

# MONEY MATTERS

no 4 | 2007

## Access to financial services

24<sup>h</sup>B@nking

Access to adequate financial services is a key element in the fight against financial exclusion. Money Matters has explored the situation across Europe and presents various experiences and strategies to bring about change.

- ★ Financial exclusion in Ireland, the UK and the Netherlands
- ★ Increase in loans to Czech households
- ★ Who is excluded in Luxembourg?
- ★ Austrians with no bank account
- ★ Do voluntary obligations work in Germany?
- ★ The right to a bank account in France

# Financial and social exclusion in the UK



by Nicole Lederle, PhD student at the Heriot-Watt University Edinburgh, and Tony Herbert, Citizens Advice London

[www.citizensadvice.org.uk](http://www.citizensadvice.org.uk)

In 1998, the incoming Labour government set up a series of policy action teams in order to investigate different aspects of social exclusion. One of these related specifically to financial services, and investigated the extent and causes of banking exclusion as well as the possible solutions. The report of this policy action team put forward a blue-print for a 'basic bank account', an account offering a full range of banking facilities but differing from conventional current accounts in two key respects: it cannot be overdrawn and so all transactions are real time; and it has a cash card for withdrawing money from cash machines but no cheque book.

Working in partnership with the Government, the banking sector developed the basic bank account, and by 2003 it was offered by all the major retail banks. Today, there are 17 providers offering basic bank accounts in the UK.

To tackle the issue of access, the Government also required the largest banks to make their basic bank accounts usable through local post offices. Anyone holding a basic bank account with one of these banks can use their post office for basic transactional banking services.

In early 2005, the UK Government agreed with the main clearing banks a shared goal of halving the number of households lacking a bank account, and of making 'significant progress' within two years. Data from the 2005/06 Family Resources Survey (FRS) shows that in 2005/06, the number of un-banked adults had fallen from 2.8 million to 2 million adults living in 1.3 households (three percent of households in the UK) (HM Treasury, 2007). The Scottish Household Survey (SHS) offers the opportunity to view levels of banking exclusion on a national level.

The percentage of households without a bank or building society account has decreased significantly in recent years: while in 1999 12 % of households in Scotland were without a bank or building society account, only five percent of households were un-banked in 2005.

## Access to banking

Despite this reduction in the number of un-banked households, some groups continue to experience difficulties opening (basic) bank accounts. One of the principal problems – particularly for those who may be socially excluded – is providing identification documents which are acceptable to the major banks, who often insist on driving licences and passports as part of their anti-money laundering procedures.

Often people from more marginalized groups, such as prisoners, those with learning difficulties, mental health problems may not possess what is termed the 'gold standard' of ID, specifically passports, driving licences and utility bills.

To help people without 'standard' ID, the Joint Money Laundering Steering Group, a body made up of the leading financial services trade associations, finalised new risk-based guidelines for anti-money laundering regulations.

## The European Coalition for Responsible Credit ECRC

Established in 2006, the ECRC is dedicated to promoting financial services that are socially responsible – recognising the need for access to services and also the need to regulate these services in order to protect vulnerable customers.

The network aims to organise and maintain a continuing dialogue among consumer and money counselling organisations, social welfare organisations, trade unions, alternative financial institutions and other NGOs, and to influence bank thinking, strategies, products and services to benefit underserved and excluded groups.

It develops and distributes policy proposals built on reports from national conferences and an EU-wide review of financial service issues.

The ECRC runs four operational websites in English, German, French and Italian, organises both national and European conferences on responsible financial services and publishes a regular newsletter.

For more information go to: [www.responsible-credit.net](http://www.responsible-credit.net)



As a result, since August 2006, people applying for basic bank accounts can use an expanded range of different forms of identification, including letters of entitlement to benefit, or references from trusted individuals.<sup>1</sup>

Despite such positive steps, a number of hurdles remain in further reducing the number of people without bank accounts. Problems include:

- \* Lack of promotion by banks (basic bank accounts are not profitable)
- \* Poorer services offered to basic bank account customers
- \* Subjecting applicants to credit checks (even though no credit is offered with a basic bank account)
- \* Lack of support provided to people attempting to open accounts
- \* Disparity between Head Office policy of banks and the implementation of the policy at branch level

And while progress has been made with regards to access to banking services, research highlights the lack of usage amongst newly banked consumers and the difficulties they face with using their accounts (Kempson et al., 2004; NCC, 2005).

