Towards inclusive service delivery through social investment in the EU

The case of financial services

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Executive summary

This study explores the link between the EU Social Investment Package and availability, access and use of financial services. There are two dimensions to 'social investment': the investment dimension refers to resources that need to be invested in order to increase welfare and capabilities of the population, whilst the social dimension is about society's collective effort for raising such investment as well as sharing in its benefits.

Financial inclusion matters for achieving human capability. Financial services and human capability have a two-way and dynamic relationship, because access to financial services improves human capability, which in turn leads to more efficient use of financial services. This dynamic interaction evolves throughout the life of an individual, its contingencies and changed circumstances in relation to, e.g., health, education, family formation, employment, retirement.

In 2007 the EU started addressing the issue of financial inclusion in the context of the Single Market and with the objective to 'improve the competitiveness and efficiency of the European retail financial services market' (EU, 2007). The EU looked for market solutions to tackle financial exclusion whilst at the same time calling for the development of indicators to assess the scale of the problem.

Overall and based on the three indicators (no bank account, no access to revolving credit and savings products), 7% of all adults in the EU15 and 34% of adults in the new member countries - a total of 30 million people - have no access to these financial services and could therefore be considered as financially excluded. The following overview reflects the variation in levels of financial exclusion between higher- and lower-income countries within the EU. Unsurprisingly, the data at household level also reveal a strong correlation between household poverty and financial exclusion.

Level of financial exclusion (% of adult population)	**Country**
Low (less than 3%)	Luxembourg, Belgium, Denmark, Netherlands, France, Sweden
Low – Medium (3 – 8%)	Germany, Austria, the United Kingdom, Finland, Spain, Slovenia
Medium – high (12 – 28%)	Italy, Ireland, Portugal, Greece, Estonia, Czech Republic, Cyprus, Malta, Slovakia
High (34% and above)	Hungary, Poland, Lithuania, Latvia

Source Our compilation based on EU (2008a), p. 34.

The financial crisis of 2009 revealed the fragility of a weakly regulated financial sector that not only did not deliver on financial inclusion but also did not support the poor and vulnerable as unemployment and poverty increased. That was mainly due to the financial sector's view of low income and poor customers as high risk. The overall picture before and after the crisis does not differ dramatically, despite a peak during the crisis: in most countries the same percentage of people reported that they had problems 'making ends meet' before and after the crisis. The main exceptions are Greece and Cyprus that continue suffering from the harsh austerity measures imposed by the Troika. The difference between countries also reflects the strong social protection that the high-income welfare states provide.

In short it is not the lack of competitiveness and inefficiency of the financial sector, as argued by the EU that lies behind financial exclusion. Improving access to financial services by offering bank accounts to the financially excluded is the very first step, and indeed a very limited step to tackling financial inclusion. 'Experiences in countries like France and Sweden, however, has exposed the problem of reconciling universal, non-discriminatory banking (a social objective) with the requirements of safe and sound banking (an economic objective).' (Carbo, et al., 2007, p. 27.) We should add that the 'economic objective' refers to the financial safety of banks and not economic improvement in the situation of the socially and financially excluded people!

But *the fundamental cause of financial exclusion is low and precarious income that cannot meet current household needs and their unexpected expenditure*. People living in countries with comprehensive and universal social support systems are not only more able to 'make ends meet' but also to 'meet unexpected financial expenses.' That is where the link with social policy and financial services come into play. The risk of offering financial services to the poor goes down as social protection increases. The EU and the Member States should therefore try to tackle the underlying causes of social exclusion by improving the security and level of income of financially excluded people.

However, there are also *policies for the financial sector* that can be pursued to reduce financial exclusion, taking note of the level and type of financial exclusion in different EU states:
- Legal standards (beginning with an EU Financial Services Directive) regarding the extension of universal basic banking services (e.g. accounts and bank cards, including for people with no permanent address);
- Adoption of a US style affirmative regulatory system of Community Reinvestment Act (CRA) whereby financial institutions offering banking services are encouraged to meet the credit needs of the communities they operate in, especially in the moderate to low income areas;
- Regulation of client risk assessment instruments of banks for low-income customers. Banks should be encouraged to offer low-interest over-draft facilities that could be partially under-written by the state to reduce the credit default risk to banks;
- Promotion of low-interest loans for housing improvement/repair and purchase of consumer durables by banks;
- State subsidy to insurance companies to cover a range of property (e.g. fire, flooding, theft) and individual (e.g. accidents, disability) risks of low-income individuals and households;
- Protection of and support for low-income and poor households who are in arrears and could face insolvency and bankruptcy; that might result, inter alia, in eviction, loss of property and income and negative credit record.

Note that these measures in turn will reduce the future cost to the state to cover the loss to individuals and households.

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1. Theoretical/normative framework

Financial services and human capability have a two-way and dynamic relationship. It is two-way because access to financial services improves human capability that in turn leads to better and more efficient use of financial services. It is dynamic because it changes throughout the life of an individual, its contingencies and changed circumstances in relation to health, education, family formation, employment, retirement and so on. Financial exclusion undermines the achievement of human capability. Financial exclusion is about access to a range of financial services for the purpose of: transactions (e.g. current and debit accounts), savings (e.g. deposit accounts), borrowing (e.g. credit facilities such as overdraft, mortgages, and credit cards), insurance (e.g. property and life insurance) and savings/accumulation for retirement (e.g. pensions). The poor are compromised on all accounts.

Poverty and financial exclusion are two faces of the same coin in most countries. The main indicators of financial exclusion are lack of access to bank accounts (to manage payments and save), affordable credit and mortgage. Financial exclusion also involves lack of or inadequate access to insurance services and over-indebtedness. In 2003 30 million adults - 7% of EU15 population - had no or very limited access to financial services, which after the financial crisis increased to 10%. In 2003, 33% of adults in the new Member States were financially excluded. (EU, 2008a, p. 29) The richer EU countries in general have less financial exclusion than the poorer ones. The same difference exists between the access of the rich and poor people to financial services within EU countries. Exclusion is also related to age, gender, education, employment status, region of residence, ethnic origin and legal immigration status.

1.1 Why financial inclusion matters to achieve human capability?

This question is about the role of money and finance in the realisation of human capabilities. In a market- and money-based economy finance plays a dominant role in supporting people to realise their human capabilities. In crudest terms it is 'Money' that pays for everything. Consumer needs in a market economy cannot be turned into consumer demand without it being backed by money - or becoming 'effective demand.'

Finance, at the most fundamental level, is about management of monetary resources at micro (personal, household and firm) and macro (state/national and international) levels. The importance of finance at household level is about management of its consumption demands over time. Household demands have to be met on a daily basis; paying for them could be based on cash - immediate payment, or credit - payment in the future. Both types of payments are linked to the financial system through money earned on the basis of employment or investment. Credit payment on the other hand is based on some kind of short or long-term arrangement with a credit agency - e.g. credit card companies, banks, building societies and credit unions. Advances on wage payment could also be viewed as credit.

In the 20th century credit for consumption or 'consumer credit' has been the earliest form of providing financial services to the mass of population. It is interesting to note that consumer credit did not start by the financial institutions of the day. In the US it started by the 'shopkeepers, credit managers, reformed loan sharks and unsung reformers who shared the values as well as the anonymity of the middle class.' (Caldor, 1999, p. 13).[1] The financial institutions entered the market later by linking producers of mainly consumer durables like cars and refrigerators to consumers. Two major institutions helped this trend: instalment method of payment and sources of credit (retailers, commercial banks, sales finance companies, etc.) (Ibid p. 20) Manufacturing company like General Motors and others saw this as an opportunity to sell their products, finance became critical not only on the production side in relation to covering investment and operation costs but also on the marketing and sale of products – the circuit of capitalist production from 'money' to 'money' was now completed under the institution of credit at higher speed than cash transactions, reaching every corner of the economy and population. This innovation laid the foundation of the ubiquitous credit cards half a century later.

Let us divide credit into two major types based on the length of repayment period – short- or long-terms. For example, consumer credits are in general short-term debts whilst mortgages are long-term. Interest rates charges on short-term debts are usually much higher than those on long-terms debts; that would have important implications for servicing of short-term debts; that in turn drains household financial resources and limits the household capacity to accumulate wealth.

Servicing debt is about payment of interest and part of the principle until the full amount of the debt is repaid. Ability of people to service their debt is not only related to their level of income and the rate of interest, but also to the stability of interest rate and income over time. Unemployment and loss of income could seriously affect people's ability to service their debt. Interest rates' hike and build up of arrears and piling up of interest charges (that themselves accrue interest) eventually could lead to foreclosure and seizing of assets of debtors.

The other important relationship between the financial sector and personal consumption in the long run is the accumulation of wealth, in particular housing wealth, and accumulation of pension savings. This relationship assumes the ability of people to save over and above their short-term consumption that in turn could pay the debt service charges of a mortgage in countries where there is a well-established and accessible mortgage market, or the money could be saved in bank accounts to pay for a house. Enrolling in pension funds or saving for retirement also requires current income to be above current consumption expenditure.

Whether or not people can access financial services to achieve their short and long-term consumption needs depends very much on the stability and level of their income as well as assets. That is why those on low income and in unstable/temporary jobs, and with little assets have historically faced difficulties in getting credit on par with those on high incomes and with assets. The poor had to rely on their own resources through the formation of credit unions or mutual savings and loans associations, one of the best examples of which is the British 'building societies' which were originally formed in the 18th century to fulfil long term borrowing needs of those who wanted a stable access to housing.

As far as retirement is concerned, saving and accumulation of assets have been the main vehicles that historically have been available to middle to high income households whose earnings and inherited resources provided them with income above their consumption needs. For the majority who were on low pay and earnings there were no opportunities to build up assets for retirement. Before the advent of modern state pension and social security support, the elderly like others with low or diminished physical capacity, such as children and people with disability or those with limited time to engage in the labour market (like women with unpaid care responsibilities at home) formed the majority of the poor. The introduction of national and state-run pension schemes have been a response to mass poverty of people who were either too poor to save for or unable to work in their old age.

Lack of access to financial services by the poor and vulnerable has a long history that still continues. It is remarkable that despite the steady economic growth since the mid 20th century and

1 Also see Olney (1991).

improvement in access to financial services there still exist large gaps in the access of the low-income groups to financial services in the richer countries.

1.2 Social investment and financial services

In order to explore the link between the Social Investment Package and availability, access and use of financial services we first need to define social investment in the context of the RE-InVEST research project. There are two dimensions to 'social investment.' The investment dimension refers to resources that needs to be invested in order to increase welfare and capability of population, whilst the social dimension is about society's collective effort for raising such investment as well as sharing in its benefits that goes beyond individual gain in capability by individuals. For example, investment in health and education not only improves individual capabilities but also contributes to higher capability at national level by contributing to the pool of healthy and skilled labour force thus add to the human capital and resources of a country.

At *individual* level access to, and use of financial services are important for social inclusion and the realisation of capabilities over one's lifetime as noted in the previous section. At *collective* level financial services are important for promoting and supporting the financial foundation of public and social services. In this paper we are dealing mainly with the financial exclusion at individual level and how to tackle it.

Financial exclusion is defined as 'the inability to access necessary financial services in an appropriate form. Exclusion can come about as a result of *problems with access, conditions, prices, marketing or self-exclusion in response to negative experiences or perceptions.*' (Sinclair, 2001, our emphasis) To these different dimensions of financial exclusion - access, etc.,- we should add a *time dimension* - access throughout lifetime; in other words financial services should not exclude people as they move from work to unemployment or work to retirement, in short changing circumstances of individuals should be factored in the conditions of use of financial services. Financial exclusion could lead to, or be associated with other types of social exclusion as it might well prevent living a normal life in a society that expects some basic minimum level of financial 'belonging' such as having a home financed by mortgage, having a credit card, having health and other basic insurance. (Lammermann, 2010)

One of the main manifestations of financial exclusion is not having a bank account (whether a deposit or current) or only being 'marginally' banked. Being 'un-banked' could be a reflection of non-availability of banks and other financial institutions in an area partly due to its low financial base that makes a bank branch commercially unviable. (Leyshon, et al., 2008) But more often than not, being 'un-banked' is due to the fact that an individual does not qualify for a bank account. To be eligible to open an account all banks require, at a minimum, proof of identification (an ID card, passport or driving license) and proof of residence/address. Other conditions may also apply, such as having a social security number, a minimum deposit, proof of regular income for certain accounts (e.g. current and checking accounts). Opening a bank account however is not a guarantee of access to full services of the bank. One may be allowed to open a deposit account but with no payment card, or have a current account without any overdraft facility. These are cases of being 'marginally' banked. (EU, 2008a)

Financial services do extend beyond simple banking for day-to-day transaction purposes. Some of the most important financial services for the majority of population are credit, mortgage and insurance. Each would have a function as far as individual capability is concerned. Credit would help with consumption smoothing when future stream of income is used to finance current consumption, especially when incomes are not increasing in line with inflation or new demands are made on family's resources – growing children, contingencies, etc.

Mortgages are important for accumulation of housing assets and the security of housing later in life, whilst insurance services cover risk in relation to personal assets, sickness, work injuries, unemployment, etc. Most of these services are also offered by the banking sector, but access to them is usually conditional on a range of qualifications such as income and secure/long term employment. Some of these services such as credit in the form of overdraft (also known as 'revolving credit') and mortgages bear lower interest rates than credit card loans, as a result people on low income and insecure jobs will pay a financial penalty if they are excluded from the low cost services.

Lack of access to financial services is not simply a matter for individuals; families and households do also suffer as result of high cost of borrowing or lack of opportunity to accumulate. However, caution should be exercised when investigating financial exclusion at household level, since it conceals access to financial services at individual level within the household, especially in relation to female members. A household may well appear to be secure if the head of household is financially included and secure, but the distribution of income and resources within the household may be far from equitable. As important is the risk of financial exclusion in case of family break ups for household members who are not financially independent.[2]

2 It is important to collect data on financial exclusion at both individual and household levels – the two sets of data are complementary.

