



Finance Watch

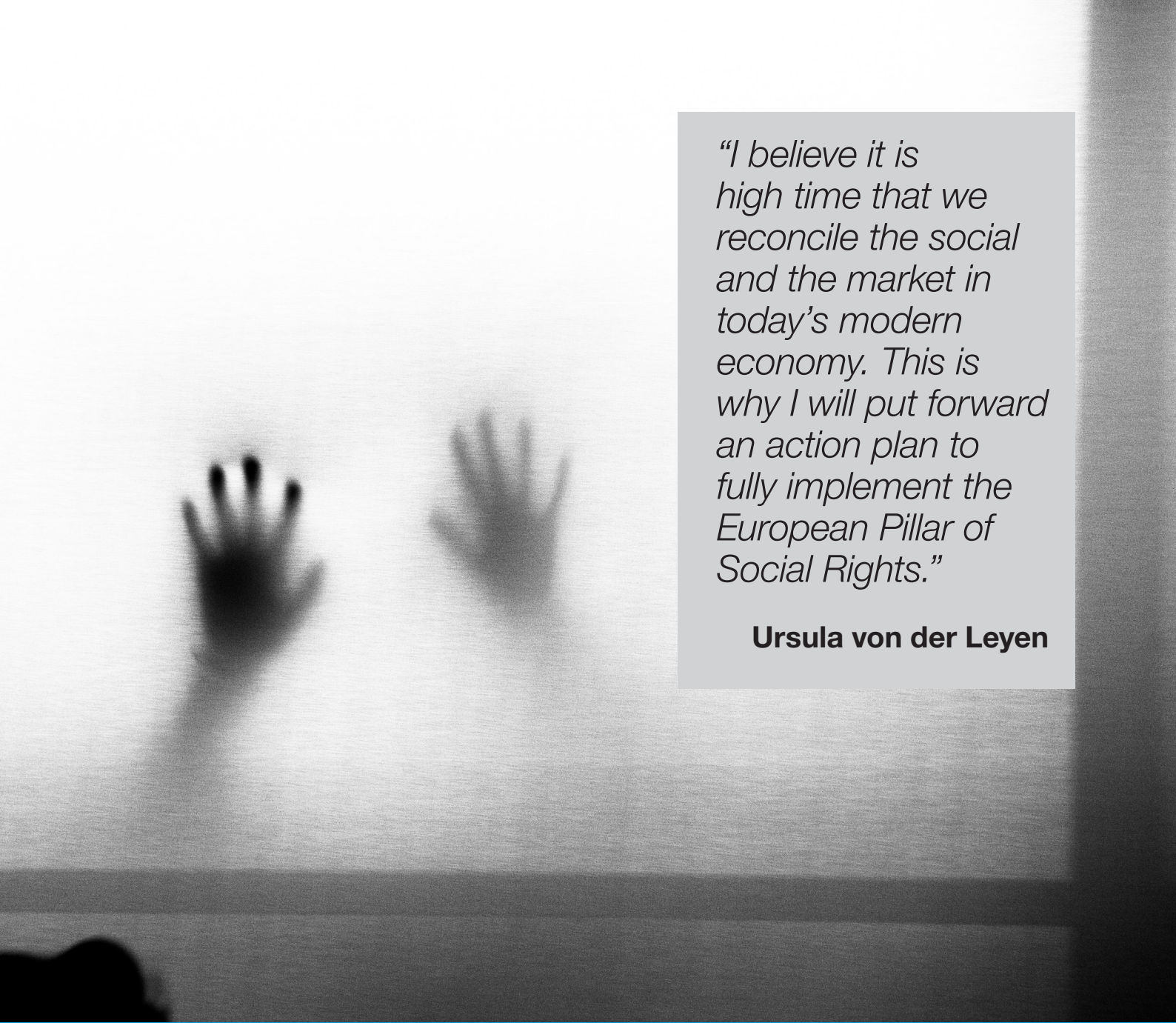
Making finance serve society

Financial exclusion: Making the invisible visible

A study on societal groups encountering barriers to
accessing financial services in the EU



March 2020



“I believe it is high time that we reconcile the social and the market in today’s modern economy. This is why I will put forward an action plan to fully implement the European Pillar of Social Rights.”

Ursula von der Leyen

Authors: Olivier Jérusalmy, Paul Fox, Nicolas Hercelin and Lin Mao

Acknowledgements: We are grateful to the Members of Finance Watch, and in particular to the working group on financial inclusion, for their invaluable input and for the work done in common while preparing this report. Many thanks also to the large number of practitioners and experts who have contributed to the surveys. Any errors and omissions are the sole responsibility of the author.

Cover photo: © giorgia misani/EyeEm/adobestock
Graphics and typeset by Kamila Rokošová.

© Finance Watch 2020

The contents of this report may be freely used or reproduced without permission provided the original meaning and context are not altered in any way. Where third party copyright has been acknowledged, permission must be sought from the third party directly. For enquiries relating to this report, please email contact@finance-watch.org

Finance Watch has received funding from the European Union to implement its work programme. There is no implied endorsement by the EU or the European Commission of Finance Watch’s work, which remains the sole responsibility of Finance Watch.



Contents

Executive summary	4
I. An overview of the barriers to financial inclusion	6
1. Introduction	6
1.1 Definition of financial exclusion	7
1.2 Causes of financial exclusion	7
1.3 Definition of vulnerable groups of people	8
1.4 Methodology	8
1.5 Findings	9
2. Conclusions from survey	13
II. What are the difficulties encountered?	15
1. Barriers related to unmet legal requirements	15
1.1 Proof of identity	15
1.2 Proof of residence	15
1.3 Legitimate barriers where important improvements are needed	18
1.4 Groups of people potentially exposed to this barrier	19
2. Barriers related to financial requirements	19
2.1 Payment & Transaction account	20
2.2 Savings	20
2.3 Credit	21
2.4 Insurance	22
3. Key findings from survey and workshops implemented in 2019	24
3.1 Groups of people potentially exposed to this barrier	25
III. Lack of required skills	27
1. Barriers related to financial services access points or means	27
1.1 The impact of digitalisation on service provision	27
1.2 Issues arising from varying levels of literacy	28
1.3 Issues related to access for people with disabilities	28
1.4 Additional access point or means issues that disproportionately effect vulnerable groups of people	28
IV. Conclusion	31
1. Inequality, poverty, increased vulnerability	31
2. An inclusive society and an inclusive market	31
3. A solution to tackle all the problems at once? Basic financial services	33

Executive summary

Financial exclusion leads to social exclusion

Financial services are an essential part of modern life in Europe. They are needed to lead a normal life and participate equally in society. Being able to access these services is also becoming increasingly important as a result of technological developments and financialisation in Europe. This need to access financial services poses a key problem of inclusion. Not all EU citizens and residents are currently able to use the services they need or would like to. This then has the knock-on effect of creating social exclusion, because these services are needed to meet fundamental needs such as finding employment, a place to live and getting health care. This puts the fundamental rights of citizens that are not able to access financial services and meet these needs at risk.