*While the ability to open a bank account is less of an issue for many claimants now than it was during the early part of the evaluation period, managing those accounts once opened is becoming increasingly recognised as a problem for at least some claimants.*

*A high proportion of customers, around two thirds, are still managing their finances on a cash basis i.e. drawing out all their money in one go. The number of respondents using Direct Debit facilities was also low, with two thirds of customers still expressing a preference for using cash or, in some cases, not knowing that direct debits were available on their accounts.*

This highlights that having a bank account does not necessarily result in meaningful financial inclusion. In addition, there is a preference amongst low income households to use Post Office Card Accounts (POCAs). Despite their very limited banking functions the take-up of POCAs by benefit recipients has been higher than the take-up of basic bank accounts.

Questions about the suitability of basic bank account features for people on low incomes have also been raised, specifically in relation to the imposition of bank charges for unpaid direct debits.

Cases reported by Citizens Advice Bureaux show that bank charges can end up pushing vulnerable customers into a spiral of debt, or even deeper into debt.

Efforts to promote financial inclusion can therefore sometimes prove to be counterproductive if product features are inappropriate. ::

### **Recommended Website: <http://www.pfrc.bris.ac.uk/>**

The Personal Finance Research Centre PFRC is an independent research centre that specialises in social research across all areas of personal finance, mainly from the consumer's perspective. Much of the PFRC's research focuses on the following areas:

- Financial exclusion and inclusion.
- Credit use and over-indebtedness.
- Financial capability and financial decision-making.
- Money management and savings

PFRC's website provides a broad range of interesting and up to date evaluation and research reports and studies on both UK and international developments.

<sup>1</sup>See [www.jmlsg.org.uk](http://www.jmlsg.org.uk) for more details.

<sup>2</sup>Local Housing Allowance Final Evaluation: Implementation and delivery in the nine Pathfinder areas, Department for Work and Pensions, October 2006

<sup>3</sup>Basic banking: A step towards financial inclusion, Change: Benefits and banking research study 2006, Change, November 2006, p.5



# The situation in Ireland ...



by Liam Edwards, retired coordinator of the Irish Money Advice and Budgeting Service

## Dormant Accounts Fund

The Dormant Accounts Fund uses money from unclaimed accounts in credit institutions and unclaimed life assurance policies in insurance undertakings to support programmes or projects targeting social and economic disadvantage, educational disadvantage and persons with a disability. Accounts which have not been activated for a period of 15 years are regarded as dormant.

## Financial Ombudsman

The Financial Services Ombudsman is a statutory officer who deals independently with unresolved complaints from consumers about their individual dealings with all financial service providers. It is a free service to the complainant.

*Financial Ombudsman*

[www.financialombudsman.ie](http://www.financialombudsman.ie)

## Websites:

*Money Advice and Budgeting Service:*

[www.mabs.ie](http://www.mabs.ie)

*Financial Regulator:*

[www.ifsra.ie](http://www.ifsra.ie)

*Irish Banking Federation*

[www.ibf.ie](http://www.ibf.ie)

*Free Legal Advice Centres (independent human rights organisation promoting equal access to justice for all):*

[www.flac.ie](http://www.flac.ie)

The study 'Financial Exclusion in Ireland' (Combat Poverty Agency Report by Caroline Corr) from 2006 examines the nature of financial exclusion in an Irish context from the perceptions and experiences of low-income consumers. It identifies the reasons why low-income households do not use financial services and highlights their unmet needs.

The study also draws on the views of various stakeholders, as well as international research, to suggest ways to improve the design and delivery of financial services for low-income consumers, including:

- \* a national strategy to promote financial inclusion
- \* easier access to bank accounts
- \* better design and delivery of basic banking services
- \* more financial information
- \* affordable credit and saving products
- \* further data and research on financial exclusion.

The Financial Regulator commissioned this study and is now considering the policy implications within its remit.