2. Is there an EU policy framework for the financial sector?

The service sector is the largest contributor to the EU-28 GDP and employment. In 2015 it contributed 73.9% to GDP and 73.2% to employment of EU-28. Its GDP contribution varied between 62% in Central Europe and 79% in Southern Europe, whilst its contribution to employment varied between 59% in Central Europe and 77.6% in Western Europe. (World Bank, 2016)

Given the contribution of the service sector, it is no surprise that it has featured prominently in the Single Market agenda. In the context of the Single Market for Services the EU has set out two core principles of 'the freedom to establish a company in another member country' and to 'the freedom to provide and receive services in an EU country other than the one where the company or consumer is established.' (EU, 2018) Not all services are covered by the EU-2005 directive on Single Market for Services. (For a list of services covered see Appendix below). The EU distinguishes between different types of services on the basis of whether they can be provided by the free market, and whether public interest would be served without state intervention.

The following passage from an EU (2018a) publication makes the case very clearly:

> *'Services of General Interest (SGIs) are a supporting pillar of the European social model and of a social market economy. They include areas such as housing, water and energy supply, waste and sewage disposal, public transport, health, social services, youth and family, culture and communication within society, including broadcasting, internet and telephony. SGIs help people lead dignified lives and ensure that everyone has the right to access essential goods and services. They ensure justice, social cohesion and social integration and contribute to the equal treatment of all EU citizens. They form a key aspect of promoting economic, social and territorial cohesion and sustainable development. SGIs also act as a buffer against the most damaging social and regional effects, as they are based on the aims of guaranteeing universal access to essential goods and services and fundamental rights.'* (N.A.).

Following the same principle of public interest EU excludes services of general economic interest (SGEI) from the Single Market Directive on services.

> *'SGEI are economic activities that public authorities identify as being of particular importance to citizens and that would not be supplied (or would be supplied under different conditions) if there were no public intervention. Examples are transport networks, postal services and social services.'* (EU, 2018: N.A.).

Despite these considerations with regard to public interest and services of general economic interests, financial services do not feature in any of the Single Market directives on services. Financial services are neither considered a 'service of general interest' nor a 'service of economic interest' (EU, 2006, para 18).[3]

Financial services, inter alia, include banking, credit, insurance and re-insurance, occupational or personal pensions, securities, investment funds, payment and investment advice,[4] that govern and interact with every aspect of working life and the general welfare of the population. Whether or not people have access to the full range of financial services to conduct their daily lives, and therefore are 'financially included', crucially depends not only on personal circumstances such as

3 For further discussion of the general approach of the EU to services, especially 'services for an economic interest' and 'services of general interest' see chapter two of the Work Package 6 Full Framework paper.

4 For other financial services see Annex I to Directive 2006/48/EC.

employment and the level of income but also on the financial and banking regulations that would encourage or restrict financial inclusion.

In 2007 the EU started addressing the issue of financial inclusion in the context of the Single Market and with the objective to 'improve the competitiveness and efficiency of the European retail financial services market' with the emphasis on the development of a single market for retail financial services. (EU, 2007) To achieve this objective the EU looked first and foremost to market solutions to tackle financial exclusion whilst at the same time calling for the development of indicators to assess the scale of the problem. It is important to note that the EU approached the financial exclusion in the context of the Single Market access to and mobility of financial services across borders as well as convergence of charges for finances services across member states. The financial crisis of 2009 exposed the fragility of a weakly regulated financial sector that not only did not deliver on financial inclusion but also did not support the poor and vulnerable as unemployment and poverty increased. That was mainly due to the financial sector's view of low income and poor customers as high risk. As a result, other financial service providers stepped in to fill the gap left by banks and other financial institutions. The so called 'pay-day' lenders, 'door-step' lenders, etc., charging very high interest rates, expanded their operations.

There may well be a case for treating financial services as 'Services of General Interest' or 'Services of General Economic Interest' since the financial sector permeates every aspect of economic and social life of a modern economy. Yet, despite the EU's extensive studies on financial exclusion (see e.g. EU, 2008a, 2010a, 2012a) it still views, as will be argued in this paper, access to financial services mainly a matter for the market.

This market approach has now been backed by the EU legislative requirement on basic bank accounts as referred to in the *Social Investment framework to achieve growth and cohesion* (EU, 2013):

> *'There needs to be early intervention, complemented by enabling access to basic services, such as basic payment accounts, internet, childcare, education and health. Stimulating "best-offer pricing" options for consumer products and services and improving financial inclusion is another part of this effort. Implementation of the legislative "Bank account" package including measures to provide a payment account with basic features for all consumers in the EU, which follows the 2011 Recommendation on access to a basic payment account, will be key.'* (Pp. 10-11, my emphasis).

Another area that the Social Investment Package (EU, 2013) has included in its policies on financial services is the protection of people against financial difficulty and possible homelessness:

> *'The financial crisis has shown the damage that irresponsible lending and borrowing practices can cause to consumers and lenders. Consumers purchasing a property or taking out a loan secured by their home need to be adequately informed about the possible risks, and the institutions engaging in these activities should conduct their business responsibly. The Commission has published a working paper on national measures and practices to avoid foreclosure procedures. In addition, the Commission is seeking to enhance the protection of consumers through a proposed directive on credit agreements related to residential property. It will also publish in early 2013 a study identifying and analysing the different legal techniques and best practices to enhance the protection of the consumers. These initiatives are all part of a preventive approach to mitigating financial distress and confronting homelessness.'* (p. 20).

3. Financial exclusion in the EU

Considering the complexity of financial exclusion in terms of access, use and diversity of financial exclusion, no single measure of the level of financial exclusion has yet been developed for in the EU. The Eurobarometer n° 602 of 2003 revealed that the 'unbanked' or population without any bank account were 10% of individuals aged 18 and over in the EU15 countries and 47% of adults in the new member states. In addition, 8% in the EU15 and 6% in the new member states had just a deposit account with no payment or card or check book (EU, 2008a, pp. 17-18)

With regard to another indicator of financial exclusion - access to overdraft or revolving credit – 40% of adults in EU15 and 73% of adults in new member states did not have access to such facilities. Moreover, 30% of adults in EU15 and 54% of adults in new member states did not have any savings products. It is also important to note that most probably those without any bank account did not have any savings products. (Ibid)

Overall and based on the three indicators of no bank account, no access to revolving credit and savings products, 7% of all adults in the EU15 and 34% of adults in the new member countries, a total of 30 million people had no access to the these financial services and could therefore be considered as financially excluded.

Table 3.1 presents a snap shot view of EU member states by the level of financial exclusion, as measured by the percentage of adult population 18 years of age and over who are financially excluded.

Table 3.1 Level of financial exclusion (percentage of adults) by country, EU, 2008

Level of financial exclusion (% of adult population)	Country
Low (less than 3%)	Luxembourg, Belgium, Denmark, Netherlands, France, Sweden
Low – Medium (3 – 8%)	Germany, Austria, the United Kingdom, Finland, Spain, Slovenia
Medium – high (12 – 28%)	Italy, Ireland, Portugal, Greece, Estonia, Czech Republic, Cyprus, Malta, Slovakia
High (34% and above)	Hungary, Poland, Lithuania, Latvia

Source Our compilation based on EU (2008a), p. 34

According to the EU sources there appears to be a relationship between the level of financial exclusion, on the one hand and economic prosperity and degree of social inequality in member states, on the other. (EU, 2008a, Table 4, p. 20) The richer and the less unequal a country, the lower the financial exclusion of its adult population. It is, however, notable that financial inclusion is higher in more prosperous countries, as measured by per capita GDP, irrespective of their degree of inequality as measured by the Gini coefficient. Some of the new member states where inequality was low had a very high percentage of adult population being financially excluded. For example Slovakia's GDP per capita was half that of Germany's but its Gini coefficient was 25.8 compared with 36 in Germany, indicating that the latter was a more unequal society. The level of financial exclusion of adults in Slovakia was 26% compared with 3% in Germany. (EU, 2008a, Table 4, p. 20) What this comparison indicates is that the more economically advanced and richer countries provide more scope for financial inclusion in general. However, it has to be noted that the spread and use of modern banking services has to be put in the context of a society's tradition in the use of cash and banking services, and the fact that use of modern banking services could expose individuals and firms to official scrutiny. For example, Greece, at 28% has the highest percentage of financial exclusion in the EU15 with a Gini coefficient of 34.3. The UK has a slightly higher degree of income inequality with a Gini of 36, but with low financial exclusion of 6%. Corresponding financial exclusion figures for Italy and Portugal are 16 and 17% with Gini coefficients of 34.7 and 38.5, respectively.

We should go beyond the aggregate data at national level and ask how financial exclusion relates to people's social and economic circumstances as well as location. The more recent EU studies reveal being 'unbanked' is related to household's level of income and poverty. Based on data collected in 2008, just *before the financial crisis,* those living below the EU poverty threshold of 60% of median income were twice as likely (22%) to have no bank account compared with those living above the poverty threshold (9.5%). (EU, 2010a, Table 1, p. 6) A similar relationship exists between being poor, as measured by material deprivation, and 'not having a bank account.' According to the material deprivation indicator of poverty a household is poor if it is deprived of at least three of nine essential items which also include two important indicators of financial exclusion - 'being in arrears in paying household bills and not being able to meet unexpected expenses' - that are related to the lack of access to financial services of 'credit' and 'savings.' (Ibid).

3.1 Gender and age

As far as gender is concerned, there is a small difference between men and women living in households without a bank account. The proportion of women in such households is 12% compared to 11% for men for the EU as a whole. A similar small gender gap of 2-4% also exists within almost all EU countries. But this could be a reflection of the fact that more women live in older households, given women's higher life expectancy. The old in general were found to be less 'banked' than the rest of the population. In the EU 18% of those aged 65 and over lived in households without a bank account compared with 11% of those below 65 years of age. In some EU countries the percentage of older people without a bank account ranges from 40% (e.g. Latvia and Lithuania) to 64% (Cyprus), 82% (Greece) and 91% (Bulgaria). (EU, 2010a, p. 9-10) The reason apparently has less to do with the financial exclusion than 'lack of need,' for a bank account, as expressed by the older people. (EU, 2010a, p. 11).

3.2 Poverty and financial exclusion

There are differences between poor and non-poor in terms of their access to a credit card, overdraft and long-term loans such as mortgages. As for the non-poor (those above 60% of the median income) 31.7% did not have access to any of the above financial facilities, compared with 54% of those who were either income poor (below the 60% of the median income) or materially deprived poor. (EU, 2010a, Table 6, p. 13) A word of caution, however, is in order as far as access to long-term loans as an indicator of financial exclusion is concerned. Access to a mortgage should be put in the context of social and institutional arrangements of housing provision in any country. Where there is strong legal and effective protection of the tenant rights (such as rent control, laws against eviction combined with effective enforcement, and inheritance of tenancy by children), sufficient supply of good quality social housing and of affordable rental property, the need for taking up long-term loans for housing decreases.[5] Developments with regard to privatisation of social housing in some EU countries like the UK in the 1980s and 1990s through transfer of title deeds to existing tenants also reduced the pressure on low-income households to take up long-term loans

5 Affordability of housing is usually measured by the ratio of housing expenditure, whether paying for a mortgage or rent, to total household expenditure. This ratio should not exceed 30%, otherwise housing expenditure would put undue pressure on other household expenditure.

to buy their house. However, even when we exclude access to mortgages (a type of long-term loan) as an indicator of financial exclusion there are still large differences between the poor and non-poor with regard to having different types credit (credit card, overdraft facility and outstanding loan) – 56% of the poor did not have any of these types of credit compared with 36% of the non-poor. (Ibid, Table 8, p. 16).

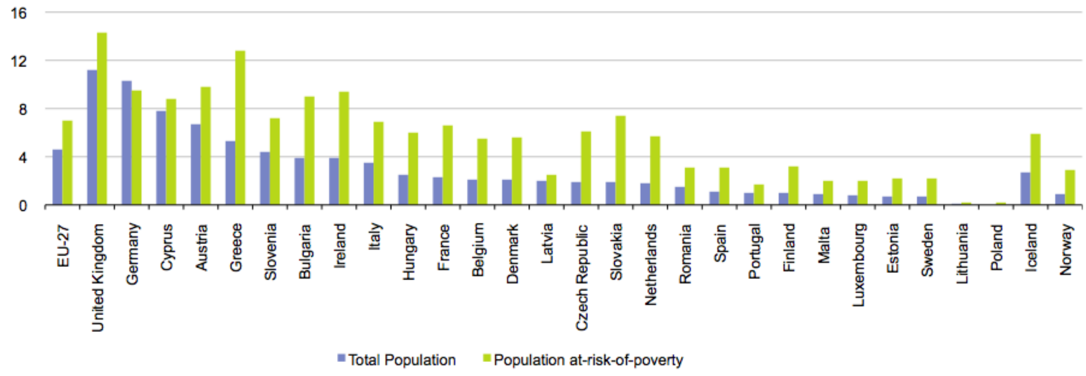
As far as lack of access to credit cards and long-term loans are concerned, we should consider the possibility that they may well *not* be due to financial exclusion. For example, 40% of all respondents declared that they had 'no need to borrow', whilst only 11% reported causes that could be considered as financial exclusion: 'not able to repay', 'application for loan turned down', 'loan facility withdrawn', 'banks refuse credit to people like us'[6] (Ibid, Table 9, p. 19). This overall picture however changes somewhat when we consider the response of the 'income poor,' 42.5% of whom said that they did not have a credit card and no long-term loan because they had 'no need to borrow.' But 26% of the income poor referred to reasons that could be considered as financial exclusion. Among those who were 'materially deprived poor' 31% responded by referring to 'no need to borrow' whilst 36% referred to reasons that could be considered as financial exclusion. (Ibid, Tables 10-11, pp. 20-21). Despite this cautionary note, it is remarkable that the percentage of those with no credit card, overdraft facility or outstanding loan for reasons that could be considered as financial exclusion increases with poverty, jumping from 11% of total to 26% of the 'income poor' and to 36% of 'materially deprived poor'. *In other words there is credible evidence on the financial exclusion of poor households with regard to access to credit that at least deserves further investigation, in particular in the post-financial crisis rise in poverty and deprivation in the EU.*

The 2008 data collected by the EU provides further evidence on the financial pressure on the poor.[7] Figure 3.1 presents data on the population in a critical situation with respect to arrears and outstanding debt by poverty status. A larger proportion of the poor, shown in light colour (the right hand side bars in Figure 3.1), have such problems across all EU countries (except in Germany) compared with the total population; indicating that the poor share the same experience of financial pressure irrespective of the level of affluence of the country (compare for example UK, Sweden and Greece).