The risk is higher for people who are already vulnerable to discrimination

Certain groups of people are more susceptible to being excluded in society in general. There are many different ways to participate in society and levels of participation can depend on identity characteristics, life situations, mental and physical abilities. EU and international rights have been introduced in an attempt to prevent exclusion arising in these cases, but are not currently effective for everyone. In many, if not all, cases exclusion is closely linked to discrimination. Vulnerable groups can be considered as groups of people with particular characteristics, life situations or abilities that mean they cannot enjoy the same rights and opportunity to participate in society as others. Vulnerability can manifest in many different ways and affect people both throughout their lives and at specific moments. Many of the different factors and groups that can be considered as being vulnerable overlap.

There are a number of key barriers to financial inclusion that particular groups of vulnerable people are more exposed to. These barriers are still likely to be part of the cumulative set of obstacles to other groups being included, but are one of the most prominent issues the particular group faces. Identifying and addressing these key barriers can therefore have a large impact for this group, but also a wider positive impact for the other vulnerable groups affected.

Finance Watch has conducted a survey on the barriers to financial inclusion

In this report, three key barriers that vulnerable groups face have been identified and explored through a survey of expert views and two targeted workshops. **The first key barrier identified is where certain groups are not able to meet legal requirements for access.** Certain groups of people, such as migrants, are not able to provide the documents required by law as proof of their identity and place of residence. This is a particular barrier to accessing a payment account. Having a payment account is very often the entry point for being financially included and without it the chances of exclusion can be high.

A second barrier is the financial requirements for access to services. Financial services are often too expensive for low income or people at risk of poverty. They can be expensive for two key reasons. A first key issue is the cost associated with access to financial services, which often now requires an internet or phone connection and use of digital devices that all have significant associated costs for this group. Secondly, the risk analysis tools that are used to create prices for financial products tend to have an inbuilt bias against low income or poor people, because they have never collected data on them. These tools therefore end up considering that people with less financial means pose more risk than someone with more financial means, even though they would otherwise have a similar risk profile.

Based on the analysis of the findings, we recommend that everyone have access to a set of basic financial services

The final key barrier identified is the lack of required skills or means. As financial products are increasingly and often unnecessarily complex, a high level of financial and digital literacy is often needed to access them. This can disproportionately affect vulnerable groups of people, who have less of a possibility raise their literacy level. There are also serious issues over the physical abilities needed to access financial services at times. Certain visual, hearing, physical or mental abilities are considered 'standard' and access may not be possible for people that do not fit these criteria.

Targeted solutions can be found by identifying these barriers and the specific groups of people that are most vulnerable to exclusion as a result of them. At European level the Pillar of Social Rights¹ provides a strong basis to justify action. Targeted action can be taken to address the practical issues of unmet legal requirements through adapting anti-money laundering rules and working with national authorities. At EU level issues over the pricing of financial products can also be addressed through amendments to the Consumer Credit Directive and building on the case of the Gender Directive.

However, the most important solution that can potentially address all of the key barriers identified is creating basic financial services. A set of financial services has been identified as being a necessary part of everyday modern life and part of a minimum basket of goods and services that allow any citizen to be socially included in EU society. These basic products can be designed to be suitable and accessible for all EU citizens including vulnerable groups.

Six recommendations to increase access to financial services for vulnerable groups and so prevent financial and social exclusion:

- 1. allow basic payment accounts to be offered to those without full documentation, with adapted and appropriate features**
- 2. regulate the use of credit scoring and prevent discrimination**
- 3. set price limits where there is evidence of indirect discrimination against poorer customers**
- 4. extend the EU Accessibility Act to include cash machines and other banking services**
- 5. ensure that a set of basic financial services and products are available to all**
- 6. include poverty in definitions of discrimination and equal treatment alongside gender, age, disability to ensure an inclusive market**

¹ Principle 20 of the European Pillar of Social Rights, "Access to essential services: Everyone has the right to access essential services of good quality, including water, sanitation, energy, transport, financial services and digital communications. Support for access to such services shall be available for those in need." European Commission, 17 November 2017, URL: https://ec.europa.eu/commission/priorities/deeper-and-fairer-economic-and-monetary-union/european-pillar-social-rights/european-pillar-social-rights-20-principles_en.

I. An overview of the barriers to financial inclusion

1. Introduction

There are many reasons why people in Europe do not use financial services. Exclusion can be seen as the experience of those who are willing to access and use those services but who for various reasons are unable to do so.

Exclusion is caused in part by legal/regulatory entry barriers, in part by legitimate responsible practices and in part by market failures that result in a lack of guaranteed access and use of appropriate products by every potential client. The issues of regulatory barriers and market failures can be singled out as the two areas to improve for the sake of an inclusive European society. This is of particular importance as exclusion, which in many cases is linked to vulnerable groups or people, equates to discrimination.

Setting prices based on customers profiles can easily lead to unfairness and discrimination

Pricing differentiation based on profiling techniques is used legally in the financial industry, within certain limits. Unfortunately, customer segmentation can easily open the door to direct or indirect discrimination, if discrimination is understood as differences in premium costs that are not truly connected to the effective level of risk posed.

Over the last two decades, the issue of financial exclusion has been documented and studied to an extent, from the perspective of both developing and European countries.

An important step forward in the understanding of financial exclusion in European Union countries was made possible via an extensive research programme funded by the EU Commission in 2008.²

A large mapping exercise took place to help understand the current state of financial exclusion and the different dimensions of the issue. One of the key aims was to identify the types of people who are most at risk of being excluded from financial services, together with the barriers they are facing.

Since then, further data and studies have been made available to complete our understanding of the problem.