## Legislation

- \* Consumer Credit Act 1995
- \* Bankruptcy Act 1988
- \* Enforcement of Court Orders Act 1940

While the Money Advice and Budgeting Service was selected by the European Commission for Peer Review as a model of best practice, the Debt Recovery legislation in Ireland is completely outdated. The banking industry and the money advice sectors have made various submissions for reform but these have been ignored by the Department of Justice (Ministry). The following is a snippet from an article by Paul Joyce of the Free Legal Advice Centres (FLAC) which was published in the current edition of the IBF publication 'About Banking' which sets out the worst aspects of the legislation:

In the absence of agreements on phased repayments being reached between debtors and creditors – or their representatives such as through a money adviser – the same tired and largely ineffective options remain for creditors. In summary, these are to obtain a judgment in the appropriate court and follow it up with one or a combination of the following:

- \* register a judgment mortgage against property owned by the debtor;
- \* get the Sheriff to seize goods belonging to the debtor in order to execute the order;
- \* register the judgment to potentially affect the debtor's credit rating;
- \* file for the debtor's bankruptcy in the High Court;
- \* examine the debtor's means to obtain an instalment order.

In relation to this last option, almost 1 000 people served terms of imprisonment from January 2002 to September 2006 for 'offences relating to debt'. Although there is no further breakdown of these figures, a large number result from a failure to meet the terms of an instalment order made by a District Court judge to repay civil debt judgments by instalment. This is completely unacceptable from a human rights perspective.



## Financial Regulator

The Financial Regulator has published many consumer guides, booklets, fact sheets, cost surveys etc on a variety of financial (including insurance) products. The implementation date for Consumer Protection Code is July 2007. Only lenders regulated by the Financial Regulator must follow this code. The Regulator has concerns that some lending activities fall outside the scope of the code and therefore borrowers do not have the protection which the code provides.

The main topics concerning the Financial Services Consultative Consumer Panel (established by the Financial Regulator) at present are:

- 1) Aspects of the mortgage market – (the practices of the sub-prime lenders)
- 2) Making financial services accessible to all
- 3) Getting a prompter response from financial institutions and from the regulator in cases of overcharging.

The Panel has also been critical of the Regulator's failure to provide full details of overcharging by Ireland's major banks. ❧

### Irish Credit Market

- Banks
- Finance Companies
- Building Societies
- Sub-prime lenders
- Credit cards
- Credit Unions
- Informal networks (family, etc)
- Licensed moneylenders
- Mail Order catalogues
- Illegal moneylenders

# ... and in the Netherlands



In 2006 and 2007, new laws were introduced in the Netherlands that incorporated the former laws about consumer credit. In these laws, a key role is played by the obligation of creditors to take care of their customers. Creditors are responsible to fight over-indebtedness. According to the Financial Services Act, creditors need a license from the Market Authority, they have to show that they have been giving 'good advice' to their clients and they have to check the creditworthiness of their clients. Also, rules have been made for the advertisements of loans.

In the Netherlands, creditworthiness can be checked on the 'white lists' of a Credit Registration Office (BKR). Not all credits are registered there (e.g., study loans or late payments are not registered). We see a tendency that the total amount of loans in the Netherlands have stabilised in the past few years. However, there is a growth in 'easy' loans, like overdrafting or credit card use, or buying goods on credit. These kinds of loans mostly charge high interest percentages.

In 2007, the mortgage issuers established a code of conduct. One of the points in that code of conduct is the use of loan-to-income tables. These tables are used with a comply-or-explain principle. Mortgage issuers have to stick to these tables, otherwise they have to explain (with good reasons) why they deviate from them in individual cases. The tables have been drawn up by Nibud, an independent organisation for budget information. Discussions are going on to lay down such a code of conduct for consumer credit, too. ❧

by Marcel Warnaar, Nibud (National Institute for Budget Information)

In the Dutch national action plan to fight poverty, combating over-indebtedness is raised as an issue. The plan mentions preventing over-indebtedness and improving debt settlement support. Regarding prevention, the following measures have been taken, in addition to the new law:

- lowering the maximum interest rate on consumer credit
- lowering the amount where a credit check is needed
- extra money for local governments to fight debts
- making budgeting a subject in secondary education
- promoting financial knowledge.