6 The data was collected before the financial crisis, and the picture could have changed with regard to the need to borrow in the face of large-scale unemployment, especially in the crisis that hit Southern EU members, and due to the decline in social protection in most EU countries.

7 The World Bank Global Financial Inclusion Database (FINDEX) provides a similar set of data on financial exclusion. For further details see Ruelens, A. and Nicaise, I. (2018).

Figure 3.1 Proportion of the population in a critical situation with respect to arrears and outstanding amounts by poverty status, 2008 (% of specified population)

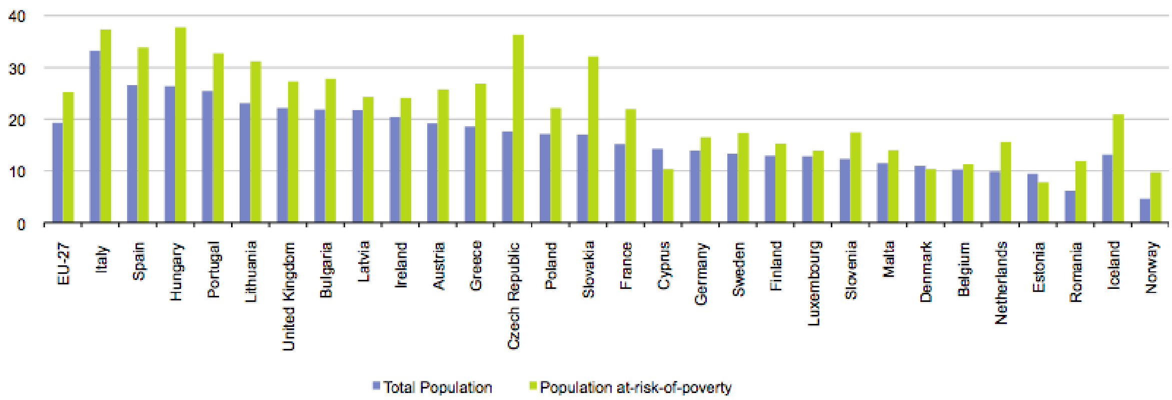


Source: Eurostat 2008 ad-hoc module 'Over-indebtedness and financial exclusion'

Source EU (2012a) Archive: Over-indebtedness and financial exclusion statistics.

The importance of access to financial resources becomes more relevant when we consider changes in circumstances, especially in relation to drop in income. Figure 3.2 provides a snap shot view of the proportion of total population and those at risk of poverty who reported a drop in income in the 12 months leading to the time of the interviews. Whereas both groups were confronted with drops in income, proportion of those at risk of poverty (the right-hand side bar) was higher across all EU countries. We should expect higher figures recorded in the post-financial crisis period especially in countries in Southern and Eastern Europe that have suffered most from the crisis, as reflected in the recent data on poverty data. The number of people at risk of poverty in the EU27 was at its lowest level in 2009 at about 114.5 million but grew steadily (with a slight dip between 2012 and 2014) to 122.5 million people in 2014 (123.9 million people in the EU28). (EU, 2017)

Figure 3.2 Proportion of the population that reported a drop in income in the previous 12 months by poverty status, 2008 (% of specified population)



Source: Eurostat 2008 ad-hoc module 'Over-indebtedness and financial exclusion'

Source EU (2012a) Archive: Over-indebtedness and financial exclusion statistics

3.3 Over-indebtedness and financial exclusion

One of the features of financial exclusion is being 'over-indebted' which is reflected in the data on arrears. It may seem paradoxical that a financially excluded person or household could have access to credit sources (either formal through, e.g., credit cards issued by banks or informal through, e.g. loan sharks, private moneylenders, friends and relatives). But households on low-income have limited access to low cost credit and have to turn to high cost credit sources and accumulate debt.

> *'An over-indebted household is, accordingly, defined as one whose existing and foreseeable resources are insufficient to meet its financial commitments without lowering its living standards, which has both social and policy implications if this means reducing them below what is regarded as the minimum acceptable in the country concerned.'* (EU, 2010d, p. 4).

Over-indebtedness may well be a symptom of financial exclusion but we need to establish factors that link the two. An obvious link is how credit is used. Productive use of credit that could generate and maintain a stream of income to finance a debt would reduce the risk of over-indebtedness. Similarly, credit rules and regulations that could be adjusted to help the debtor who is suddenly facing debt servicing difficulties would also reduce the risk of indebtedness.[8] For example an owner – operator taxi driver who has to pay for an expensive unexpected maintenance could use an over-draft/rolling credit at low cost or pay for it at a much higher cost using a credit card. Her future income may be sufficient to cover the servicing cost of an over-draft but may well fall short of the servicing cost of a credit card debt. The question is whether credit regulations and discretion would allow a bank to offer her the over-draft facility and arrange for a longer period of repayment. This is a question of both use and regulation of credit. (EU, 2008a, EU, 2010d and Gloukoviezoff, 2011)

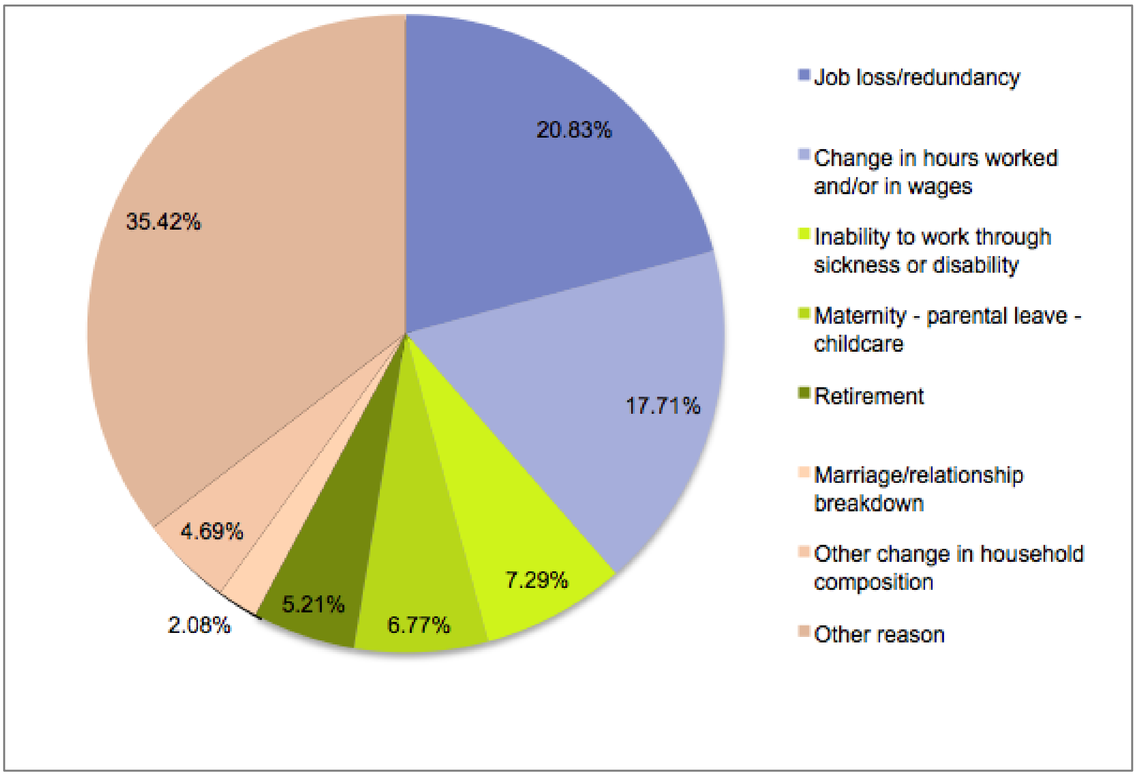
Over-indebtedness could be related to people's loss of income. The more the loss of income, the higher the need to compensate the loss through sale of assets, reduction in expenditure, increased work effort and further borrowing that may well n over-indebtedness. A general decline in economic activity and across the board drop in income affects everybody but the vulnerable (those above the above poverty line) and poor people will be affected more than the rest of the population because of their lack of assets, already high work effort, and low living standards which means any further cut in their expenditure would push them further into poverty. The EU data offer several reasons for the drop in income (see Figure 3.3), ranging from *changing economic circumstances such as* 'Job loss/redundancy' (20.83%) and 'Drop in hours worked/or wages' (17.71%), various types of *contingencies* of 'Inability to work due to sickness or disability' (7.29%) and 'Maternity - parental leave - childcare' (6.77%) and personal reasons of 'Retirement' (5.21%), 'Marriage and breakdown of relationship' (2.08%), 'Other changes in household composition' (4.69%) and 'Other reasons' (35.42%). If we leave aside the unspecified 'Other reasons', the remaining 65% are about changes in the working and family life that result in a drop in income.

The question as far as 'financial exclusion' is concerned is how individuals and households manage their day-to-day living expenses in the face of changing circumstances of work and family life as well as fluctuating income? Part of the answer lies in social policy based support system of unemployment benefit/insurance, sickness/disability insurance and support and state/occupational pension. For the rest access to credit, personal insurance and other financial instruments would become imperative. Herein lies the link between social policy, financial exclusion and increasing indebtedness. [9]

8 Debt servicing problems could be divided into two broad categories of those that are under the control of the debtor such as money management and those that are not, such as loss of purchasing power due to inflation, unemployment, unexpected expenses and changes in interest rates and terms of the debt.

9 For further discussion on social policy and social protection issues see R. Lehwess-Litzmann (2017) Re-InVEST, WP5.

Figure 3.3 Reasons for drop in income in EU-27 (%), 2008



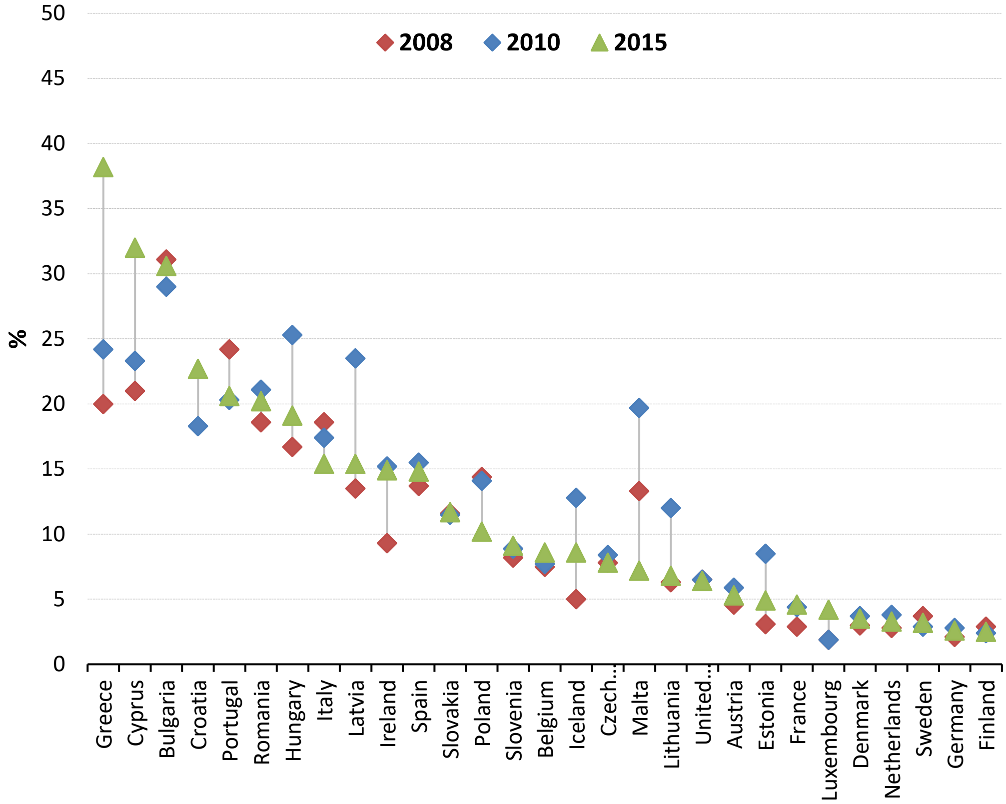
* The legend (on the right hand side and starting from the top) corresponds to different portions of the pie chart in a clock-wise order.

Source EU (2012a) Archive: Over-indebtedness and financial exclusion statistics

3.4 The impact of the financial crisis on financial exclusion

What was the impact of the financial crisis of 2009? Did it increase the financial pressure on the EU population? The data provides a mixed picture. Figure 3.4 compares the percentage of people who had 'problems making ends meet' before (in 2008), during (in 2010) and after the financial crisis (in 2015). The overall picture before and after the crisis is not very different, in most countries the same percentage of people reported that they had problems 'making ends meet' before and after the crisis. The main exceptions are Greece and Cyprus, that keep suffering from the harsh shock therapy of the Troika. This is captured well by Figure 3.4 as we move from left to right.

Figure 3.4 **Proportion of population living in households with (great) difficulty to make ends meet, before (2008), during (2010) and after the financial crisis (2015) (%)**



* Countries in descending order of 2015 series
Source Ruelens and Nicaise (2018), figure 6.10, based on Eurostat, EU-SILC online data code [ilc_mdes09], 2017

Source EU (2017). Europe 2020 indicators - poverty and social exclusion

4. Conclusions and recommendations

An important and interesting finding of this survey is that whilst reasons for financial exclusion differ across countries, similar groups of people in all countries demonstrate a tendency to be financially excluded, irrespective of the level of financial exclusion in the country or its prosperity and accessibility, competitiveness and efficiency of its financial markets.