Various studies show that there are different causes of exclusion. These require a range of solutions

The purpose of this paper is to draw together the current identified causes that explain financial exclusion. This is the first necessary step towards problem analysis to enable the design of properly-adjusted solutions. Each cause might well require a specific response that, as one might expect, will therefore only be efficient in addressing a specific cause. This approach underlines the complexity and multifaceted nature of financial exclusion and therefore the need to propose a large set of solutions to address all of the original causes.

² Financement Alternatif, *Financial services provision and the prevention of financial exclusion*, European Commission, May 2008, URL: <https://www.finance-watch.org/wp-content/uploads/2018/06/FINANCIAL-SERVICES-PROVISION-AND-PREVENTION-OF-FINANCIAL-EXCLUSION-Final-report.pdf>

1.1 Definition of financial exclusion

The following definition and complementary explanations were delineated during the 2008 study already mentioned.

‘Financial exclusion’ is defined as having difficulty accessing and using the mainstream financial products needed to live in a given society

“Financial exclusion refers to a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that fit needs and enable them to lead a normal life in the society to which they belong.”³

There is a widespread recognition that financial exclusion forms part of much wider social exclusion, faced by some groups who lack access to quality jobs, housing or to essential services such as education or health care.

When looking at this definition financial products can be considered “appropriate” when their provision, structure and costs do not lead the customer to encounter access and/or difficulty using them.

What counts as mainstream can vary from country to country

“Mainstream providers” under the definition may be considered as non-stigmatizing providers in a national context. Depending on the market structure of each country, a particular type of provider may appear as mainstream in one country and as “alternative” in another.

In this case “alternative” may refer to organisations paying special attention to marginal segments, often operating as non-for-profit organisations (such as “alternative commercial socially-oriented” structures such as postal banks, cooperative banks...) and acting in compliance with rules and regulations, or other providers which exploit the marginal market segment and often act on the borderline of legality (*“alternative commercial profit-oriented entities such as sub-prime, payday and doorstep lenders...”*).

1.2 Causes of financial exclusion

Not having a payment account can limit access to other financial services

Access to financial services continues to be, in the vast majority of cases, conditional on having primary access to a payment account, which is generally offered by a bank, but not exclusively. For this reason, all of the existing barriers in accessing a payment account can in turn affect access to other products and services. The causes of exclusion from accessing a payment account will therefore comprise a large part of this section.

The European Commission has achieved a very important step in this regard by guaranteeing access to a payment account for every EU Citizen (Payment Account Directive, PAD⁴). Appropriate implementation of the PAD should lead to important improvements.

Innovation in the field is flourishing, and new means of payment are no longer always bound to a bank account. Having said that, the purpose of this paper is to study barriers to inclusion, and the lack of access to these innovations cannot be considered, today, as an indicator of exclusion.

³ Réseau Financement Alternatif, May 2008, pg.10

⁴ European Commission, *DIRECTIVE 2014/92/EU on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features*, 23 July 2014, URL: <https://eur-lex.europa.eu/eli/dir/2014/92/oj>

1.3 Definition of vulnerable groups of people

A range of overlapping factors can make people vulnerable to social exclusion

Whilst there are many different ways to participate in society, the level of participation possible can depend on identity characteristics, life situations, mental and physical abilities. At both EU and international levels, specific rights⁵ have been introduced in an attempt to prevent this exclusion. Vulnerable groups can be considered as groups of people with particular characteristics, life situations or abilities that mean they cannot enjoy the same rights and opportunity to participate in society as others. Vulnerability can manifest in many different ways and affect people both throughout their lives and at specific moments. Many of the different factors and groups that can be considered as being vulnerable overlap. This can mean that they will be faced with numerous, cumulative barriers to being financially included. It is therefore important to bear that in mind the most prominent factor that different groups of people are faced with at the moment of observation. In most cases deeper investigation would most likely unveil a broader spectrum of interconnected factors that contribute to a person being in a vulnerable situation. This makes it difficult to get out of this situation, as addressing one of these factors does not necessarily mean resolving them all.

It is, however, important to identify the different groups that are already defined and known to be exposed to exclusion. A starting point is to create a list of the groups of people with similar characteristics that restrict their capacity to access or properly use financial services. While this list might not be comprehensive, it can help us to understand how to address the most prominent barriers to inclusion, which ultimately are discriminatory and have a large associated economic cost.

1.4 Methodology

Finance Watch used surveys, interviews and workshops to identify the groups most vulnerable to financial exclusion

In order to investigate which vulnerable people are exposed to financial exclusion in the EU, Finance Watch first drew together a list of groups that had already been identified through previous research. This list was based on the already mentioned EU study (2008) together with a study on exclusion related to new means of payment.⁶ This basic list was then completed with information received via a continuous dialogue between the Finance Watch team and its members with expertise or professional experience in the field. The list was then integrated into a questionnaire (see annex 1).

The following three methods were then implemented to up-date the list of groups.

- A. Online survey: In order to disseminate the questionnaire to as many selected respondents as possible, it was put into an online survey format. A mapping exercise was undertaken to identify experts with relevant professional backgrounds, who have experience in dealing with financial exclusion. They comprise specialised lawyers, consumer organisations, debt advisors, academics and independent researchers. A total of 69 responses were collected from experts working in 23 different European countries, including 17 respondents from Romania, eight from Denmark, six from Ireland, four from the United Kingdom, five from Sweden, three from Bulgaria, two from Lithuania, two from Belgium, two from Slovakia, two from Poland, two from Greece, one from

⁵ The reference points of origin for these rights are the *UN Universal Declaration of Human Rights*; URL: <https://www.un.org/en/universal-declaration-human-rights/> and the *EU Charter of Fundamental Rights*; URL: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:12012P/TXT>

⁶ Jérusalmy, O. / Gloukoviezoff G. / Aro E. / Janikowska E. / Alström R. / Collard S., *Financial inclusion and new means of payment - Qualitative review in five European countries*, EUFFI (European Foundation for Financial Inclusion), May 2013, pg. 14: Situation for the vulnerable target groups studied: • Migrants • Over-indebted people • People on low-incomes • Old people and issues related to age • Disabled people • People in jail • Other vulnerable target groups & People with irregular income.

Czech Republic, one from Cyprus, one from Latvia, one from Portugal, one from Croatia, one from Finland, two from Norway, one from Iceland, one from the Netherlands, one from Spain, one from Germany, one from France and two from European-level institutions. Around 46% of the respondents are experts directly dealing with financial exclusion issues encountered by consumers or citizens; 30% are academics or independent researchers; 25% of respondents have other types of profile, including Trade Union representatives, debt advisors, consumer protection representatives, specialised providers of legal services to citizens, financial education experts and health economy researchers.