# Who is excluded in Luxembourg?



by Christian Schumacher,  
Ligue Medico-sociale – service  
d'information et de conseil en  
matière de surendettement

[www.ligue.lu](http://www.ligue.lu)

When claiming better access to adequate financial services for people experiencing poverty and social exclusion it has to be examined whether there is bad access or even exclusion in Luxembourg.

According to the statistics of SICS (Service d'information et de conseil en matière de surendettement), so far there was not a single client without access to bank operations. For over-indebted persons, access is getting worse in terms of allowance of credits, but access to basic bank operations remains. The bankers state that they would not refuse to open a bank account to anyone and they even try to gain more and more young people (between 12 and 18 years of age) as clients.

We believe that there is a rather good coverage of the population due to the high living standard in Luxembourg. We think that in reality not everybody has access to a bank account and the reasons might be low income, foreign nationality (non-resident borderers) and/or negative registration in the database of the bank. The most vulnerable are unemployed persons, social welfare recipients and/or homeless people.

The second question we have to ask is what adequate financial services are. We believe that adequate financial services should include a current account without credit line, a savings account, cash deposit (remittance), transfer order (national + international), standing orders, direct debit payments (domiciliation), cash card, minicash, electronic banking and account statements.

There must be a need to improve, otherwise Mr. C. Wiseler, member of Parliament at that time, would not have deposited a private bill on 17 December 2003 in order to establish a legal right to elementary financial services. The aim was to reconcile social solidarity and economic realism by guaranteeing that every honest person regardless of his/her financial situation may have access to basic financial services. The second goal was to include all credit institutions in Luxembourg.

The applicant must fulfil some conditions such as being domiciled in Luxembourg, having made no false pretences, no forging of documents, no fraudulent bankruptcy etc.

Basic financial services are defined as opening, keeping and closure of an account, transfer orders (paper and electronic), standing orders, direct debit payments, a minimum of 15 free transfer orders or standing orders, cash and cheque deposit, counter or electronic withdrawal and account statements at least once per month.

The terms of refusal are misuse, false pretences, breach of trust, fraudulent bankruptcy, forgery of documents and money laundering.

Unfortunately this bill has never been addressed again and discussions about a legal right to elementary financial services have trickled away.

We think that there is a real need to regulate this matter by law and we will try to make things move forward although the bankers' influence is very important in this field. ::

## Poverty and social exclusion

The situation in terms of population, legal incomes, rent and costs (2004):

Total population:	455 000 persons
Luxembourgers:	277 600 persons (61%)
Foreigners:	177 400 persons (39%)
Unemployed people:	10 698 (4.8 %)
RMG recipients:	6 844 (1.5%)
Homeless:	851 (0.2%)
Pensioners:	117 253 (25.8 %)

Minimum monthly gross wage:  
EUR 1 570.28

Guaranteed minimum gross income (RMG):  
EUR 1 097.68

Legal minimum pension:  
EUR 1 387.12

Average rents: 2 bedrooms: EUR 1 000  
4 bedrooms: EUR 2 020



# Austrians with no bank account

Having a bank account is an essential factor for being able to participate in social and economic life, which many people are still denied, however. In 2006 ASB conducted a nationwide survey in order to gather data and facts that establish the extent and effects of this situation and thus to underpin its demand for a general right to open a bank account. The goal of the survey was to gather and document as completely as possible all cases where people were refused bank accounts. By the end of the surveying period, a total of 197 cases had been registered and were interpreted anonymously.

Two thirds of the respondents said that they had been refused current accounts, and another 30% was confronted with the situation that the bank had terminated the existing account relationship. The most frequent reason given by the banks was entries in warning lists maintained by the KSV credit protection agency. All banks inform KSV about loans granted or overdrawn accounts. Therefore each bank may turn to KSV in order to obtain information on (potential) customers, e.g. whether they have at present, or had in the past, outstanding bank loans. Instead of permitting access to a non-overdraft account in such cases, it is common practice that persons with debts are denied any current account. At the time of the survey, more than two thirds of respondents had no bank account at all, and for a large share of them, this led to massive problems: 65% had difficulties effecting payments, and half of the people interviewed experienced problems getting payments such as wages. 22% said it was hard to find jobs because they had no bank accounts. Life and work are massively affected; and if it is impossible to use an account for payment transactions this triggers feelings such as shame and frustration. 'At present, cash payment fees of 90 euros accrue every quarter, and I am denied a bank account. This is outright discrimination, and good income for the bank', as one respondent put it.