Some groups are disproportionately represented in the financially excluded population: lone parents, young people between 18 and 25 years of age, students, unemployed people, single people without children, retired people with low level of education and rural residents. It is remarkable that factors that we associate with poverty like unemployment, being in the lowest income quartile, lone parenthood, etc., cut across countries with different degrees of financial exclusion, increasing in importance as we move down the ranking of countries by prosperity, but move up the ranking by inequality.

In short it is not the lack of competitiveness and inefficiency of the financial sector, as argued (see below) by the EU that lies behind financial exclusion. Improving access to financial services by offering bank accounts to the financially excluded is the very first step, and indeed a very limited step to tackling financial inclusion. 'Experiences in countries like France and Sweden, however, has exposed the problem of reconciling universal, non-discriminatory banking (a social objective) with the requirements of safe and sound banking (an economic objective).' (Carbo, et al., 2007, p. 27). We should add that the 'economic objective' refers to the financial safety of banks and not economic improvement in the situation of the socially and financially excluded people!

Carbo, et al. (2007) have recommended that the EU should move in the direction of a US style affirmative regulatory system of Community Reinvestment Act (CRA) whereby financial institutions offering banking services are encouraged to meet the credit needs of the communities they operate in, especially in the moderate to low income areas. The US financial regulators will use compliance with CRA in case of application by financial institutions to expand their operations through merger and acquisitions. The EU has moved in this direction when the EU parliament argued for "a list of criteria for enterprises to be complied with if they claim to be responsible, and to shift emphasis from 'process' to 'outcome', leading to a measurable and transparent contribution from the business in the fight against social exclusion." (EU, 2008a, p. 95). The EU seems to favour a US style regulatory system in combination with a policy of treating financial services as 'services of general interest', which qualify for compensation for their socially responsible approach to financial inclusion.

But the fundamental cause of financial exclusion is low and precarious income that cannot meet current household needs and their unexpected expenditure. As Figures four and five have clearly demonstrated, people living in countries with comprehensive and universal social support systems are not only more able to 'make ends meet' but also to 'meet unexpected financial expenses.' *That is where the link between social policy and financial services comes into play. The risk of offering financial services to the poor goes down as social protection increases.*

In other words the solution to financial exclusion only partly lies in the financial markets. The EU should try to tackle the underlying causes of social exclusion by improving the security and level of income of financially excluded people. Security of income in terms of length of employment contract, or secure stream of future of income of the self-employed people through long-term public sector contracts would reduce the risk of providing financial services to the low-income people. That in turn makes a policy of promoting financial inclusion more viable and acceptable to the financial markets.

However there are also policies for the financial sector that can be pursued in order to reduce financial exclusion. These policies need to take account of the *factors* that affect financial exclusion and their *variability* across the member states. Following up on the theoretical discussion on the need for financial services and empirical evidence on financial exclusion it would be useful to provide a list of factors that affect financial exclusion. The EU (2008a) have divided these factors into three categories of societal, supply and demand factors. Their incidence varies across the member states.

Societal factors include:

1. Demographic changes (population ageing) and technological gap between young and old generation: impact on the use of and access to financial services.
2. Delays in household formation: young people live with their family and find it less useful to open a bank account.
3. Migrants and minorities related issues: legal, cultural or language barriers to using or accessing financial services.
4. Cash as a common means of transaction: no stigma attached to cash transactions as well as the anonymity that it offers in case of official scrutiny for tax and other purposes.
5. Labour market changes: more flexible labour markets have led to less stable incomes making people more of a risk to the financial sector.
6. Income inequalities: the poor are marginalised in terms of their access to financial services.

Supply factors include:

1. Risk assessment procedures: changes in and tightening of procedures discriminate against the low-income groups leading to exclusion.
2. Marketing methods: unclear or targeting of the richer and educated clients (as in advertisements) could lead to other clients not approach financial institutions for a service and look for alternatives.
3. Geographical access: unavailability of financial service providers because a location is commercially unviable.
4. Product design: unclear or restrictive terms and conditions may effectively exclude certain sections of the population.
5. Service delivery: delivery of financial services, especially through the Internet, may not be suitable for clients with limited knowledge of and access to electronic technology (e.g. the older people).
6. Complexity of choice: the variety of products on offer may appear as providing choice but in effect may complicate choice.
7. Type of product: the financial market does not provide an appropriate service and product to meet the needs of a specific group of clients.

Demand factors (these are usually self-exclusion factors which, however, are conditioned by the image and perception of the formal banking and financial sector or past experiences)

1. Perception that bank accounts and formal financial services are not for poor people.
2. Lack of information about costs and perception of cost of financial services to be unaffordable.
3. Lack of trust in the viability of financial institutions and fear of loss of control over non-cash financial resources.
4. Negative previous experiences such as being refused a financial service.
5. Fear of seizure of assets or income in case of default.

Policy responses to such a wide range of factors as potential causes of financial exclusion call for an equally wide-ranging approach to tackling it. All EU countries, in varying degrees, have embarked on policies to reduce financial exclusion as well as increase financial literacy and education, especially among those at risk of over-indebtedness.[10] Some of the policies rely on the market to improve financial inclusion through Corporate Social Responsibility initiatives whereby mainstream large financial institutions like banks and insurance companies will try to improve access by offering, for example, new low-cost transaction bank accounts to low-income households. Other initiatives included cooperation with the voluntary sector and government to reduce exclusion, in particular in the all-important area of consumer credit. As noted earlier, commercial banks find lending small loans to those who might be considered high risk unprofitable. Some credit card companies in France, with the support of the French state, provide low cost loans to NGOs, to organise micro-credit activities to meet the needs of the disadvantaged groups. (EU, 2008a, p. 64) Governments have encouraged banks to draw up a voluntary code of practice to reduce financial exclusion that among others offer transaction bank accounts, payment cards and improved information on bank charges.

Alternative commercial financial providers like credit-unions and micro-finance institutions have also been active to reduce financial exclusion by providing financial education and unsecured credit for private purposes, the latter being one of their most important function. But expanding this service requires state intervention as in France, whereby 50% of the risk is borne by the central government.

And finally governments have been playing an important role (as observed earlier) to facilitate lending by 'not-for-profit' financial service providers as well encouraging for-profit providers to expand access to banking services. On the whole governments are playing mostly an advocacy role by trying to improve financial education and literacy, and by improving the regulation to increase access as well as underwriting credit to high-risk low-income people by reducing risk to banks.

What emerges from these initiatives is to a large extent a market based policy initiative, backed up with some regulatory intervention. These initiatives are supported by the EU Commission that promotes financial services as 'services of general interest' which are 'commercial services of general economic utility, on which public authorities therefore impose specific public service obligations' (Article 86 of EC Treaty, quoted in EU, 2008a, p. 96). The EU Commission provides compensation to such commercial interests to fulfil their obligation and it has been argued that such compensation could be offered to the banks and financial services to reduce their risks if they were to reduce financial exclusion. (EU, 2008a, p. 96)

Whilst it is concerns over social exclusion, a cause as well as consequence of financial exclusion that drives the EU policy to reduce financial exclusion, the EU approach is in the main to work through the markets (including the 'not-for-profit' sector) and its regulations. The EU Commission views 'financial inclusion as an area where work should be undertaken in order improve the *competitiveness and efficiency of the European retail financial services market.*' (EU, 2008a, p. 123, our emphasis). In other words, according to the Commission, it is *poor competitiveness and inefficiency* of retail financial markets that has led to financial exclusion.

It would be useful to provide a summary of policies that are needed to reduce the risk of financial exclusion for the low-income groups across the EU:

1. A campaign for mandatory age related (e.g. voting age, military service age, end of mandatory schooling age) bank accounts with small initial deposit. State owned banks or post banks could take the lead in this campaign by involving schools, universities and other institutions.
2. Availability of debit cards on basic bank accounts to facilitate electronic payment and transfer of money.

10 EU (2008a) provides a useful account of initiative and policies across the member states.

3. Reducing regulations for opening bank accounts by for example removing the need for permanent residential address; that in general discriminates against migrating people whether they are Roma, Travellers, or national and international or migrants. People who become homeless are at a particular risk of losing their banking services. Perhaps a traceable contact address could replace a permanent residential address as a prerequisite for opening or keeping a bank account.
4. Campaign to improve women's access to bank accounts through educational institutions, health centres and sectors where female employment is high.
5. Improving access to banking services for female home carers who do seem to be at particular risk of financial exclusion. Payment of all child related supplementary income directly to female carers through bank accounts that have specially been opened for them by the state.
6. Protection of and support for low-income and poor households who are in arrears and could face insolvency and bankruptcy; that might result, *inter alia,* in eviction, loss of property and income and negative credit record.
7. The above measures should be fostered through an EU Financial Services Directive to *improve access* to financial services for low-income people, since they are at the highest risk of financial exclusion.
8. Adoption of a US style affirmative regulatory system of Community Reinvestment Act (CRA) whereby financial institutions offering banking services are encouraged to meet the credit needs of the communities they operate in, especially in the moderate to low income areas.
9. Regulating client risk assessment instruments of banks for low-income customers. Banks should be encouraged to offer low-interest over-draft facilities that could be partially underwritten by the state to reduce the credit default risk to banks. At the same time a link should be established between state agencies that offer support to individuals and households (e.g. child support, state pension, unemployment benefit) and banks in order improve credit rating of individuals with banks.
10. Promotion of low-interest loans for housing improvement/repair and purchase of consumer durables by banks. Credits offered by credit card companies and stores are always much higher (in most cases by a factor of 3) than over-draft facilities offered by banks.
11. State subsidy to insurance companies to cover a range of property (e.g. fire, flooding, theft) and individual (e.g. accidents, disability) risks of low-income individuals and households; that in turn will reduce the future cost to the state to cover the loss to individuals and households.

appendix 1 Services covered/not covered by the EU 2006 directive of single market for services[11]

a1.1 Services covered

- **Distributive trades** including retail and the wholesale of goods and services.
- **Activities of most regulated professions** such as legal and tax advisers, architects, engineers, accountants or surveyors.
- **Construction services and crafts**.
- **Business-related services** such as office maintenance, management consultancy, event organisation, debt recovery, advertising and recruitment services.
- **Tourism services** such as travel agents.
- **Leisure services** such as sports centres and amusement parks.
- **Installation and maintenance of equipment**.
- **Information society services** such as publishing for print and web, news agencies, computer programming.
- **Accommodation and food services** such as hotels, restaurants and caterers.
- **Training and education services**.
- **Rentals and leasing services** including car rentals.
- **Real estate services**.
- **Household support services** such as cleaning, gardening and private nannies.

a1.2 Services not covered

- **Financial services**.
- **Electronic communications services** with respect to matters covered by other EU instruments.
- **Transport services** falling within the scope of Title VI of the Treaty on the Functioning of the European Union (TFEU).
- **Healthcare services** provided by health professionals to assess, maintain or restore the state of patients' health where those activities are reserved to a regulated health profession.
- **Temporary work agencies' services**.
- **Private security services**.
- **Audio-visual services**.
- **Gambling**.
- **Certain social services** provided by the State, by providers mandated by the State or by charities recognised by the State;
- **Services provided by notaries and bailiffs** appointed by an official act of government.

11 Source EU (2018) Quick Guide to the Services Directive. Available at: https://ec.europa.eu/growth/single-market/services/services-directive/in-practice/quick-guide_en [Accessed, 1 July 2018)

appendix 2 Individual country cases studies

Financial Exclusion - Country Fact Sheet
Mahmood Messkoub (EUR)

a2.1 Italy

a2.1.1 General information

Financial exclusion is defined as lack of access to an affordable range of financial services for the purpose of transactions, savings, borrowing/credit and insurance (for contingencies and retirement). It is not just about *not* having a bank account - i.e. 'un-banked,' but also not having access to the full range of banking product and services - i.e. 'marginally banked.' Financial exclusion should therefore be viewed across a spectrum of access to financial services. The main indicators of financial exclusion are lack of access to bank accounts (to manage payments and save), affordable credit and mortgage, and insurance; and a situation of over-indebtedness.

According to the latest available EU wide data Italy is a country with *a medium – high level* of financial exclusion, where about 16% of adult population lack at least one type of financial product (see Table one for a comparison of Italy with other EU countries). EU (2008a, p. 20) More detailed breakdown of financial exclusion shows that 19% are 'un-banked' (the corresponding figure for the EU27, is 11.6%, EU2010, Table 1, p. 6), 7% are 'marginally banked' and 26% have 'no transaction bank account.' (Ibid) Study of the financially excluded reveal that they are more likely to be unemployed, female, rural resident, less educated, in short at risk of social exclusion. EU (2008a, p. 50).

Low level of financial exclusion in the EU is associated with the high level of per capita income or consumption, and low level of inequality (EU, 2008a). An observation that does not seem to hold for Italy where its index of per capita consumption level in 2016 was 97 just below an EU-28 average of 100 (EU, 2017a). The EU Barometer Data of 2003 indicate that that there is a weak association between high financial exclusion and high level of income inequality. (EU, 2008a, p. 20) This seems to be the case in Italy where the Gini coefficient of inequality is 0.32 compared with an EU average of 0.30 (EU, 2017b).

As far as access to low cost credit is concerned it was found that 56% of Italian adults had 'no revolving credit', 13% had 'a loan' and 50% had 'no savings'. (EU, 2008a, p. 27) These figures are very different from the EU 15 averages of 40% ('no revolving credit'), 18% (have 'a loan') and 30% ('no savings').

However, it has to be noted that the spread and use of modern banking services has to be put in the context of a society's tradition in the use of cash and banking services, and the fact that use of modern banking services could expose individuals and firms to official scrutiny. It should also be noted the above figures may well overestimate credit exclusion because they include people who are in principle against borrowing or did not need them. (EU, 2008a, p. 25).

Moreover, lack of connection to the formal financial sector is not necessarily a sign of financial exclusion, and whether people have made a conscious decision to engage with the financial sector and had a choice over it. These are issues that have to be explored.