- B. Interviews: In order to foster a deeper understanding of the financial exclusion issues experienced at national level, around a third of respondents were interviewed by phone. This ensured that more responses to the survey were completed and that as much expertise was input as possible from the experts able to respond.
- C. Workshops: Two workshops were organised to help refine the data collected from the questionnaire. The workshops were held in Copenhagen and Bucharest, with the aim of collecting experiences from two regional areas with markets in different stages of development. The Nordic market was taken as a potential example of a developed market and Eastern European as a less-developed market. The workshops provided an opportunity to compare and discuss the different situations at the regional and national level. These insights in turn helped to better interpret the results of the questionnaire and illustrate responses with specific evidence and examples. For the Copenhagen workshop,⁷ there were 23 participants from four Nordic countries including Denmark, Ireland, Norway and Sweden. For the Bucharest workshop⁸ there were 20 participants from eight different eastern European countries, including Romania, Bulgaria, Croatia, Greece, Poland, Latvia, Lithuania and Slovakia. All of the participants had also completed the online survey or taken part in an interview before the workshops took place.

1.5 Findings

On the pre-identified vulnerable groups

Within the groups that had already been identified, the results collected from the questionnaire responses show interesting but sometimes complex responses. For each of the categories, explanations have been made, which in some cases are closer to hypothesis and would require deeper investigation.

Ex-ante and/or as yet unresolved negative credit history:

Over-indebted (Yes: 58 – No: 3 – Don't know: 4)

- Non ambiguous responses: key reason for exclusion for almost all respondents

Limited or absence of financial means/economic independency:

Un-employed (Yes: 49 – No: 13 – Don't know: 3)

- This category is largely non-ambiguous. Findings from the countries where a 'No' response was given should be gathered as part of a possible second step.

The most vulnerable groups include over-indebted, unemployed, homeless, elderly, migrants, and prison inmates, among others

⁷ It was held on the 5th and 6th, September 2019 with the support of The Social Legal Aid

⁸ It was held on the 9th and 10th, October 2019 with the support of Asociația Utilizatorilor Romani de Servicii Financiare (AURSF)

Working “poor” – part time worker/interim/short term (Yes: 38 – No: 22 – Don’t know: 6)

- This category is globally seen as being more at risk of exclusion in Southern and Eastern European countries.

Self-employed (Yes: 16 – No: 41 – Don’t know: 5)

- No particular insights can be gained by looking at either the nature of the expertise or the country of the respondents in this case to explain the larger number of ‘No’ responses. This category might require further investigation. The nature of the financial exclusion experienced by self-employed people certainly differs from that experienced by other consumers.

Single parent (Yes: 21 – No: 40 – Don’t know: 3)

- A possible explanation for the larger number of ‘No’ responses could be that the Yes responses only came from people working in the field with poor and over-indebted people. This might explain why their professional experience is not aligned with the other respondents. They meet single parents, because they are facing poverty and debt issues and it might be more difficult in this context to identify how their family situation may have been a contributing factor.

Students (Yes: 16 – No: 41 – Don’t know: 5)

- This category is a rather new one in the list of vulnerable groups and was added based on exchanges of views with experts in the field. It seems that the problems encountered by students are still limited to certain countries, where credit is more readily available to and used by students. This area also requires further analysis.

Gender, race, age issues:

Women (Yes: 10 – No: 48 – Don’t know: 5)

- A possible explanation for the larger number of ‘No’ responses could be that the Yes responses only came from people working in the field with poor and over-indebted people. This might explain why their professional experience is not aligned with the other respondents. They meet women, because they are facing poverty and debt issues and it might be more difficult in this context to identify how their gender may have been a contributing factor.
- Another explanation might come from a possible bias in the pool of respondents with regards to gender. There were more male respondents to the survey, although given the scale of the sample it is difficult to draw any sound conclusions in this regard. More male respondents have responded ‘No’, whereas more female respondents have responded ‘Yes’. Moreover, female respondents have been more prone than their male counterparts to respond ‘don’t know’ in the survey.

Members of minorities (Yes: 15 – No: 26 – Don’t know: 19)

The majority of ‘Yes’ responses came from the following countries: Bulgaria, Romania, United Kingdom and Ireland. This again requires further analysis, as the lack of affirmative responses coming from other countries might be explained by to the lack of interaction and knowledge amongst experts on minority groups. This might also explain the significant number of “don’t know” responses. Identifying and interviewing specialised experts that have contact and knowledge of minority groups has been one of the challenges the team faced during the study.

Elderly people, over 65 (Yes: 31 – No: 28 – Don't know: 4)

The majority of respondents who indicated that elderly people are at risk come from the category of “*field professionals*” dealing with poor and over-indebted people. Most of the ‘No’ responses came from academics and researchers. This may be similar to the case of single parents and women, where the difference in the perception might come from the multiple layers of issues encountered by elderly people who contact social workers and debts advisers.

Housing issues:

Homeless (Yes: 56 – No: 3 – Don't know: 5)

There is a clear majority and coherent response for this category, which clearly identifies homeless people as a vulnerable group.

Administrative issues:

Migrants (Yes: 34 – No: 9 – Don't know: 20)

There are a clear majority of ‘Yes’ over ‘No’ responses. However, there were also a significant number of “*don't know*” responses. This could be put down to the fact that in most of EU countries migrants do not access credit and are therefore much less exposed to over-indebtedness. For this reason, the debt advisers in our respondent pool are usually not aware of the issues experienced by migrants.

Expats (Yes: 10 – No: 25 – Don't know: 26)

Expats, like students, have more recently been integrated into the list of people potentially at risk of financial exclusion. The difference between “*expats*” and “*migrants*” might have created some confusion amongst respondents. “*Expats*” can be considered as legal migrants with an already identified working contract. Exclusion encountered by this group is then likely to be related to administrative issues. This area should again be investigated further.

As in the case of the migrants category the ‘don't know’ category can potentially also be explained by a lack of experience and knowledge amongst debt advisers in dealing with expats, as they might be less exposed to over-indebtedness.

Limited freedom of movement:

Prison inmates (Yes: 36 – No: 7 – Don't know: 22)

There are a clear majority of ‘Yes’ over ‘No’ responses. However, there were also again a significant number of “*don't know*” responses. This could be put down to the fact that in most of EU countries, prison inmates do not have access to debt adviser services even if they are over-indebted (unlike migrants for example). For this reason, debt advisers in our respondent pool are usually not aware of the issues experienced by prison inmates.