Although the banks have begun to rethink their policies in specific cases (see box: New Savings Bank in Austria), the statutory RIGHT for everybody to open a bank account remains a central political demand that Austria's debt advice centres will pursue. ::

Although the banks have begun to rethink their policies in specific cases (see box: New Savings Bank in Austria), the statutory RIGHT for everybody to open a bank account remains a central political demand that Austria's debt advice centres will pursue. ::

by Maria Kemmetmüller  
and Gabriele Horak,  
ASB Schuldnerberatungen GmbH

## New Savings Bank in Austria

The 'Zweite Sparkasse' has been established in 2006 as a society savings bank with the funds of the Austrian Erste Foundation. The voluntary staff of the new Zweite Sparkasse, composed of about 180 former and active staff members of the regular Erste Bank, strongly identifies with the project.

The bank works together with local debt-counselling organisations, the social welfare organisation Caritas and the insurance company Wiener Städtische Versicherung. Debt-counselling organisations, Caritas and other (social) organisations can refer their clients to the bank.

The target group are people who are no longer able to obtain an account with a bank or who can no longer afford the account, as they are suffering from the consequences of a life event such as bankruptcy, divorce, death or requiring nursing care.

The 'Zweite Sparkasse' offers an interest bearing credit account (without overdraft possibilities) free of charge for a limited period of time. With this, the customers of the 'Zweite Sparkasse' can again effect their financial transactions through a bank: a crucial step for people who otherwise have few options for integration.

Products offered free of charge are:

- Basic bank account
- Investment account with increased interest rates
- Building loan contract
- Legal advice service, available once per quarter
- Accident insurance

Other products available at an affordable price:

- Homeowner insurance (annual premium of EUR 36), including a private liability coverage, which pays up to EUR 220 000



# Increase in loans to Czech households



by Petr Jakubic,  
Czech National Bank

[www.cnb.cz](http://www.cnb.cz)

Domestic macroeconomic developments have been very favourable in the Czech Republic and regardless the expected slowdown the current forecast does not suggest substantial risks. Loans to households have risen by almost one-third, with banks competing for more market share in this segment. The share of households in bank loans is approximating that of non-financial corporations.

However, growth in household debts should not be regarded as a threat to financial stability. The number of households that have problems repaying their loans is rising as well as the debts of low-income groups. Property price growth has rebounded in some regions but is not always entirely related to fundamentals.

## CZSO survey

The Czech Statistical Office (CZSO) recently conducted a survey entitled 2005 Living Conditions. Although roughly two thirds of the debt consists of loans for house purchase, the CZSO focused the survey primarily on consumer credit. The survey captures how households subjectively perceive their situation. According to the respondents, consumers' credit payments were a heavy burden mainly for low-income households. Almost 67% of the households stated that they had difficulties in making ends meet with their income (of which 37% had minor difficulties). Furthermore 44% of households said they would not be able to afford to pay an unexpected expense of CZK 6 000.

This survey was followed by a survey entitled 'Income and Living Conditions 2006' in 2007. The situation did not dramatically change. Debt burdens reached about 4% and this was more or less the same for all income groups. Compared to previous surveys 68% of the households stated difficulties making ends meet with their income.

## More financial assets than claims

Total loans to households are increasing by more than 30% annually since the mid 2002. There were loans amounting almost to CZK 600 billions in 2007. The rapid growth of credits to households contributes to the total annual banking credit growth almost by 50% as well as to the dynamic growth of housing loans (75% of total loans).