The 2008 SILC survey of those without a bank account in Italy revealed that 13% of them had income more than poverty line of 60% of the median income, whilst the figure for the income poor (below 60% of the median income) was 44.8% and for materially poor (those 'deprived of 3 of 9 items') 47%; which are well above the EU averages of 22.5% and 36.2% respectively. The poor in general are therefore less 'banked' than the non-poor. But the vast majority of the un-banked, whether poor and non-poor, declared that the reason was 'no need-prefer dealing in cash'. (EU, 2010, Tables 2-3, pp. 8-9). Some studies also found that people at risk of social exclusion (women, rural residents, unemployed and less educated) had a higher rate of financial exclusion (EU, 2008, p. 50).

There were some differences between genders and age groups of those without a bank account; 17% of them were male and 20.6% were female. A larger percentage of the old (65 and over) were without a bank account compared with those in 25 to 64 age group, 29.8% and 15.9% respectively. The gender difference may in part be explained by the age difference since there are more women in older age groups. (EU, 2010, Table 4, p. 10).

As far as access to credit card, over-draft facility and outstanding loans, including mortgages are concerned, higher percentage of the poor than the non-poor reported lack of access - 45.3% of the non-poor compared with 70.1% of the income poor and 59.4% of the materially deprived poor. (EU, 2010, Table 6, p. 13). The corresponding figure for the total population was 50%. It is interesting to note that at least half these groups reported that they did not have *any need to borrow*, whilst between a quarter and a third relied on friends/family for their credit needs. Only 1.3% of the total sample reported that their 'application for loan turned down' or that 'banks refuse credit to people like us', reasons that can be deemed as financial exclusion. (EU, 2010, Table 9, p. 19). The response of the income poor were equally low: 3.4%, and the same for the materially poor: 5.5%. (EU, 2010, Tables 10-11, pp. 20-21).

These low percentage figures shed a new light on the issue of 'financial exclusion' by the formal financial sector. The question is how one should interpret the fact that 66.6% of the income poor and 55.5% of the materially poor reported that they had 'no need to borrow.' At one level it is an issue of 'living within one's means', and at another level the complexity and 'remoteness' of the formal financial sector from the day-to-day needs of the poor that makes financial exclusion a structural problem. There is a need to investigate whether 'no need to borrow' or relying on 'friends/family' is an expression of deliberate 'self-exclusion' or structural exclusion. It has been suggested that self-exclusion may well be due to delays in cheque clearing and lack of over-draft facility to help the cash flow and high transaction back charges. (EU, 2008a, p. 41).

a2.1.2 Impact on the poor and vulnerable people

The 2008 data collected by the EU provides the evidence on the financial pressure on the poor. Figure one presents data on population at critical situation with respect to arrears and outstanding debt by poverty status. In general a larger proportion of the poor, shown in light colour (the right hand side columns in Figure one) are at critical situation with respect to arrears and outstanding debt.

In Italy about 7% of the poor are in 'critical situation' compared with less than 4% of the total population. The poor share the same experience of financial pressure irrespective of the level of affluence of the country. The poor in the affluent UK and Sweden are in the same position as the poor in Greece.

The importance of access to financial resources becomes more relevant when we consider changes in circumstances, especially in relation to drop in income. Figure 3.2e two provides a snap shot view of the response of total population and those at risk of poverty who reported a drop in income in the 12 months leading to the time of the interviews.

In Italy there is a small difference between the poor and the total population. But in most other EU countries the poor have faired worse than the total population.

As far as the impact of financial crisis of 2009 is concerned, in the immediate aftermath of the crisis -2010 - the percentage of people who reported '(great) difficulty to make ends meet' declined by a very small amount (Figure 3.3) that could well be due to the fact that just under 40% of population who were in difficulty before the financial crisis still could rely on the social security support to make ends meet. This is also corroborated by data on facing unexpected financial expenses. As Figure 3.4 demonstrates between 2013 and 2014 there has been very little change in the percentage of Italians who could not 'face unexpected financial expenses' It is useful to put these findings in perspective and note that in the Euro

Area or EU27 the average figure for those who had '(great) difficulty to make ends meet' was half that in Italy whilst the corresponding figure for those who could not 'face unexpected financial expenses' was close to the Italian figures.

a2.1.3 Policies to reduce financial exclusion

As noted earlier Italy has a high level of financial exclusion considering that its per capita income is very close to the EU average. Government policies have been centred on both the supply and demand sides of the financial markets. Commercial banks have been encouraged to provide low-cost transaction banking, with very low overdraft facility, under a voluntary agreement (called Patti Chiari) among Italian banks in 2003, that however has not been very effective considering the high level of un-banked Italian in 2008. (EU, 2008a, p. 87). The post office is offering limited financial services like bill payment facilities without the need for an account.

As for access to credits and interest charges, Italy has enacted a law on 'rules on usury practices' that is backed up by a special fund financed by the treasury to assist people who are at risk of usury practices, but this facility is not open for consumption purposes. (EU, 2008a, p. 79). The introduction of an interest rate ceiling has been treated with some scepticism in Italy since it could lead to exclusion of the poor and high risk people if the cost of providing credit were to be higher than interests charged, thus pushing the people to high cost informal money lenders. (EU, 2008a, p. 104).

a2.2 Ireland

a2.2.1 General information

Financial exclusion is defined as lack of access to an affordable range of financial services for the purpose of transactions, savings, borrowing/credit and insurance (for contingencies and retirement). It is not just about <u>not</u> having a bank account – i.e. 'un-banked,' but also not having access to the full range of banking product and services – i.e. 'marginally banked.' Financial exclusion should therefore be viewed across a spectrum of access to financial services. The main indicators of financial exclusion are lack of access to bank accounts (to manage payments and save), affordable credit and mortgage, and insurance; and a situation of over-indebtedness.

According to the latest available EU wide data Ireland is a country with *a medium – high level* of financial exclusion, where about 12% of adult population lack at least one type of financial product (see Table one for a comparison of Ireland with other EU countries) (EU, 2008a, p. 20). More detailed breakdown of financial exclusion shows that 19% are 'un-banked' (the corresponding figure for the EU27, is 11.6%, EU2010, Table 1, p. 6), 21% are 'marginally banked' and 41% have 'no transaction bank account,' the second highest rate in the EU15 countries, after Greece at 78% (Ibid) However, it should be noted that a high proportion of people have deposit account, and that is why the rate of people who are 'unbanked' is far lower than those with 'no transaction account.' Other independent reports of Ireland show a lower (28 – 33) percentage of people with 'no transaction account,' but these studies do not use the same measure of financial exclusion. The differences have been explained by the fact that given the high usage of credit unions in Ireland that usually do not offer transaction facilities, the EU figures would over-estimate the percentage of population without 'transaction account' (EU, 2008a, pp. 23-24).

Low level of financial exclusion in the EU is associated with the high level of per capita income or consumption, and low level of inequality. EU (2008a) An observation that does not seem to hold for Ireland where its index of per capita consumption level in 2016 was 97 just below an EU-28 average of 100 (EU, 2017a). The EU Barometer Data of 2003 indicate that that there is a weak association between high financial exclusion and high level of income inequality (EU, 2008a, p. 20). Ireland has a Gini coefficient of inequality is 0.30 (in 2015) compared with an EU average of 0.31 (EU, 2017b), but with a financial exclusion rate above the EU15 average.

As far as access to low cost credit is concerned it was found that 51% of the Irish adults had 'no revolving credit', 34% had 'a loan' and 21% had 'no savings' (EU, 2008a, p. 27). These figures are very different from the EU 15 averages of 40% ('no revolving credit'), 18% (have 'a loan') and 30% ('no savings').

However, it has to be noted that the spread and use of modern banking services has to be put in the context of a society's tradition in the use of cash and banking services, and the fact that use of modern banking services could expose individuals and firms to official scrutiny. It should also be noted the above figures may well overestimate credit exclusion because they include people who are in principle against borrowing or did not need them. (EU, 2008a, p. 25).

Moreover, lack of connection to the formal financial sector is not necessarily a sign of financial exclusion, and whether people have made a conscious decision to engage with the financial sector and had a choice over it. These are issues that have to be explored.

The 2008 SILC survey of those without a bank account in Ireland revealed that 14% of them had income more than poverty line of 60% of the median income, whilst the figure for the income poor (below 60% of the median income) was 32% and for materially poor (those 'deprived of 3 of 9 items') 45%; which are well above the EU averages of 22.5% and 36.2% respectively. The poor in general are therefore less 'banked' than the non-poor. But the vast majority of the un-banked, whether poor and non-poor, declared that the reason was 'no need-prefer dealing in cash' (EU, 2010, Tables 2-3, pp. 8-9). Some studies also found that people at risk of social exclusion (women, rural residents, unemployed and less educated) had a higher rate of financial exclusion (EU, 2008, p. 50).

There were some differences between genders and age groups of those without a bank account; 16.6% of them were male and 17.1% were female. A larger percentage of the old (65 and over) were without a bank account compared with those in 25 to 64 age group, 28.9% and 15.0% respectively. The gender difference may in part be explained by the age difference since there are more women in older age groups (EU, 2010, Table 5, p. 12).

As far as access to credit card, over-draft facility and outstanding loads, including mortgages are concerned, higher percentage of the poor than the non-poor reported lack of access – 21.2% of the non-poor compared with 50.5% of the income poor and 48.6% of the materially deprived poor (EU, 2010, Table 6, p. 13). The corresponding figure for the total population was 25.7%.

It is interesting to note that over a quarter of 'income poor' reported that they did not have *any need to borrow*, whilst the corresponding figure for the materially poor was 14.6%. Friends/family were a source of credit for a small proportion of the poor - 5.2% of the income poor and 3.9% of the materially poor.

As far formal financial exclusion in relation to access to credit - 'application for loan turned down,' 'loan facility withdrawn,' or 'banks refuse credit to people like us' - are concerned the situation is rather complicated; 4.9% of the income poor and 15.3% of materially poor reported being exclusion. The materially poor appear to be in a much more precarious position than the income poor – 24.5% reported that could not 'repay' as a reason for not having credit, compared with 15.3% of the income poor; whilst they had more need to borrow (about 85% compared with 73% of the income poor), and could only rely marginally on family and friends (3.9% compared with 5.2% of income poor) (EU, 2010, Tables 10-11, pp. 20-21).

a2.2.2 Impact on the poor and vulnerable people

The 2008 data collected by the EU provides the evidence on the financial pressure on the poor. Figure 3.1 presents data on population at critical situation with respect to arrears and outstanding debt by poverty status. In general a larger proportion of the poor, shown in light colour (the right hand side columns in Figure 3.1) are at critical situation with respect to arrears and outstanding debt.

In Ireland over 8% of the poor are in 'critical situation' compared with just over 4% of the total population. The poor share the same experience of financial pressure irrespective of the level of affluence of the country. The poor in the affluent UK and Sweden are in the same position as the poor in Greece.

The importance of access to financial resources becomes more relevant when we consider changes in circumstances, especially in relation to drop in income. Figure 3.2 provides a snap shot view of the response of total population and those at risk of poverty who reported a drop in income in the 12 months leading to the time of the interviews.

In Ireland there is a small difference between the poor and the total population. But in most other EU countries the poor have faired worse than the total population.

As far as the impact of financial crisis of 2009 is concerned, in the immediate aftermath of the crisis – 2010 - the percentage of people who reported '(great) difficulty to make ends meet' increased by 10 percentage point, a fact that is also reflected in the data on those 'facing unexpected financial expenses'. As Figure 3.4 demonstrates in 2013 and 2014 about 55% of the population were unable to 'face unexpected financial expenses,' a figure that has not changed much between these years. This is 10 percentage point above the EU27 average.

Corr (2006) extensive study of financial exclusion in Ireland demonstrates clearly that financial exclusion not only has led to social exclusion but also restricts the access of the marginalised and socially excluded communities to the benefits of a growing and modern financial sector. These marginalised communities cover a wide range of people living in Ireland: those on low income, Travellers ('Romas' or Gypsies), immigrants (including refugees and asylum seekers), lone parents, non-home owners living in private rented accommodation, welfare recipients, homeless people, etc. In the Irish case we a clear example of a two-way dynamic relationship between social exclusion and financial exclusion, so typical of medium-high financially excluded countries.

Certain banking legislation to reduce money laundering, rules such as identification requirements for opening bank accounts has effectively discriminated against poor and low-income people. Electronic banking and branch closures have also had their effects on the poor. Whilst 'free banking' for electronic banking has been introduced, charges for branch services (if they were to exist in a location) has increased prohibitively for the poor (Corr, 2006, p. XVI).

The report called for series of measures on: the right to basic bank account and basic banking services, the extensive credit union movement should become part of the clearing system and be allowed to operate basic bank account (given the deep and long established relationship between the majority of low income groups and the credit union movement) (Corr, 2006, pp. XVIII - XIX).

With regard to access to credit self-exclusion was a factor on the basis that banks would not deal with low-income customers or fear of high interest rates, whilst the credit unions had saving conditions (not suitable for low-income people who could not save) and they had strict repayment rules. The other areas of concern were promotion of savings, affordable insurance, financial education and money advice and budgeting services (Corr, 2006, pp. XX – XXIII).

This is supported by more recent data. By 2009, one in ten Irish households have been described as 'credit excluded' in that they lacked three forms of credit (credit/loans; overdraft facilities and credit/store cards) for reasons other than 'not needing to borrow'. As with financial exclusion more generally, groups experiencing the highest levels of credit exclusion were social tenants (38%), those who were ill/disabled (31%), lone parents (27%), those who were unemployed (21%) and those on a low income (21%). Using an amended category termed 'credit constraint', over a three-year period (2010-2013), refusal of credit, either in full or in part, combined with the expectation of an application being rejected, resulted in almost a fifth (18.4%) of Irish households being credit constrained. (Stamp, 2016, p. 122).

a2.2.3 Policies to reduce Financial Exclusion

As noted earlier Ireland has a high level of financial exclusion considering that its per capita income is very close to the EU average. Following up on the recommendation of the major study of the financial exclusion in Ireland - Corr (2006) - and more recent studies several policy initiatives have emerged to promote financial and social inclusion. (Stamp, 2016). However, these development have to be put in the context of prefinancial crisis liberalisation and internationalisation of the Irish financial sector that led to 'significant structural change domestically, through the de-mutualisation or conversion of building societies into banks ... [that enabled] such organisations to convert from member-ownership to for-profit shareholder ownership, thereby *undermining attempts to encourage more socially inclusive forms of delivery for personal financial services*.' (Stamp, 2016, p. 119, my emphasis).