People with disabilities/illness/mental capacity limitations (Yes: 17 – No: 32 – Don't know: 14)

From looking into the countries that the different responses originate from, there are indications of the existence of best practice in Sweden and Ireland in particular. In other countries responses go in different directions and would require more granular analysis to draw further conclusions.

Additional vulnerable groups identified

Through exchanges of views with experts both in interviews and the two workshops organised, the initial groups of vulnerable people identified has been broadened out to include the following:

Other vulnerable groups include those with low incomes or poor credit history, among others

Negative credit history:

People with a record of payment default

This group at risk of exclusion is created by credit registers and credit agencies and seems to be perceived as a growing problem.

Limited or absence of financial means/economic independence:

People on low income or in poverty

This category seems to be seen by respondents as needing to be revisited, because the people already falling into this group do not comprise the whole spectrum of people affected by poverty (un-employed / working poor / elderly / migrants/ homeless).

Gender, race, age issues:

Young people, from 18-35 years old

Children, under 18 years old

- These new two categories have likely emerged as a result of the growing financialisation of society in the EU. In the past they were able to rely on the use of cash, but now there is an increasing need to use financial services. A particular issue identified in Denmark, for example, is the lack of knowledge of financial services that young people might have. Many people might gain experience and knowledge as they use products or need them and young people may not yet have been in these situations. As with many of the other groups identified young people can also be part of numerous other groups or subject to other factors that put them at risk of exclusion.

Finally, some of the responses collected did not identify new categories of vulnerable groups, but, underlined issues related to the cost of housing, or to administrative requirements, or to deprived areas, which can all be contributing factors to exclusion and impact many of the identified groups.

Social housing

Student housing

Limited or missing identification documents (e.g. lack of proof of identity and/or residence, among others)

- Asylum seekers
- Refugees
- Roma and travellers

Limited freedom of movement:

People living in remote or rural areas, where there is no access to ATMs, branches of financial services companies.

2. Conclusions from the survey

A. 2008-2019: An increased list of vulnerable groups of people

Over the last decade the groups of EU citizens and residents identified as being vulnerable from a financial inclusion perspective (in black), has grown to include new categories (in orange):

- Over-indebted people,
- Unemployed people,
- Single parents,
- Working poor,
- Self-employed,
- Women,
- Members of minorities,
- Elderly people,
- Homeless,
- Migrants,
- Students,
- People with disabilities,
- Prison inmates,
- People with record of payment default,
- People on low income or in poverty,
- Young people, from 18-35 years old,
- Children, under 18 years old.

The list of vulnerable categories is growing longer

B. 2008-2019: Making the invisible visible remains a challenge

The methodology outlined above leads to many approximations when used to study the exclusion phenomenon. Unfortunately, quantitative research is currently not possible in this field and surveys are too often⁹ unable to reach and gather data from the most vulnerable groups or individuals. In these circumstances, it is important to keep in mind that even for the groups that received significant numbers of 'No' responses it is likely to be linked to the difficulty that those conducting the survey have in dealing with and identifying these particular groups.

Having said that, from this first survey it would make sense in a second step to investigate some country specific responses to identify existing best practices in policy responses. The particular areas where this could be relevant according to the survey result could be for people with disabilities and the elderly people, where some possible effective measures seem to have been developed, in at least Sweden, Ireland and Denmark.

The most vulnerable individuals may not show up in the survey

C. The EU single market for financial services is far from being inclusive

When coming back to the definition of financial inclusion and comparing it with the current situation it seems that there is still some way to go in the EU. Vulnerable

⁹ Jérusalmy, O., *Pauvreté: la délicate question de sa mesure (1/3) Exemples d'indicateurs phares et de leurs limites*, Financité, 2017, pg.6, URL: https://www.financite.be/sites/default/files/references/files/2- pauvrete - la deli-cate question de sa mesure-v3post_def.pdf

**The market is not
meeting the needs of
these vulnerable groups**

groups experience issues leading to exclusion from how they are addressed by some market providers, the products currently on offer and pricing methods that do not fit their needs or that unfairly take into account their financial capacity. Issues including high cost credit, unaffordable insurance premiums for compulsory insurance and lack of/or expensive access to cash are all making the situations of these groups worse and reducing their chances of being included.

Innovation can bring solutions, but raises numerous questions over how market players should be properly regulated. Another fundamental question is whether the global financial industry should be required to offer products with basic features for some of the categories of financial services that are needed to participate fully and equally in society today.¹⁰

¹⁰ Finance Watch, Upcoming report on Basic Financial Services for Inclusion [to be published in May 2020].

II. What are the difficulties encountered?

1. Barriers related to unmet legal requirements

Financial services providers face conflicting obligations – they must be careful about who they serve but they must also not discriminate

The requirements to provide proof of identity and proof of residence are not systematically fulfilled by providing the same documents. They can, however, be considered as being part of the same type of issue, which require the same type of solutions and political agenda of action from policymakers at national and EU level to address them.

Providing the necessary documents to meet the requirements for proof of identity and proof of residence each pose a challenge for different reasons. A key issue behind these 'know your customer' requirements is an inconsistency between the EU Anti-Money Laundering and Terrorist Financing Directive (AMLD)¹¹ and the PAD. Whilst the PAD aims to push providers to guarantee access to a basic account to all EU residents, the AMLD puts liability for ensuring strict due diligence for identity checks with the same providers. Unfortunately, the groups that are less likely to be able to provide proof of identity or residence are also likely to be considered the most risky from the perspective of the AMLD.

1.1 Proof of identity

AMLD measures have been legitimately implemented so as to ban bank secrecy. Every account holder must be identified by law. Nevertheless, this process can be challenging for financial institutions.

The wide range of identity documents means providers face a risk of counterfeiting

Indeed, at the EU level, there is no harmonised way to access the identification documents of citizens or legal residents. The rules, proceedings and documents vary significantly from one country to another. Furthermore, the nature and type of documents considered as providing proof of identity or residence can be very diverse, which increases the complexity of the process.

Last but not least, this wide range of documents opens the door to fraud based on counterfeiting. The range of possible identification documents is large and they can be issued by a range of different authorities (local, regional, national), which makes them vulnerable to counterfeiting. Documents issued as printed paper with an ink stamp and signature are more exposed to counterfeiting than plastic cards with holograms, pictures and electronic chips, for example. This large range of documents can also reduce the capacity of financial institutions to exert authentication checks with the same level of expertise: some documents are much less common or used than others.