The Czech household sector cannot be considered as an over-indebted one. The household sector as a whole is a surplus financial unit, i.e., there are more financial assets than claims. Deficit sectors such as non-financial corporations or partly federal enterprises are financed by the household sector. Households aggregate income from the interest they receive exceeding the interest they pay. A rise in interest rates would have a positive effect on the interest income of households as a whole. However, it would have an adverse effect on those households with deficit financing and subsequently on the overall financing sector via a higher default rate of households.

## Increase of debt problems

Loans to households amounted to 23% of GDP at the end of 2007 while the EU-15 average was above 60%. The ratio of financial claims to financial assets is 45%, the ratio of debt to income is almost 47%, and the ratio of debt to assets is 30%. Interest paid by households accounted for almost 1.8% of disposable income in 2007.

One of the manifestations of the rise of debts is an increasing number of households that are unable to repay their loans:

- \* The number of executions ordered increased to 309 000 (2006), but the annual growth rate was decelerated.
- \* Rise in the number of executions ended in 2006.
- \* A positive phenomenon is the decline in the number of appeals against execution proceedings, which suggests a higher transparency and efficiency of such proceedings.

Information about the distribution of debt across income categories is important as regards financial stability. This distribution remained broadly unchanged in 2006. The upward debt trend in high income groups is continuing. The debt of low income groups has also been rising. ::





# The right to a bank account in France



Since 24 January 1984, the right to a bank account is covered by a law. This law guarantees every natural and legal person living in France without an existing bank account the right to open an account at a bank of his/her choice. This does not mean that a bank cannot refuse to open an account for a person who asks for one. However, in the case of refusal the bank has to transmit the request to the central bank. Then, the Banque de France decides which bank will be obliged to provide basic banking service to the client in question.

Thanks to this procedure, the client will have access, free of charge, to an account but also to means of payment.

by Emmanuel Masset-Denevre  
and Nicolas Tilmant-Tatischeff,  
National Consumers Institute

[www.conso.net](http://www.conso.net)

Basic banking services include:

- \* Opening, maintaining and closing an account
- \* Changing the address of the customer once a year
- \* Receiving an account statement at least every three months
- \* Providing the client with the necessary banking identification
- \* Possibility to cash in payments
- \* Possibility to cash in cheques
- \* Money depositing and money withdrawals
- \* Standing orders and recurring transactions
- \* A means to consult the account via remote enquiry
- \* A payment card with automatic authorisation request
- \* A maximum of two banking cheques per month

Since 1984 more than 130 000 natural and legal persons have made use of the right to a bank account.

## Future development and plans

The above procedure only concerns people who have been denied the possibility of opening an account. But some people have problems to open an account, not because they are refused access to it, but because it is too expensive for them. In other cases, people already have a bank account, but with few services, and therefore are not entitled to the procedure with its package of services. This is the reason why consumers' associations militate in favour of a universal banking service which is accessible to everybody and allows to access to the main services, free of charge or at a lower price. ::

### The European Microfinance Network EMN

Founded in 2003, the European Microfinance Network (EMN) is an NGO registered in France with the mission to promote microfinance in the European Union and to assist the fight against unemployment and social exclusion through the development of microenterprises.

The EMN envisions a society in which all those who are financially and socially excluded have access to the full range of financial services that empower them to improve their lives. EMN will work to strengthen the bridge to the mainstream economy by encouraging a continuum of financial services to assure the creation of wealth and the strengthening of social inclusion in Europe.

The network is committed to working for the education of the microfinance industry in the EU. It offers training courses and exchange visits, organises conferences and provides for the dissemination of information and possibilities of exchange through a website and a quarterly newsletter.

For more information go to: [www.european-microfinance.org](http://www.european-microfinance.org)

# Voluntary obligations are not enough



Germany still has a long way to go before everybody will indeed be entitled to a bank account.

by Sylvia Kreußer, Diakonisches Werk in Hessen und Nassau

[www.agsbv.de](http://www.agsbv.de)

In 1995 the banking associations represented in the German Central Credit Committee (ZKA), when confronted with increasing calls for a statutory regulation, stated that this was not necessary. In a later ZKA Recommendation they declared that they were willing to provide access to a non-borrowing bank account to every citizen who would request one, irrespective of a customer's type and amount of income, with the exception of this being not reasonable, e.g. in cases of misuse of services, false information by the customer and/or if the payment of regular charges could be ensured.

