:

- Lack of incentives for the banking industry to promote basic banking, particularly in a recession. There is a risk that the progress made in the UK in recent years following the inclusion of basic accounts in the voluntary Banking Code will be threatened by a change in status of the Code (see below).
- Difficulty in reaching the most excluded older people, who are likely to be socially isolated.
- Self-exclusion – a preference for cash budgeting, and a general mistrust in the banking industry arising from the banking crisis.
- Availability of a competing ‘entry level’ banking service, the Post Office Card Account. This is a very simple card-based account designed simply to receive state benefit payments: it does not meet our minimum requirements for basic banking services as it does not accept other payments, and offers no services apart from cash withdrawals. 2.5 million pensioners have opted to receive their pensions by this route, around half of whom have no other bank account.
- Identification requirements for opening basic bank accounts arising from regulations to counter money laundering. Although the British Bankers’ Association has issued guidance to members, we still receive reports of difficulties faced by older people, who are less likely to have (for example) passports or driving licences, and who may not be able to produce utility bills as a means of identification if (for example) they are living in care homes. Identification is a particular problem for women, as utility bills are often in their partners’ names.

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

We agree with the description in paragraph 4.2. However some of the causes are particularly likely to apply to older people are:

- Design problems, such as excessive reliance on automated processes. For example, many older people dislike using ATMs outside branches because of concerns about personal safety.

- Accounts that do not cope well with the consequences of ageing. For example, the banking system is difficult for those with memory loss, as accountholders are often expected to remember PIN numbers. Although 'chip and signature' cards are available, there is no onus on banks to publicise them to existing customers. We have previously criticised banks for doing too little to publicise this option.
- Social exclusion and lack of support. Over 20% of those aged over 80 and living alone are severely excluded, with restricted access to essential services.²
- Self-exclusion. We have found fairly extensive evidence of self-exclusion among older people. Many are effective cash budgeters, and fear a loss of control of spending. In addition some older people have given up accounts they used to have while they were working, for example because they fear they may mislay any plastic cards provided by the account.

The consultation paper correctly notes the extra costs that are a consequence of financial exclusion. However there are some other consequences of exclusion that may particularly affect older people:

- Increased risk of theft and fraud. For example, older people who are reliant on cash, or who have bank accounts but cannot draw cash often, may have larger amounts of money at home.
- Difficulty in proving identity. This is both a cause and a consequence of exclusion. Older people often find it that lack of identification makes it difficult to open a bank account: if they do not have banking documentation they are likely to find it increasingly difficult to carry out other transactions such as opening a utility account in their own name.
- Reinforcement of ageist attitudes. We regularly hear from older people who have been treated as incapable by bank staff because, for example, they are not accustomed to using technology. Such attitudes may be a cause of self-exclusion, but they may also be a consequence if bank staff regard difficulty with banking processes as a sign of incapacity rather than inexperience.

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 society, in particular in combating financial exclusion?

Yes. The financial services industry stands to benefit substantially from financial inclusion initiatives, through the possibility of cross-selling other more profitable products. In addition the banking industry has received substantial financial support in the recent economic downturn. We believe that a universal service obligation for basic banking services is a proportionate response.

² *Out of sight, out of mind: social exclusion behind closed doors*, Age Concern England, 2008

The concept of a 'universal service' is well-established in the European context with regard to what the European Commission has defined as 'services of general economic interest', and has been enshrined in the postal services and telephony directives. Services of general interest were categorised in a 2003 Green Paper as having an essential role 'for increasing quality of life for all citizens and for overcoming social exclusion and isolation'. The Green Paper also says the universal service 'establishes the right for every citizen to access certain services considered as essential.'

In addition to having a universal service obligation, we believe that banks should invest a percentage of the support they have received in:

- Increasing accessibility, both in terms of product design but also in improving geographical accessibility.
- Funding other financial inclusion initiatives, and in particular the advice and information services that are so important in helping disadvantaged older people to open bank accounts.

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

Although voluntary codes of practice are useful, some form of statutory backing and independent monitoring is essential.

The provision of basic bank accounts has been subject to a voluntary code of practice, the Banking Code of Practice, to which virtually all retail banks and building societies in the UK are signatories. The Code has been monitored by the independent Banking Code Standards Board (BCSB), and the regular reports the BSCB has published have been a valuable method of putting pressure on banks to meet their commitments.

However, the Financial Services Authority is consulting on a proposal to bring retail banking conduct of business within its remit. This is likely to threaten the continued existence of the voluntary Banking Code and the BCSB. Although industry guidance is proposed for areas outside conduct of business (including basic bank accounts) we are concerned that this will be weaker than the current framework, with no commitment to open consultation, and with no monitoring. We have recommended that FSA should 'stand behind' any future industry guidance by including specific reference to it in its rulebook.