1.2 Proof of residence

Residence plays a role in the identification process and is an important piece of information for contact purposes. It is also used to establish a risk level because not having a stable place of residence might be, in certain circumstances, for certain type of services, an indicator of a potentially risky situation for the financial services provider.

Nevertheless, the requirement to provide a proof of residence should be handled with proportionality. For example, a strong proof of residence might be considered as legitimate and

¹¹ European Commission, *DIRECTIVE (EU) 2018/843 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing*, 30 May 2018, URL: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018L0843>

Competent authorities could be more flexible with their proof-of-residence requirements, for example when dealing with asylum seekers or people with no fixed address

proportionate for hire-purchase providers, but it might be less important for the provider of a basic payment account with no credit facility.

In many situations, the lack of proof of a stable place of residence is a barrier to accessing a payment account. However, provisions have been introduced in many EU countries to solve the issue for often excluded groups such as homeless people and asylum seekers, as provided in Article 16.2 of DIR 2014/92/EU (see table below).

In Belgium, for example, the following explanation is provided by the National Financial Federation (Febelfin) to its members, in its frequently asked questions document on access to a basic payment account and asylum seekers and refugees:

"9. Does the bank also have to ask for the address? In this respect, the same rules apply as for other customers. In most cases, the bank will ask for the customer's address.

10. Can the bank refuse to provide banking services if the applicant does not have a fixed address? No. Asylum seekers, statutory refugees and persons benefiting from the subsidiary protection must always choose a domicile as part of their procedure. The temporary nature of this home does not constitute a justification for refusing a basic banking service."

Traditionally, national authorities and financial institutions have agreed on a list of documents that can be used for identification purposes. Unfortunately, some situations and circumstances might still lead to difficulties. Possible examples are homeless people living in collective housing, retirement and rehabilitation housing and prison inmates.

To address these issues, the EU needs all National Competent Authorities to ensure that:

- a. proof of residence is automatically provided to any resident based on a limited number of documents
- b. proof of residence is required when relevant and legitimate by financial services providers. For the ones who might not have a permanent address, an alternative address should be made accessible by national authorities, for example at local level.

This should help to avoid financial exclusion due to an inability to fulfil legal requirements and due to inappropriate rules and /or non-proportionate application of requirements.

The distribution of liability between financial institutions and anti-fraud authorities increases the risk of illegitimate exclusion.

Anti-money laundering and terrorist financing Directive	Payment Accounts Directive
<p>Article 13 (1)</p> <p>Customer due diligence measures shall comprise : ‘(a) identifying the customer and verifying the customer’s identity on the basis of documents, data or information obtained from a reliable and independent source, including, where available, electronic identification means, relevant trust services as set out in Regulation (EU) No 910/2014 of the European Parliament and of the Council (*) or any other secure, remote or electronic identification process regulated, recognised, approved or accepted by the relevant national authorities</p>	<p>Article 15</p> <p>Member States shall ensure that credit institutions do not discriminate against consumers legally resident in the Union by reason of their nationality or place of residence or by reason of any other ground as referred to in Article 21 of the Charter, when those consumers apply for or access a payment account within the Union. The conditions applicable to holding a payment account with basic features shall be in no way discriminatory.</p> <p>Article 16.2</p> <p>Member States shall ensure that consumers legally resident in the Union, including consumers with no fixed address and asylum seekers, and consumers who are not granted a residence permit but whose expulsion is impossible for legal or factual reasons, have the right to open and use a payment account with basic features with credit institutions located in their territory. Such a right shall apply irrespective of the consumer’s place of residence.</p> <p>Member States may, in full respect of the fundamental freedoms guaranteed by the Treaties, require consumers who wish to open a payment account with basic features in their territory to show a genuine interest in doing so.</p> <p>Member States shall ensure that the exercise of the right is not made too difficult or burdensome for the consumer</p>

Article 13 of the AMLD, sets out that the identification of a client is the responsibility of the financial institution.

This responsibility, and the potential liability that goes with it, is potentially a strong disincentive for the financial institution to take any risk where there are doubts over the identification process. As a consequence, article 15 on “*Anti-discrimination*” of the PAD is at risk of not being fully implemented.

The risk that credit institutions might be reluctant to open bank accounts under some cir-

cumstances has been already foreseen in article 16.2 of the PAD.

The Directive, in this perspective, is sending that very complex message to credit institutions that they should be very cautious (as they are liable) when it comes to identification processes, together with an obligation to behave in a very inclusive manner when granting access to a payment account with basic features.

An adjustment or clarification needs to be made in the AMLD to limit the risk of back-door discrimination. The following section details some possible pragmatic solutions.

1.3 Legitimate barriers where important improvements are needed

A. Harmonised / simplified access to a reasonable number of forgery-proof documents.

Legitimate identification barriers should not be transformed into illegitimate Kafkaesque situations. Introducing a harmonised approach to documents that can be relied upon would help to overcome this barrier.

This should facilitate financial inclusion of a large number of EU citizens and EU residents but also reduce the (costly) administrative burden of 'know your customer' due diligence undertaken by financial institutions.

The issue applies in particular to asylum seekers and migrants in transit, with an as yet 'undetermined' status. For this public, it is key to limit the risk of being rejected from accessing a payment account due to "inadequate" proof of identity. National competent authorities should limit the number and type of documents issued for these persons so as to limit the risk of only being denied access as a result of excessive administrative complexity. Migrants' capacity to exercise their rights is currently nothing more than a dream and the danger associated with alternatives to accessing financial services, such as carrying cash, is very high. An important solution has been explored here by the German authorities, whereby they have introduced a carve-out for refugees from the 'know your customer' requirements. It allows them to use a document authorised by the German authorities including a set of necessary identification details.¹²

B. Proportionality in the application of identification requirements.

The current regulatory framework does not allow proportional treatment for migrants, whether legal or illegal, with respect to accessing a payment account – an access to digital means of payment. The level of identification requirements (and the amount of the transactions to be considered as not requiring specific scrutiny under the AMLD) should be proportionate to the quality and soundness of the identification process. Where there are concerns over the authentication of a document provided by the customer, a proportionate response should be to allow access to an account with limited features and stricter due diligence requirements¹², contrary to the current reaction to deny access to an account. The "EBA Opinion on the application of customer due diligence measures to customers who are asylum seekers from higher-risk third coun-

There should be a harmonised approach to identity documents

In Germany, refugees enjoy a carve-out from some of the know-your-customer rules

¹² In April 2016, the European Banking Authority published its « Opinion of the EBA on the application of customer due diligence measures to customers who are asylum seekers from higher-risk third countries or territories.p.2: the EBA is clarifying the concept of a "right balance between providing asylum seekers from higher-risk third countries and territories with access to financial products and services on the one hand, and complying with EU Anti-Money Laundering and Counter-Terrorist Financing (AML/CFT) requirements on the other hand... Money Laundering /Terrorist Financing (AL/FT) risks can in most cases be managed effectively by offering a more limited range of services and/or setting up stricter monitoring controls, which will be conducive to early intervention in the event of suspicion.