Thus, access to a current account was to be generally granted, and the situation actually changed at first. However, after some time the trend was reversed: not nearly every person who applied for an account actually got one, and an increasing number of existing bank accounts was terminated.

## The voluntary obligation in practice

This development was massively criticised by debt counselling and consumer protection agencies and since then has been an issue of discussions with the banking sector and the competent Ministries. While the banks say that the matter has basically been solved and that there are only a few individual problem cases, for which a solution will be found, the debt counselling and consumer protection agencies point out that the number of cases in which the voluntary obligation has not been met is considerably higher, and that there is need for a general regulation. Their position was underpinned by the results of a series of surveys conducted between 2000 and 2005: approximately 50% of refusals of bank accounts were argued on the grounds of poor credit standings, and around 2 out of 3 terminations of accounts were a consequence of account attachments.

When the debt counselling agencies tried to discuss this matter with bank representatives, the latter turned them down and said that no further regulations in addition to the existing ZKA recommendation were needed as no problems worth mentioning still existed, and as meanwhile arbitration services had been established as an instrument for dealing with any problems. Banks however hardly inform their clients of these services and moreover, processes are slow there.

People without bank accounts face massive disadvantages with regards to finding a job or renting a flat or getting social assistance; cash payments for third accounts have become very expensive and are impossible in some cases, e.g., motor vehicle registration is only possible by direct debiting.

## The reactions of debt counselling services

The debt counselling services are aware of the fact that, from a strictly economic point of view, accounts that cannot be overdrawn are not as profitable for banks as accounts which may yield earnings from interest for advances. In this respect, it is better for business not to keep non-borrowing accounts. In addition, it may well be that banks deliberately avoid consumers who have financial problems in order to evade the risk of being committed as third-party debtors in cases of account attachment. The procedures to be undertaken in this context require great efforts by all parties involved and there is no doubt that they should be revised and reformed.



From a social and practical point of view it is essential, however, that everybody be granted access to a current account. When public agencies, for reasons of economy, no longer admit cash transactions in their spheres of competence, equal access to administrative authorities and possibly also to the judicial system is jeopardised to an extent that is relevant in a constitutional sense, if the right to hold a current account cannot legally be guaranteed to everybody. Thus, a regulation of this matter is a must and should not be further delayed, as the effects of the ZKA Recommendation have been disappointing.

It is unacceptable that individual banks or bank offices try to evade their responsibility so that, as a result, more willing banks have to take over a larger share of the burden. This social responsibility should rather be acknowledged by all banks, thus all banks should open non-borrowing accounts. Still, the attempt to find a voluntary solution that is reliable and practical, which was the intention of the ZKA Recommendation, was far from successful. Now, after 12 years, one cannot but admit that this attempt has failed, and in addition the arbitration bodies that were established have turned out to be cumbersome, insufficient instruments.

AG SBV, the Working Committee of Debt Counselling Services, has advocated the right to have a non-borrowing bank account for quite some time now, and pointed to the need to amend the existing account attachment laws, which would also help banks in their functions as third-party debtors. This has become even more urgent since the phenomenon of a new discouraging policy has shown: handling of attachment procedures has involved more and more work, so an increasing number of banks charge additional account management fees between EUR 15 and 30 a month, or around EUR 180 and 420 annually. This is a way to persuade customers to leave 'voluntarily'.

### Reform of account attachment protection

Germany still has a long way to go before everybody will indeed be entitled to hold a bank account. Meanwhile, the Federal Ministry of Justice has prepared a bill reforming the account attachment protection system.

The introduction of the bill takes up the debt counselling services' view that current accounts play a central role for people's economic participation and acknowledges the difficulties to achieve comprehensive attachment protection under present legislation. Moreover, it is stated that a new regulation has to protect the rights of creditors in the same way as the rights of debtors. In short: the introduction to the bill reads almost like an argument in favour of the right to have a bank account but eventually, the argument has no visible consequences. ❖❖

### Financial Services:

#### Improving access for people with low income

Over-indebtedness and financial exclusion have been identified as major obstacles to social inclusion and effectively fighting poverty. Safeguarding access to adequate financial services for people with low incomes or debt problems, who today in many countries are excluded from using basic banking service and/or discriminated against is a key challenge here. Within the framework of the EU transnational exchange project FES (Financial education and better access to adequate financial services) a Europe-wide survey was conducted with the purpose of providing the necessary insights needed for assessing the situation.