Another important development has been change to personal banking that has moved away 'from a traditional personalised, branch-based, community-centred network to one which increasingly relies much more on remote, impersonal, internet-based access' that disadvantages and discriminates against, thus excluding further, those living in rural areas with poor access to internet, older people who may not be familiar with the use of internet banking, the Traveller community, etc. The financial crisis also affected the not-for profit Irish credit unions that provided finance outside the banking sector, that resulted in reduction in interest income and loans granted.

These developments increased the role of licensed (and most probably unlicensed) moneylenders to offer credit to those who could not access the banking sector and credit union. The sub-prime market exists would charge interest rates of up to 188% APR. (Stamp, 2016) On the other hand the establishment of Money Advice and Budgeting Services (MABS) has become an important source of support to those with financing and debt problems; the majority of MABS clients over the years have been social welfare recipients. (Ibid)

As far as access to personal bank accounts are concerned, there were two initiatives: The Special Savings Investment Account Scheme and Basic Payment Account Pilot. Neither however led to major drive to reduce financial exclusion of the poor and marginalised people (Ibid).

As far as debt repayment and insolvency are concerned the Personal Insolvency Act of 2012 provided 'Reasonable Living Expense Guidelines' on how repayment should not unduly punish the debtors. This follows the works of social advocacy groups on minimum living standard. (Ibid)

a2.3 The Netherlands

a2.3.1 General information

Financial exclusion is defined as lack of access to an affordable range of financial services for the purpose of transactions, savings, borrowing/credit and insurance (for contingencies and retirement). It is not just about *not* having a bank account - i.e. 'un-banked,' but also not having access to the full range of banking product and services - i.e. 'marginally banked.' Financial exclusion should therefore be viewed across a spectrum of access to financial services. The main indicators of financial exclusion are lack of access to bank accounts (to manage payments and save), affordable credit and mortgage, and insurance; and a situation of over-indebtedness.

According to the latest available EU wide data the Netherlands (NL) is a country with a *low level* of financial exclusion, where about 1% of adult population lack at least one type of financial product (see Table 3.1 for a comparison of the NL with other EU countries) (EU, 2008a). More detailed breakdown of financial exclusion shows that 2% are 'unbanked', less than 2% are 'marginally banked' and 5% have 'no transaction bank account.' (Ibid, p. 22). It is important to note that Dutch have reported that *'the only people [financially] excluded are those who choose not to have an account and a very small number of people who have been laundering money or have behaved fraudulently.'* (EU, 2008a, p. 30).

Low level of financial exclusion in the EU is associated with the high level of per capita income or consumption, and low level of inequality. EU (2008a) An observation that holds well for the NL where its index of per capita consumption level in 2016 was 111 compared with an EU-28 average of 100 (EU, 2017a).

The EU Barometer Data of 2003 indicate that that there is a weak association between low financial exclusion and low level of income inequality (EU, 2008a, p. 20), that is the case in the NL where the Gini coefficient of inequality is relatively low at 0.26, compared with an EU average of 0.30. (EU, 2017b)

As far as access to low cost credit (e.g. over-draft facility) is concerned it was found that 21% of the Dutch adults had ‘no revolving credit’, whilst 11% had ‘a loan’ and 28% had no savings (EU, 2008a, p. 27).

a2.3.2 Impact on the poor and vulnerable people

The 2008 data collected by the EU provides the evidence on the financial pressure on the poor. Figure one presents data on population at critical situation with respect to arrears and outstanding debt by poverty status. In general a larger proportion of the poor, shown in light colour (the right hand side columns in Figure 3.1) are at critical situation with respect to arrears and outstanding debt.

In the NL about 6% of the poor are in ‘critical situation’ compared with 2% of the total population. The poor share the same experience of financial pressure irrespective of the level of affluence of the country. The poor in the affluent UK and Sweden are in the same position as the poor in Greece.

The importance of access to financial resources becomes more relevant when we consider changes in circumstances, especially in relation to drop in income. Figure 3.2 provides a snap shot view of the response of total population and those at risk of poverty who reported a drop in income in the 12 months leading to the time of the interviews.

In the NL a greater percentage of the poor (about 15%) reported a drop in income compared with the total population ((about 10%), an experience shared with other EU countries.

As far as the impact of financial crisis of 2009 is concerned, in the immediate aftermath of the crisis – 2010 - the percentage of people who reported ‘(great) difficulty to make ends meet increased by a very small amount (Figure 3.3) from about 10 to 12% of population, that could be explained by the social protection measures to support people in financial difficulty. This is also corroborated by data on facing unexpected financial expenses. As Figure 3.4 demonstrates between 2013 and 2014 there has been very little change in the percentage of the Dutch who could not ‘face unexpected financial expenses.’

a2.3.3 Policies to reduce financial exclusion

The government, financial services and not-for profit sector in the NL have committed themselves to providing access to all financial services by setting up a working group (Maatschappelijk Overleg Betalingsvekeer) to find out about any remaining problems of access. Recommended policies have been centred on both the supply and demand sides of the financial markets.

Access to a basic transaction bank account has been one such policy that was initiated by the Salvation Army for the people supported by them; that was later extended to the whole population after negotiation with commercial banks and the Ministry of Finance. Introduced in 2001 it offers what is called a ‘Covenant Packet Premaire Betaaldiensten’ to all citizens aged 18 and over, unless they have convictions for example for fraud and money laundering. (EU, 2008s, p. 87)

However, it is important to note that the existence of a network of municipal banks (Bank Nederlandse Gemeenten, half owned by the Dutch state and half by the municipalities) that offers banking services to state institutions at local and national levels in areas of education, housing, health and public utilities has helped a culture of civic duty, partnership and inclusion in the use of financial services. For example the municipal banks have a history of assisting people who are over-indebted and play an important role in debt settlements. (EU, 2008s, p. 72)

The Netherlands, like Belgium, has a legal debt settlement plan according to which it is possible for the debtor not to pay back the full amount of the debt in order to protect ‘human dignity’ in so far as maintaining a minimum living standard, minimum income, etc. are concerned. (EU, 2008s, p. 91) In short debt repayment should not lead to homelessness, hunger and abject poverty for the indebted people and their family.

Interest rate ceilings, common in many EU countries (Austria, Belgium, France, Italy, Poland, Slovakia) were also operated in the NL that varied by the type of credit. The ceiling was put at 17% above the central bank rate in 2003 (EU, 2008a, p. 104).

a2.4 Portugal

a2.4.1 General information

Financial exclusion is defined as lack of access to an affordable range of financial services for the purpose of transactions, savings, borrowing/credit and insurance (for contingencies and retirement). It is not just about *not* having a bank account - i.e. 'un-banked,' but also not having access to the full range of banking product and services - i.e. 'marginally banked.' Financial exclusion should therefore be viewed across a spectrum of access to financial services. The main indicators of financial exclusion are lack of access to bank accounts (to manage payments and save), affordable credit and mortgage, and insurance; and a situation of over-indebtedness.

According to the latest available EU wide data Portugal is a country with *a medium – high level* of financial exclusion, where about 17% of adult population lack at least one type of financial product (see Table 3.1 for a comparison of Portugal with other EU countries). EU (2008a, p. 20) More detailed breakdown of financial exclusion shows that 18% are 'un-banked' (the corresponding figure for the EU27, is 11.6%, EU2010, Table 1, p. 6), 2% are 'marginally banked' and 20% have 'no transaction bank account' (Ibid).

Low level of financial exclusion in the EU is associated with the high level of per capita income or consumption, and low level of inequality (EU, 2008a). An observation that is applicable to Portugal where its index of per capita consumption level in 2016 was 82 well below an EU-28 average of 100 (EU, 2017a). The EU Barometer Data of 2003 indicate that that there is a weak association between high financial exclusion and high level of income inequality (EU, 2008a, p. 20). This seems to be the case in Portugal where the Gini coefficient of inequality is 0.34 compared with an EU average of 0.30 (EU, 2017b).

As far as access to low cost credit is concerned it was found that 75% of Portuguese adults had 'no revolving credit', 12% had 'a loan' and 62% had 'no savings' (EU, 2008a, p. 27). These figures are very different from the EU 15 averages of 40% ('no revolving credit'), 18% (have 'a loan') and 30% ('no savings').

However, it has to be noted that the spread and use of modern banking services has to be put in the context of a society's tradition in the use of cash and banking services, and the fact that use of modern banking services could expose individuals and firms to official scrutiny. It should also be noted the above figures may well overestimate credit exclusion because they include people who are in principle against borrowing or did not need them (EU, 2008a, p. 25).

Moreover, lack of connection to the formal financial sector is not necessarily a sign of financial exclusion, and whether people have made a conscious decision to engage with the financial sector and had a choice over it. These are issues that have to be explored.

The 2008 SILC survey of those without a bank account in Portugal revealed that 2.9% of them had income more than poverty line of 60% of the median income, whilst the figure for the income poor (below 60% of the median income) was 12.3% and for materially poor (those 'deprived of 3 of 9 items') 14.4%; which are well below the EU averages of 22.5% and 36.2% respectively. The poor in general are therefore less 'banked' than the non-poor. But the vast majority of the un-banked, whether poor and non-poor, declared that the reason was 'no need-prefer dealing in cash' (EU, 2010, Tables 2-3, pp. 8-9).

There were very small differences between genders and age groups of those without a bank account; 4.4% were male and 4.8% were female. A larger percentage of the old (65 and over) were without a bank account compared with those in 25 to 64 age group, 3.8% and 9.4% respectively (EU, 2010, Table 5, p. 12).

As far as access to credit card, over-draft facility and outstanding loads, including mortgages are concerned, higher percentage of the poor than the non-poor reported lack of access – 32.7% of the non-poor compared with 59.3% of the income poor was and 54.7% of the materially deprived poor. (EU, 2010, Table 6, p. 13). The corresponding figure for the total population was 37.6%. It is interesting to note that at least half these groups reported that they did not have *any need to borrow*, whilst between 30 to 40% relied on friends/family for their credit needs. Only 1.8% of the total sample reported that their 'application for loan turned down,' 'loan facility withdrawn,' or that 'banks refuse credit to people like us', reasons that can be deemed as financial exclusion. (EU, 2010, Table 9, p. 19). The response of the poor were however much higher: the figure for the income poor was 13.4%, and for materially poor: 19.4% (EU, 2010, Tables 10-11, pp. 20-21).

These low percentage figures shed a new light on the issue of 'financial exclusion' by the formal financial sector. The question is how one should interpret the fact that 52.9% of the income poor and 41.1% of the materially poor reported that they had 'no need to borrow.' At one level it is an issue of 'living within one's means,' and at another level the complexity and 'remoteness' of the formal financial sector from the day-to-day needs of the poor that makes financial exclusion a structural problem. There is a need to investigate whether 'no need to borrow' or relying on 'friends/family' is an expression of deliberate 'self-exclusion' or structural exclusion.

a2.4.2 Impact on the poor and vulnerable people

The 2008 data collected by the EU provides the evidence on the financial pressure on the poor. Figure 3.1 presents data on population at critical situation with respect to arrears and outstanding debt by poverty status. In general a larger proportion of the poor, shown in light colour (the right hand side columns in Figure 3.1) are at critical situation with respect to arrears and outstanding debt.

In Portugal about 2% of the poor are in 'critical situation' compared with less than 1% of the total population. The poor share the same experience of financial pressure irrespective of the level of affluence of the country. The poor in the affluent UK and Sweden are in the same position as the poor in Greece.

The importance of access to financial resources becomes more relevant when we consider changes in circumstances, especially in relation to drop in income. Figure 3.2 provides a snap shot view of the response of total population and those at risk of poverty who reported a drop in income in the 12 months leading to the time of the interviews.

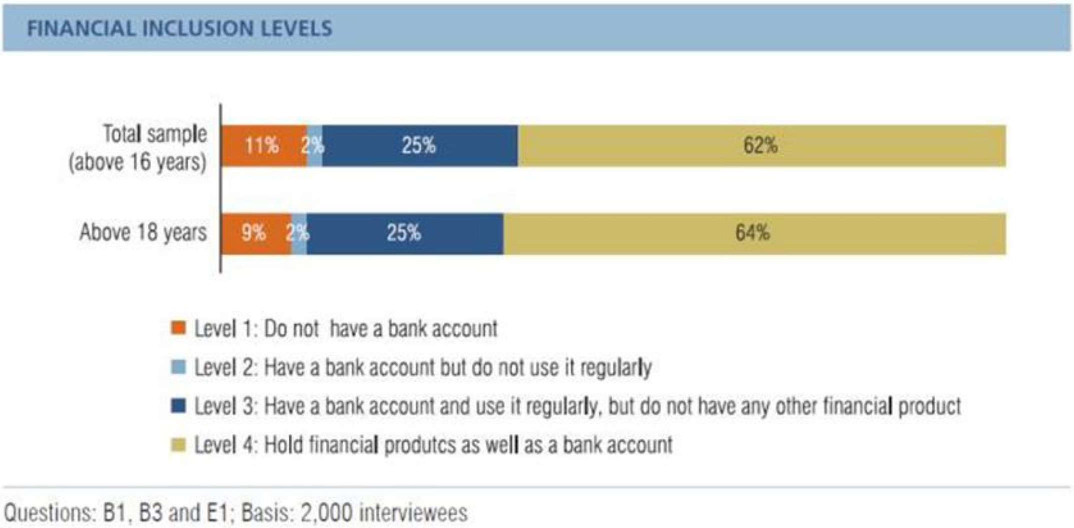
In Portugal there is a large difference between the poor and the total population (poor: 32% and total: 26%), as in most other EU countries where the poor have faired worse than the total population.