¹² Batsaikhan, U./ Darvas, Z. & Gonçalves Raposo, I., *Reconciling contradictory forces: financial inclusion of refugees and know-your-customer regulations*. J Bank Regul, 20, 2019, pgs.260–273 URL: <https://doi.org/10.1057/s41261-018-0088-x>

If a person's identity documents are in doubt, they should still be offered a basic payment account to reduce the risk of exclusion and improve human dignity

... with adjusted range of services and monitoring control...

... to guarantee security together with inclusion and human dignity

*tries or territories*¹⁴ is a useful reference point here, which sets out an interesting and pragmatic response to the diverse situations encountered (p.9).

Nowadays, in a large number of EU countries, the use of a payment account is a requirement to access decent accommodation, to access a legal job, to receive benefits, to pay for utilities and much more. Therefore, not having access to an account, even with limited features and linked to stricter due diligence requirements of what can be seen as risky transactions, maintains certain groups of people in a grey zone that increases the risk of delinquency and criminality. Moreover, this approach contains a significant adverse effect: people who cannot use digital means of payment via a payment account are constrained to exclusively using cash. The EBA, in the previously mentioned opinion, acknowledges this potential risk: *"The financial inclusion of asylum seekers is an important component of wider integration efforts... At the same time, financial inclusion is central to the fight against [money laundering and terrorist financing]: this is because lack of access to financial services can drive financial transactions underground and away from effective effective [Anti-Money Laundering and Counter-Terrorist Financing] controls and oversight."*

From this standpoint, overly demanding procedures to prove identity have a significant adverse effect.

Innovation might offer interesting solutions to guarantee identification via a cross-use of personal details (something a person knows, something a person holds, something a person is – biometric –) to guarantee that a single "person" cannot duplicate identities in different countries.

Whatever the solution to be developed is, the guaranteed access to a payment account with a minimum but relevant set of features should improve human dignity for these people who, otherwise, end up being rejected by society.

1.4 Groups of people potentially exposed to this barrier

Problems with documents affect migrants, homeless and travellers in particular

The same groups of people are likely to face numerous, cumulative factors that increase their vulnerability. There is, however, a broader consensus on the fact that some categories of the population are specifically affected by the absence of legal documents and particularly by the lack of identification requirements and proof of residence.

The groups identified as being more exposed to this barrier are:

- Migrants – from asylum seekers to expatriates;
- Homeless;
- Traveller community.

2. Barriers related to financial requirements

A useful perspective to consider the issue of poverty is by looking at the risk of discrimination experienced by people on low income or in poverty. Financial services are often more expensive to access for people on low income or at risk of poverty, because they are considered to pose more risk. However, people with less financial means do not necessarily pose more risk and so can end up being subject to higher prices than someone with more financial means, even though they would otherwise have a similar risk profile.

¹⁴ Available on URL: <https://eba.europa.eu/documents/10180/1359456/EBA-Op-2016-07+%28Opinion+on+Customer+Due+Diligence+on+Asylum+Seekers%29.pdf>

2.1 Payment and Transaction account

The access to this financial service, as long as it does not comprise a “credit” dimension such as overdraft facilities or use of cheques, should be universally accessible once the legal requirements are met. The cost of the basic payment account should be maintained fairly low in line with Article 18 of the Payment Account Directive on “Associated fees”:

“1. Member States shall ensure that the services referred to in Article 17 are offered by credit institutions free of charge or for a reasonable fee.”

This legal requirement is increasingly easier to meet thanks to the rise in private supply of free on-line bank accounts flourishing in the market.¹⁵

The Payment Accounts Directive includes the right for any EU resident to open a basic payment account. It is time now to assess its implementation and measure its impact.

2.2 Savings

In the financial inclusion context, savings can be understood as money stored in a savings account. At this very first stage and for the purposes of this paper, investment products are not considered.

As such, low levels of income or being at risk of poverty should only have an impact on the size of the possible savings (from zero for extremely poor people), but should not impact on accessing basic savings options and/or incentives. For example, a classic entry barrier is the requirement for a minimum amount for the first deposit.

The access to a savings account, considered as the entry point for savings in EU Member States, is not the crucial element at stake. The risk of being denied access to such an account once access to a payment account has been gained is not currently considered to be an issue.

Remaining risks:

- Lack of attractive offers from supply side for the most vulnerable, because they do not represent an interesting target market.
- Lack of savings scheme targeting people on low income/ in poverty, adjusted to their needs¹⁶ compared to attractive offers designed for wealthier people. An example here comes from credit unions, which combine savings practices to offer access to small and affordable credit. This can be achieved through micro-savings practices (self-funded communities) or through other specific proposals designed by “mainstream” financial institutions (housing savings plans, for example). These different solutions represent an approach to find a way to offer services to the widest possible market. Currently mainstream providers tend rather to focus their efforts on marketing and products designed to attract wealthier customers.
- Public tax incentives are often a key way to push citizens to save. People on low incomes or in poverty may well not be paying tax and so do not benefit from these incentives. This withdraws a saving incentive from groups that can be amongst those

¹⁵ Though it is not scientifically proven, internet browsing allows anyone to easily identify a large range of free of/low cost payment account. In many countries, comparison tools are also available to facilitate the choice.

¹⁶ Beddows S./ McAteer M. / Jarvis R., *Britain's debt, how much is too much? Policies to encourage savers and support the over-indebted*, ACCA, April 2016, URL: <http://inclusioncentre.co.uk/wordpress29/wp-content/uploads/2016/04/britains-debt-final-report.pdf>

Now would be a good time to assess the Payment Accounts Directive's effectiveness in promoting low cost basic payment accounts

Savings products and tax incentives are often aimed at wealthier people

most in need of financial buffers to deal with life accidents. Certain solutions have already been examined here at national level, such a 'credit d'impôt' in Belgium¹⁷.