Two conferences brought together relevant stakeholders from across Europe to discuss best practices and draw up a list of recommendations on how to improve the access to financial services for people with a low income and financial difficulties. In this booklet the results of feedback to the survey as well as discussions at the conferences are summarised with the aim to give an overview of the problem and of some key strategies to fight against over-indebtedness and financial exclusion more effectively.

An overview of the results and conclusions from the projects as well as best practice examples and recommendations have been included in an information booklet, which is available in English, French and German.

*The booklet can be downloaded from the project website [www.fes.twoday.net](http://www.fes.twoday.net) which also includes the full report of the study and of the conferences of European experts.*





## Guaranteeing the right to basic financial services

Safeguarding access to adequate financial services for people with low income or debt problems is a key element in the fight against financial exclusion.

Thousands of people across Europe are excluded from or discriminated in using basic banking services and don't have access to adequate responsible lending schemes. Public awareness of the problem is growing, nonetheless the lack of political will to recognise these problems and put in place measures to tackle them is worrying, especially in the new member states of the European Union.

Representatives from debt advice and consumer organisations as well as the financial service providers who participated at an ecdn seminar on 'Credit market investigation' in June 2007 agreed, that there is need for stronger cooperation and action to improve access to basic financial services for everyone in Europe.

Among the **key challenges** that were discussed at the seminar, the following were identified as most urgent:

- ★ **Development of a common language** and agreements on **clear definitions** are crucial preconditions for effective lobbying in this area. What or who exactly is meant if we speak about 'unbanked' or 'marginally banked' people? What are the key features to be included in a basic bank account?
- ★ **A common policy approach** has to be developed and lobbied for with regards to tackling some major problems, such as irresponsible lending (including overdraft possibilities) and the lack of APR ceilings. Consumer policies need to be strengthened. Special attention should be given to products that are targeted at vulnerable groups.
- ★ **Specific strategies to influence decision makers and public opinion** at national and European level need to be implemented, stronger alliances across actors from various sectors need to be built. Public awareness of the gravity of the problem and its consequences needs to be increased. Joint European actions such as a European action day on the right to a bank account should be organised to raise public attention. National and European bodies need to be established to safeguard a more systematic and continuous approach. More opportunities for continuous mutual learning have to be realised. As it is often 'mistakes' and 'failures' that provide the best learning experiences, exchange programmes have to include not only 'best practices' but also 'bad practices'.
- ★ **More research** is needed, both the public and the private sector should be encouraged to invest more in relevant studies.
- ★ **ecdn** needs to be strengthened **as an exchange and communication platform** for various actors, including financial service providers who are aware of their social responsibility.
- ★ **Good cooperation between existing European networks** such as ecdn and the ECRC (European Coalition for Responsible Credit) and the EMN (European Micro Finance Network) is a crucial element for effective lobbying on adequate regulations for the financial service sector.

**For further information and recommendations go to**  
[www.ecdn.eu](http://www.ecdn.eu)

### Published by

ecdn: European Consumer Debt Network to fight and prevent over-indebtedness and promote social inclusion  
c/o ASB Schuldnerberatungen GmbH,

Bockgasse 2 b, 4020 Linz  
office@ecdn.eu; <http://www.ecdn.eu>

Editors: Michaela Moser and Gabriele Horak

Layout: Maria Schaittenberger

Photos: Gabriele Horak

Translation and language editing:

phoenix Übersetzungen – Daniela Beuren, Susanne Ofner

Print: digitaldruck

© 2007



The establishment of the European Consumer Debt-Network in 2007 was funded by the European Commission under the Community Action Programme to Combat Social Exclusion 2002–2006.

The views expressed here are solely those of the authors and the Commission is not liable for any use that may be made of the information contained therein.