As far as the impact of financial crisis of 2009 is concerned, in the immediate aftermath of the crisis – 2010 - the percentage of people who reported '(great) difficulty to make ends meet' declined by a small amount (Figure 3.3) that could well be due to the fact that just under 48% of population who were in difficulty before the financial crisis still could rely on the social security support to make ends meet. This is also corroborated by data on facing unexpected financial expenses. As Figure 3.4 demonstrates between 2013 and 2014 there has been very little change in the percentage of Portuguese who could not 'face unexpected financial expenses.' It is useful to put these findings in perspective and note that in the Euro Area or EU27 the average figure for those who had '(great) difficulty to make ends meet' was about 4-10 percentage point below that in Portugal whilst the corresponding figure for those who could not 'face unexpected financial expenses' was close to the Italian figures.

a2.4.3 Policies to reduce financial exclusion

Despite the fact that Portugal is in the category of a medium-high financial exclusion according to EU data, there is remarkably little information on policy issues related to it. Central Bank of Portugal conducted a 'Survey on the Financial Literacy of the of the Portuguese' that confirms the medium level financial exclusion but also reveals that about 35% of population 16 years of age and over do not have any financial products except a bank account (see Figure a2.1 below and Cadete de Matos and D'Aguiar, nd, 2010?) The survey also found that financial literacy is closely related to financial exclusion and knowledge of rules governing access to bank accounts. According to Portuguese banking rules it is possible to open a bank account and obtain a debit card with annual costs of no more than 1% of the guaranteed minimum monthly remuneration, so long as an applicant does not have another bank account. (Ibid) However, a 1% charge for low-income people may prove prohibitive.

Figure a2.1 Financial Inclusion Levels, Portugal, 2010



Source Banco de Portugal (2010) Survey on the Financial Literacy of the of the Portuguese

Initiatives to improve financial inclusion appears to be directed at micro-businesses in Portugal. The European Investment Fund (EIF) and Millennium bcp (a Portuguese commercial bank) have signed an agreement with the objective of supporting micro-enterprises in Portugal under the EU Programme for Employment and Social Innovation (EaSI). It will cover a loan portfolio of 18 million euros for around 900 micro-borrowers. An advantage of this programme is that borrowers are not required to provide any collateral. The EaSI Guarantee scheme was launched in June 2015 and is funded by the European Commission and managed by the European Investment Fund (European Investment Fund, 2016).

Another initiative concerns the provision of microfinance through the main microfinance institution in Portugal (*ANDC* - Associaçao Nacional de Direito ao Crédito) which was created in 1998 and is financed through public funds (European Microfinance Network, 2010).

In Portugal only banks and financial institutions are authorised to collect deposits, and/or offer loans and other financial services and therefore the ANDC must develop partnerships with the banks and determine the conditions under which microcredits will be granted. Currently the ANDC has agreements with several banks such as Millennium bcp, Banco Espiritu Santo, Caixa Geral de Depositos and Montepio Geral. The ANDC supports potential micro-entrepreneurs with their project developments and their micro-credit requests, that will be financed by partner banks. In 2009, the number of loans granted by Millennium bcp by the intermediaries of ANDC was in the range of 500, with an average value of € 7,800 (Ibid).

To the extent that micro-enterprises are small family run businesses that provide livelihood for low-income people, it can be assumed that the above initiatives to increase access to commercial sources of credit would improve financial inclusion in Portugal.

a2.5 Belgium

a2.5.1 General information

Financial exclusion is defined as lack of access to an affordable range of financial services for the purpose of transactions, savings, borrowing/credit and insurance (for contingencies and retirement). It is not just about *not* having a bank account - i.e. 'un-banked,' but also not having access to the full range of banking product and services - i.e. 'marginally banked.' Financial exclusion should therefore be viewed across a spectrum of access to financial services. The main indicators of financial exclusion are lack of access to bank accounts (to manage payments and save), affordable credit and mortgage, and insurance; and a situation of over-indebtedness.

According to the latest available EU wide data Belgium is a country with *low level* of financial exclusion, where about 1% of adult population lack at least one type of financial product (see Table 3.1 for a comparison of Belgium with other EU countries) (EU, 2008a). More detailed breakdown of financial exclusion shows that 3% are 'unbanked', 3% are 'marginally banked' and 5% have 'no transaction bank account.' (Ibid) Belgian researchers have observed lower levels of financial exclusion that in 2005 was put at 0.1% of adult population, that also had a declining trend compared with earlier report of 2001. (Disneur, et al., 2006)

Low level of financial exclusion in the EU is associated with the high level of per capita income or consumption, and low level of inequality (EU, 2008a). An observation that holds well for Belgium where its index of per capita consumption level in 2016 was 113 compared with an EU28 average of 100 (EU, 2017a). The EU Barometer Data of 2003 indicate that that there is a weak association between low financial exclusion and low level of income inequality (EU, 2008a, p. 20). This seems to be the case in Belgium where the Gini coefficient of inequality is relatively low at 0.26, compared with an EU average of 0.30 (EU, 2017b).

As far as access to low cost credit is concerned it was found that 37% of Belgian adults had 'no revolving credit', 17% had 'a loan' and 13% had no savings (EU, 2008a, p. 27).

a2.5.2 Impact on the poor and vulnerable people

The 2008 data collected by the EU provides the evidence on the financial pressure on the poor. Figure 3.1 presents data on population at critical situation with respect to arrears and outstanding debt by poverty status. In general a larger proportion of the poor, shown in light colour (the right hand side columns in Figure 3.1) are at critical situation with respect to arrears and outstanding debt.

In Belgium about 7% of the poor are in 'critical situation' compared with 4% of the total population. The poor share the same experience of financial pressure irrespective of the level of affluence of the country. The poor in the affluent UK and Sweden are in the same position as the poor in Greece.

The importance of access to financial resources becomes more relevant when we consider changes in circumstances, especially in relation to drop in income. Figure 3.2 provides a snap shot view of the response of total population and those at risk of poverty who reported a drop in income in the 12 months leading to the time of the interviews.

In Belgium there does not seem to be a large difference between the poor and the total population. But in most other EU countries the poor has faired worse than the total population.

As far as the impact of financial crisis of 2009 is concerned, in the immediate aftermath of the crisis – 2010 - the percentage of people who reported '(great) difficulty to make ends meet declined by a very small amount (Figure 3.3) that could well be due to the fact that 20% of population who were in difficulty before the financial crisis still could rely on the social security support to make ends meet. This is also corroborated by data on facing unexpected financial expenses. As Figure 3.4 demonstrates between 2013 and 2014 there has been very little change in the percentage of Belgians who could not 'face unexpected financial expenses.'

a2.5.3 Policies to reduce financial exclusion

Government policies have been centred on both the supply and demand sides of the financial markets.

For example, one policy has been focused on access to banking services through legislation (EU, 2008a, p. 59) whilst promoting access to affordable credit. The basic idea is to offer low-cost transaction banking, that however may not offer overdraft facility. As part of the basic banks account policy, Dexia Bank has developed a social bank account for the Public Centre of Social Action of Belgium Municipalities to enable local authorities to help disadvantaged people to access banking services. The development of Proton electronic wallet was also part of a policy facilitating small transactions without the use of cash.

Another policy to increase access to basic bank accounts has been the assistance of commercial banks to other financial institutions in order to reduce the cost of offering financial services. The setting up of the Post Bank in 1995 by commercial bank Fortis was such an example that led to offering of basic bank accounts (EU, 2008a, p. 63).

Belgium legally requires retail banks to offer basic banking services with a cap on the bank service charges to Belgian residents for non-commercial and the sole purpose of transactions. Following up on this regulation it was reported that 5,000 new transaction accounts were opened in 2005. An interesting aspect of the Belgian scheme is that it is monitored by a non-judicial and independent claim system in which both consumers and banks are represented. Moreover, the scheme is backed up by a compensation fund managed by the Belgian Central Bank to which retail banks contribute (EU, 2008a, pp. 101-102).

Self-exclusion because of fear of seizure of income by creditors has been one of the reported reasons for financial exclusion in the EU. This was the reason for 25% of unbanked Belgians in 2005. To counter it Belgian law limits the seizure of income beyond what is considered as 'non sizable guaranteed income' for 30 days (EU, 2008a, p. 110).

In area of access to credit the Belgium regulates both on the supply and demand side of the credit. Belgium has experimented with partnership between commercial and not-for-profit and social oriented sector to offer low cost credit. The Post Bank had been involved with the Walloon regional authority by laying out the capital and back office operations, while the regional authority met all other costs including loan guarantees. The interest rates charged in mid-2000 were between 4.5 to 7% on average. (EU, 2008a, p. 71) The partnership with the Post Bank ended a few years later but a financial not-for-profit cooperative called Credal joined the project. There is however limits to such partnerships because of lack of involvement of commercial banks as well as other not-for-profit organisations. (EU, 2008a, p. 75) Another scheme provides low cost credit through public sector pawnbrokers who offer small credit at rates well below commercial pawnbrokers. (EU, 2008a, p. 70)

The government has also promoted consumer protection through the office of an Ombudsman with the participation of a consumer representative, that provides for easy 'out of court' procedure dealing with irregularities committed by providers. Belgium also promotes transparency in cost (interest rate, fees, etc.) and terms of credit. In Belgium it is possible for the debtor not to pay back the full amount of the debt in order to protect 'human dignity' in so far as maintaining a minimum living standards, minimum income, etc. are concerned. In short debt repayment should not lead to homelessness, hunger and abject poverty for the indebted people and their family.

On the supply side, the banking regulation related to consumer credit requires the lender to check that a loan applicant is solvent and can pay back the loan, by referring to the national credit reporting agency and gathering all the necessary information. The lender and borrower must also choose a product that fits the customer's circumstances as well the aim of the credit. It is important to note that failure to observe these regulations could result in penalties imposed by courts that may include rejection of late penalties, limiting borrower's settling of debt to the amount of the original loan and its repayment by instalment (excluding all interests and fees) and possibility of damage recovery by the borrower (EU, 2008a, pp. 107-108).

Whilst such regulations are directed at responsible lending they may well lead to financial exclusion by limiting the provision of credit to those in need. This may be an additional reason for the relatively low percentage (in comparison with the UK and some other EU countries) of people in critical situation with respect to arrears and outstanding debt reported earlier (see figure one of the main report on financial exclusion).

a2.6 Romania

a2.6.1 General information

Financial exclusion is defined as lack of access to an affordable range of financial services for the purpose of transactions, savings, borrowing/credit and insurance (for contingencies and retirement). It is not just about not having a bank account - i.e. 'un-banked,' but also not having access to the full range of banking product and services - i.e. 'marginally banked.' Financial exclusion should therefore be viewed across a spectrum of access to financial services. The main indicators of financial exclusion are lack of access to bank accounts (to manage payments and save), affordable credit and mortgage, and insurance; and a situation of over-indebtedness.

According to the latest available EU wide data[12] Romania is a country with one of the highest level of financial exclusion, where 75.5% of people live in households with no bank account (lying between Greece at 70% and Bulgaria at 82.9% financial exclusion) (EU, 2010, Table 1, p. 6). It is remarkable that the unbanked figure for those above the poverty line is also very high at 70.4%, corresponding figure for the income poor (below 60% of median) is 92% and the materially poor (deprived of at least 3 of 9 item) 86.6%. These are indeed very high figures but by no means atypical in the EU judging by financial exclusion of similar order of magnitude in Bulgaria and Greece. Romania and Bulgaria have comparable per capita income, $9400 and $8400 respectively and both have relatively low percentage of their adult population (15 years of age and over) with bank accounts, 44.6 and 52.6%. This is in contrast to Greece and Belgium with per capita incomes of $22000 and $48000 and adult population bank account holding of 78 and 96%, respectively. (World Bank 2015)

What these figures may well reflect is poor development and spread of financial and banking services and not necessarily financial exclusion. Even in Italy, a country with highly developed financial sector, 19% of all adults (and 13% of those with income above poverty line) reported in 2008 that they did not have a bank account. The spread and use of modern banking services has to be put in the context of a society's tradition in the use of cash and banking services, and the fact that use of modern banking services could expose individuals and firms to official scrutiny (EU, 2008a, p. 25). It is interesting to note that there is a high degree of mistrust of banking sector in Romania – according to one survey only 17% of Romanian do not trust banks (Bisan, et al., 2014)!

Low level of financial exclusion in the EU is associated with the high level of per capita income or consumption, and low level of inequality (EU, 2008a). An observation that does hold for Romania where its index of per capita consumption level in 2016 was 63, well below the EU-28 average of 100 (EU, 2017a). A similar argument can be made within Romania. The level of average income in the economically well-developed southern region of Romania is 1.5 times the average income in the country; and unsurprisingly the region has a higher use of financial services (Bisan, et al., 2014).

The EU Barometer Data of 2003 indicate that that there is a weak association between high financial exclusion and high level of income inequality (EU, 2008a, p. 20). This seems to be the case in Romania where the Gini coefficient of inequality is 0.35 compared with the EU average of 0.30 (EU, 2017b). This is also reflected in the inequality among different regions, between south and the rest of Romania and more importantly between rural (home to 45% of population) and urban areas (Birsan, et al., 2014).

The main reason given for not having a bank account varies by poverty status. As noted earlier 75.5% of population live in households with no bank account, 55.2% of whom reported that they had 'no need-prefer dealing in cash,' whilst 7% reported reasons such as 'bank refuse bank accounts to people like us,' or 'no bank branch close to home/work,' that indicate financial exclusion. (EU, 2010, tables 2, p. 8). Of the

12 The EU (2008a) data on financial exclusion is based on Eurobarometer 2003 survey that was conducted before Romania joined the EU in 2007. This factsheet is mainly based on EU (2010) that utilises the SILC 2008, supplemented by the World Bank (2015).

92% of unbanked income poor, the reported reason for 66.8% of them was 'no need-prefer dealing in cash' (EU, 2010, tables 3, p. 9).

There were no discernible differences between unbanked men and women, but the percentage of 65 years of age and over who were unbanked was higher than those below the age of 65, 87.2% and 73% respectively (EU, 2010, Table 4, p. 10).