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

Foreign remittances are very important to black and minority ethnic (BME) groups in the UK, as a way of supporting family overseas. Payments overseas are also very important for British pensioners living abroad who experience

similar issues to BME groups in sending remittances. We believe that all consumers should have secure methods of making cross-border payments.

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?

Basic bank services should be free to users, provided on a not-for-profit basis as a universal service obligation on the banks, with government funding of information and advice to support people in opening accounts.

We do not believe that it is feasible to impose charges on accounts designed to increase financial inclusion. People who do not have a bank account come from the poorest sectors of society and they would not be able to bear the extra cost of charges. 40% of the 'unbanked' are in the two lowest income deciles, and 75% are below median income.

Nor would it be equitable to expect those new to banking to pay charges, since increased financial inclusion should result in a substantial cost saving for the state and other bodies. For example the cost of paying state benefits into a bank or building society account is £0.01, compared to £1.80 for a cheque payment.

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?

Credit unions, CDFIs and the third sector all have a role to play in addressing financial exclusion, by offering suitable accounts and supporting people in taking out commercial accounts. However, we do not believe that there should be excessive reliance on this sector – it should be a supplement, not an alternative. For example, credit unions are very unevenly distributed in the UK, and as many of them are based on a particular employment they do not have very high penetration among older people.

The main onus to provide basic banking should be on the commercial banking sector, although other bodies have a valuable role to play in facilitating financial inclusion, for example through their advice and information services.

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

Yes. We believe that there should be a specific requirement for regulators to carry out a 'financial inclusion' impact assessment not only in proposing new regulation, but also in reviewing and evaluating regulatory performance.

As an example, the identification requirements arising from money laundering regulations have been a significant barrier to older people who wish to open bank accounts, particularly women. Another example exists in the restricted provision of generic financial advice (non-regulated advice where no product recommendation is made). Lack of clarity about the impact of regulation on generic advice has led some not-for-profit advice agencies serving excluded groups to stop giving any guidance at all about financial products, even where these products are not regulated, or where the advice does not constitute a recommendation.

However, regulators and policy-makers should consider not just how they regulate, but also the focus of their regulation. The collapse of the Farepak Christmas Hamper scheme in 2006 left many very poor consumers without the shopping vouchers they had paid for in advance, leading the independent reviewer into the collapse to conclude that:

‘Farepak also demonstrated that insufficient was known about what was, in substance if not in form, a savings product. In making policy on protecting consumers of financial products, the Government needs to ensure that it takes account of all kinds of savings, particularly those that tend to be used by people on the lowest incomes who can least afford to bear losses.’³

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?

Experience in the UK has shown that Government intervention is necessary to promote, monitor and put pressure on the banking industry. Note that the Banking Code arose out of a recommendation in the Government-sponsored Cruickshank report; it was not an entirely voluntary initiative.

We think that some form of statutory backing is necessary to ensure that banks have an explicit universal service obligation. This would be fair to those banks that already meet their moral obligations and would ensure that the worst are brought up to the standards of the best.

In addition we believe that public authorities should address the needs of financially excluded older people for advice and support, by funding generic advice services and other initiatives designed to foster inclusion.

³ *Review of Christmas Savings Schemes*, HM Treasury, March 2007.

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?

Yes. We believe that a binding regulatory approach at EU level is necessary.

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

We are not in a position to answer this question.

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

Other basic financial services to which financial inclusion initiatives should apply are:

- A safe way to save;
- Access to properly regulated credit services for those in a position to repay them. Although older people tend not to be heavy users of credit, there is a minority that do and we are concerned that restrictions imposed because of age alone (with no reference to ability to pay) might push some older people into expensive and unregulated forms of credit.
- Household insurance.
- Access to travel and motor insurance: some older people are denied these products on the grounds of their age alone, without consideration of the true risk to insurers. This increases their costs and can bar older people from simple pleasures that other people take for granted, such as travelling to visit family.

We would not argue that there should be a universal service obligation for all these products. However, public authorities should ensure that access is widened, through impact assessments and by promoting awareness, addressing barriers, supporting individuals and monitoring progress.

Age Concern England (charity number 261794) has merged with Help the Aged (charity number 272786) to form Age UK, a charitable company limited by guarantee and registered in England: registered office address 207-221 Pentonville Road, London, N1 9UZ, company number 6825798, registered charity number 1128267. Age Concern and Help the Aged are brands of Age UK. The three national Age Concerns in Scotland, Northern Ireland and Wales have also merged with Help the Aged in these nations to form three registered charities: Age Scotland, Age Northern Ireland, Age Cymru.