As far as access to credit card, over-draft facility and outstanding loans, including mortgages are concerned, a higher percentage of the poor than the non-poor reported lack of access – 66.7% of the non-poor compared with 89.9% of the income poor and 79.8% of the materially deprived poor. The corresponding figure for the total population was 72.2% (EU, 2010, Table 6, p. 13).

It is interesting to note that between 16 and 21% of these groups reported that they did not have *any need to borrow* (the lower figure is for the poor households), whilst between 40 and 46% relied on friends/family for their credit needs (the lower figure is for the income poor and the higher figure for the materially poor).

Among all groups, 14.4% reported that their 'application for loan turned down,' loan facility withdrawn, or that 'banks refuse credit to people like us', reasons that can be deemed as financial exclusion. (EU, 2010, Table 9, p. 19). The response of the income poor were higher: 25.7%, and the same for the materially poor: 20.3%. Another reason was 'not able to repay': 39.8% for all groups, 58% of income poor and 55.7% of the materially poor (EU, 2010, Tables 10-11, pp. 20-21).

What the data on those who do not need to borrow or rely on family and friends for their credit needs reveal is the large percentage of those who do need but are excluded for variety reasons as figures show – about 40% of the income and materially poor lack access to credit, whilst about 90% of them are with any bank account.

a2.6.2 Policies to reduce financial exclusion

Romania is among the EU countries which badly need a more inclusive financial service. The EU policy on 'Services of General Interest' has to be applied to financial sector in Romania in order to improve access to financial services. EU argues, correctly, that market mechanism may well not work to provide the necessary quantity and quality of service needed, especially in relation to universal coverage and geographical access there is a need for state intervention that has be supported by the EU (for further detail see EU, 2008a, pp. 96 – 98).

Through a series of legislations and improved regulations the Romanian government has tried to reduce financial exclusion. They include right to an account, adequate transaction and payment services provision and appropriate lending. In addition regulations have been enacted to simplify and lower the fee structure for different services and improve transparency of bank charges and procedures (Bisan, et al., 2014).

There already is cooperation among banking institutions, NGOs and the Romanian Central Bank to reduce financial exclusion that range from electronic payment of pensions, salaries and scholarship through bank account and use of debit card, to developing programs for financial education in schools, as well as reducing bank charges and fees for on-line banking (Birsan, et al., 2014).

a2.7 UK[13]

a2.7.1 General information

Financial exclusion is defined as lack of access to an affordable range of financial services for the purpose of transactions, savings, borrowing/credit and insurance (for contingencies and retirement). It is not just about <u>not</u> having a bank account - i.e. 'un-banked,' but also not having access to the full range of banking

13 I would like to thank Jeremy Leaman for comments on an earlier draft of this factsheet. All remaining errors are mine.

products and services - i.e. 'marginally banked.' Financial exclusion should therefore be viewed across a spectrum of access to financial services. The main indicators of financial exclusion are lack of access to bank accounts (to manage payments and save), affordable credit and mortgage, and insurance; and a situation of over-indebtedness.

According to the latest available EU-wide data, the UK is a country with *low-medium levels* of financial exclusion, where about 6% of the adult population lack at least one type of financial product (see Table 3.1 for a comparison of the UK with other EU countries) EU (2008a). A more detailed breakdown of financial exclusion shows that 9% are 'unbanked', 6% are 'marginally banked' and 15% have 'no transaction bank account' (Ibid). More recent EU data (SILC 2008) put the percentage of people living in households with no bank account at 2.1%, compared with an EU average of 11.6%, thus making UK a low financially excluded country (EU, 2010, Table 1, p. 6).

Figures a2.2 and a2.3 provide an up-to-date and striking view of those at risk of financial exclusion and the situation of financially excluded in the UK.

Figure a2.2 Those at risk of financial exclusion in the UK, 2016

Those on low-incomes or living in poverty
- 13.5 million people in low-income households
- Around 1.25 million people are suffering from destitution, and at the highest risk of financial exclusion

Young people
- 51% of 18–24 year olds regularly worry about money
- Credit ratings have caused financial problems for 1 in 5 young people

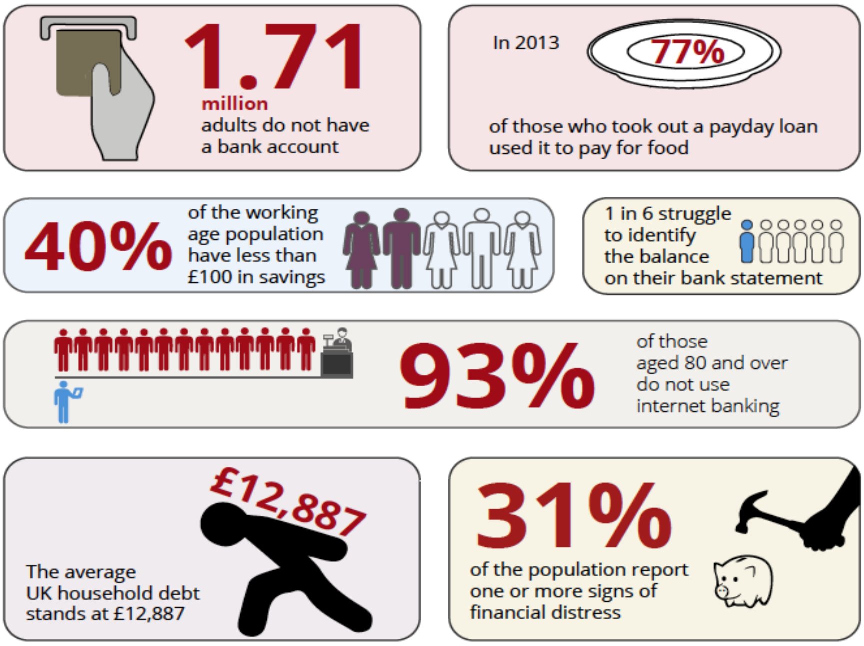
Older people
- An estimated 600,000 older people are financially excluded
- One-third of people aged over 80 have never used a cash machine or prefer to avoid them

People with difficulty accessing banks
- 53% of UK bank branches closed between 1989 and 2016
- 1 in 8 disabled people reported difficulty accessing their bank or building society

Those who lack digital access
- 12 million people live in rural areas with poor internet access
- 3.8 million UK households without any internet

Source House of Lords (2017), p. 14.

Figure a2.3 Financial exclusion in the UK, 2016



Source House of Lords (2017), p. 15

Low levels of financial exclusion in the EU are associated with the high level of per capita income or consumption, and low level of inequality EU (2008a). This does not seem to hold for the UK whose index of per capita consumption level in 2016 was 115 compared with the EU28 average of 100 (EU, 2017a). The EU Barometer Data of 2003 indicate that that there is a weak association between low financial exclusion and low levels of income inequality (EU, 2008a, p. 20). That again does not appear to be the case in the UK with a Gini coefficient of inequality at the EU average of 0.30 (EU, 2017b).

As far as access to low cost credit is concerned it was found that 30% of the UK adults had 'no revolving credit', 24% had 'a loan' and 22% had no savings (EU, 2008a, p. 27).

The 2008 SILC survey of those without a bank account in the UK revealed that a very small percentage (i.e. 1.3) of them had income above the poverty line of 60% of the median income, whilst the figure for the income poor (below 60% of the median income) was 5.7% and for materially poor (those 'deprived of 3 of 9 items') 11.4%; which are well below the EU averages of 22.5% and 36.2% respectively. The poor in general are therefore less 'banked' than the non-poor. A small percentage of the un-banked (whether poor and non-poor), however, declared that the reason was 'no need - prefer dealing in cash' (EU, 2010, Tables 2-3, pp. 8-9).

Some studies also found that people at risk of social exclusion (women, rural residents, unemployed and less educated) had a higher rate of financial exclusion (EU, 2008, p. 50). There were small differences between gender- and age-groups of those without a bank account; 2% of them were male and 2.2% were female. A larger percentage of the old (65 and over) were without a bank account compared with those in the 25 to 64 age group, 2.8% and 1.8% respectively. The gender difference may in part be explained by the age difference since there are more women in older age groups (EU, 2010, Table 4, p. 10).

Other empirical evidence confirms the relationship between social exclusion and financial exclusion (Collard, et al., 2001). Devlin (2009) noted that the following factors affected financial exclusion in the UK: educational attainment, housing tenure, household income, employment status, age, regional and ethnic variation, but not gender. Other studies, however, do note that gender is one of the determinants of financial exclusion in the UK (Bunyan, et al., 2016). Whilst there is some disagreement on differences between men and women regarding their financial exclusion, and that 'there is little difference regarding financial product ownership between men and women in similar social positions and roles,' a wide variation has been observed amongst different groups of women (Financial Services Authority, 2001). The variations have been attributed to structural factors rather than gender discrimination, namely that more women are working part-time, are on low incomes and have more home care responsibilities. Moreover, there are many women who are at a disadvantage over their life-time: 'The single mother bringing up three children on her own, the woman approaching retirement whose husband has just died and has no pension of her own - these women are still going to face financial difficulties. The ability to make any financial provision at all is so minimal that they are much more likely to be financially excluded. One in five women don't have current accounts and as a result can incur additional costs in paying bills which can amount to over £200 per annum, a significant cost for someone on a low income' (Financial Services Authority, 2001, p. 54).

As far as access to credit card, over-draft facility and outstanding loans, including mortgages are concerned, a higher percentage of the poor than the non-poor reported lack of access – 11.4% of the non-poor compared with 33.5% of the income poor and 37.7% of the materially deprived poor (EU, 2010, Table 6, p. 13). The corresponding figure for the total population was 15.5%.

It is interesting to note that 11.2% of total population, 22.0% of the income poor and 13.5% of the materially deprived reported that they did not have *any need to borrow*. Only 0.8% of the total sample reported that their 'application for loan (had been) turned down' or that 'banks refuse credit to people like us', reasons that can be deemed as financial exclusion (EU, 2010, Table 9, p. 19). The response of the income poor was equally low: 2.8%, and the same for the materially poor: 6.8% (EU, 2010, tables 10-11, pp. 20-21).

These low percentage figures shed a new light on the issue of 'financial exclusion' by the formal financial sector. The question is how one should interpret the fact that 78% of the income poor and 86.5% of the materially poor reported that they had 'no need to borrow.' At one level, it is an issue of 'living within one's means', and at another level it is the complexity and 'remoteness' of the formal financial sector from the day-to-day needs of the poor that makes financial exclusion a structural problem. There is a need to investigate whether 'no need to borrow' or relying on 'friends/family' is an expression of deliberate 'self-exclusion' or structural exclusion.

a2.7.2 Impact on the Poor and Vulnerable People

The 2008 data collected by the EU provides the evidence of the financial pressure on the poor. Figure 3.3 presents data on population in a critical situation with respect to arrears and outstanding debt by poverty status. In general a larger proportion of the poor, shown in light colour (the right hand side columns in Figure 3.1 in the main report on financial exclusion) are in a critical situation with respect to arrears and outstanding debt.

In the UK about 14% (the twice the average of EU27 and the highest in the EU27) of the poor are in a 'critical situation' compared with 11% of the total population. The poor share the same experience of financial pressure irrespective of the level of affluence of the country. The poor in the affluent UK and Sweden are in the same position as the poor in Greece.

The importance of access to financial resources becomes more relevant when we consider changes in circumstances, especially in relation to a drop in income. Figure 3.4 provides a snap shot view of the response of the total population and those at risk of poverty who reported a drop in income in the 12 months leading to the time of the interviews.

In the UK a higher percentage of poor people (28%) experienced a drop in income compared with the total population (22%); an experience shared with other poor people in the EU.

a2.7.3 Policies to reduce financial exclusion

The financial sector in the UK is one of the most advanced in the world, and yet a section of the population does not have full access to all its services (House of Lords, 2017). It is acknowledged that the poor pay a 'poverty premium' by not having access to regular banking services (e.g. pre-pay-electricity meters are more expensive than billed meters which would be settled through bank accounts) whilst bank closure and digitisation of banking services not only intensify further the exclusion of those who are already financially excluded but could lead to more exclusion (Ibid). The Financial Inclusion Commission (2015) has proposed the following objectives to be fulfilled by 2020: a transactional account for every adult, promotion of regular saving to build up resilience against financial shocks and, as an additional resource for retirement, access to fair insurance, access to credit at a fair price, and promotion of financial education starting at primary school level.

In response to the growing demand to reduce financial exclusion the House of Lords Select Committee on Financial Exclusion that was set up in 2016 (House of Lords, 2017) have made the following recommendations following deliberations and advice of the banking sector, NGOs and academic experts on financial and social exclusion and poverty. These policy recommendations cover both supply and demand aspects of financial exclusion as well as the interconnecting area of financial education and literacy.

1. Financial exclusion should be addressed at every level of government with appropriate coordination among the different levels of local, devolved and central governments; working with business community and the civil society.
2. Appointment of a minister for Financial Exclusion to lead and coordinate work in this area.
3. Proactive regulations on financial inclusion to be enacted whilst the remit of the Financial Conduct Authority to be expanded to the promotion.
4. Financial education to become part of the school curriculum and supervised by the Office for Standards in Education (Ofsted).
5. Local debt advice services to be strengthened to help households to manage their debts.
6. The banking sector to be encouraged to take a more proactive rule in reducing financial exclusion by providing affordable services to the unbanked. An important banking service provides easy access to cheap over-draft facilities; absence of which has driven a large number of people to high cost short-term credit sector such as payday lenders. This sector should have better regulation in particular with respect to the capping of borrowing costs and interest rates charged. Moreover, credit unions should be given more flexibility to expand their services to those in need of short-term credit.
7. The role of Post Offices in providing banking services to be promoted, considering the increasing closure of commercial bank branches and the move towards internet and digital banking. This is particularly important for the disadvantaged groups among the elderly and people with disabilities and those suffering from mental health problems.
8. The current evidence strongly suggests that the government welfare reforms may well contribute to financial exclusion and therefore should be modified in order to prevent the welfare recipients falling into debt.

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The Poverty Alliance • United Kingdom
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