2.3 Credit

People on low-income and in poverty experience barriers in accessing consumer credit. Those barriers arise from the risk assessment process (credit-scoring) currently implemented by credit providers. This process does not make use of proper income and budget criteria, which are key for credit risk assessment. For many consumer and revolving credit providers, the criteria used for the assessment are neither objective nor properly documented. This is due to inherent issues behind the credit scoring methodology widely used by the credit industry.

Explanation of the credit scoring methodology

The objective of credit scoring is to allow quick and easy risk assessment of potential borrowers. The process builds a score for each client based on the probability that they will repay the credit offered. The potential borrower has to reach a certain minimum score to be granted credit.

Credit providers build these scoring tools based on a first set of sample clients who are offered certain type of credit as a first step. The sample of clients needs to be large enough to in turn create a significant sample of defaulted clients when all the contracts should have been reimbursed.

A second step is for the credit provider to then process the data collected on defaulted clients. The sample can include data on several hundred clients to then identify the different combinations of data indicators that have led to a default. Data on age, postal address, income, type of professional activity, gender, marital status, type of housing, and many more are assessed and combined to provide the provider with different risk profiles.

A blind-spot that leads to discrimination

As already mentioned, a large group of clients will first receive credit in order to build a sample. This group of clients is not, as such, representative of society. Credit is generally offered to clients that already comply with some requirements identified to detect a high capacity to repay (job stability, a minimum level of income under which the credit is not offered ...). Those pre-existing requirements mean the sample collected will not be representative of society. The part of society that is excluded from the initial sample will not be able to receive credit and will, therefore, not be able to "prove" that they might have had a capacity to repay. Discrimination is therefore not found within the sample, but rather is how the sample of clients is built. The profiles that are not included in the sample will be denied access to credit regardless of their capacity to repay and risk, but because the scoring system is unable to recognize their actual risk or this capacity.

Credit scoring favours groups for whom similar data is already available

Vulnerable groups whose data is less available may be excluded by credit scoring regardless of their capacity to repay

¹⁷ Marchand, A. / Jérusalmy, O., *Incitants fiscaux à l'épargne et piste d'amélioration*, Financité, 2014, URL:https://www.financite.be/sites/default/files/references/files/incitants_fiscaux_a_lepargne.pdf

A solution already exists

There is a clear solution to overcome this barrier and avoid its discriminative effects. It comes from ensuring that the risk assessment process is based on sound budget analysis and a dialogue with the client that can foster trust.

Vulnerable borrowers should be assessed on their merits, not by credit scoring

These two dimensions are part of the success of micro-credit. Although public micro-credit is targeted at people on low income and who do not have access to mainstream offers, a limited default rate is made possible. Two key elements can and have been put into practice to offer credit in these cases. Firstly, careful analysis (using bank statements) of a borrower's budget needs to be combined with a credit offer that is adapted in size and cost to their ability to repay. Secondly, trust must be built through a transparent communicative relationship between the lender and the borrower.

This best practice underlines the capacity of credit providers to enlarge their offers to a larger range of clients if they develop non-discriminative risk assessment tools. If widely implemented they should allow people considered today as not creditworthy, to access credit with a limited or even without an additional risk premium.

2.4 Insurance

Discrimination can easily occur when insurance companies try to pool people with different risks

Insurance is based on the principle of mutualisation, where risks are pooled together to ensure that an individual can recover the cost of any damages, they incur. The reality of how insurance premiums are priced seems to challenge this principle. Questions arise over the quality of the risk analysis being performed, the relevance of the pools created (size, number, and key components), the lack of transparency in the pricing process and the use of data for pricing purposes that are not related to risk levels. These issues may all point to discriminatory practices in the sector that need to be carefully assessed. Discriminatory practices inevitably lead to financial exclusion and, in the case of pricing, to premiums that relate directly to financial means. Two of these areas have already been identified and represent barriers to access:

A. Disproportionate premium pricing

For pricing purposes, consumers are grouped together into different risk pools, as mentioned above. The aim is to assess and identify similar risk profiles, group them together into a pool and calculate a premium based on the average risk that the consumers in the pool pose. This is particularly the case for motor or health insurance products.

Broad pools can mean unfairly high premiums for some customers ...

An issue arises where the segmentation of consumers into these different pools can be based on data that do not fully explain or reflect the risk profile of all the consumers in the same pool. It can mean that many of the consumers in a certain pool do not fit the average risk profile of the group at all, but pay the premium associated with it. The issue arises where the cost of the premiums for a certain group are high and unaffordable for some or many of the potential consumers.¹⁸ These consumers could pose a lower risk than the average risk profile of their pool, but are only offered a high price that they cannot afford.

... but micro-segmentation can weaken the principle of mutuality

Developments such as big data analytics could help to develop micro-segmentation,

¹⁸ Fox P. / Jérusalmy O., *Insurance and discrimination: The importance of guaranteeing citizens full and equal access to the basic kinds of insurance*, Finance Watch Policy brief, February 2019, URL: https://www.finance-watch.org/wp-content/uploads/2019/02/FWpolicybrief_insurance-discrimination-feb2019.pdf

One answer is to set limits on premiums

which would increase the quality of risk selection and potentially the accuracy of premium pricing. However, it may well increase the difference between the cheapest and most expensive premiums. This could mean that the mutualisation principle becomes difficult to implement, because the highest cost premiums may become even less affordable. It means that groups of consumers will be excluded and not able to pool their risk with others, based on their perceived risk profile. The only way to ensure that the principle of mutualisation remains would seem to be to set limits on the highest and lowest possible premium prices in this case.

B. Use of data not related to risk

Price optimisation is a practice that adjusts premium prices to maximize profit. It is a marketing practice that builds knowledge of consumer behaviour and characteristics to adjust the prices of premiums. It is used as a way to potentially provide lower prices for more active or demanding consumers, whilst relying on the apathy of others to ensure not all premium prices for the same risk profiles need to be reduced.

Dynamic pricing harms consumers who are less able to shop around

EIOPA has found that where consumers are more likely to shop around for the best possible deal and switch providers when a contract is up for renewal they may benefit from price optimisation. At the very least they are less likely to be hit with a price increase. However, consumers with a similar risk profile but who are less likely to shop around or switch provider will likely not benefit from the same advantages.¹⁹

This risks excluding less active or capable consumers who cannot afford premiums, but may have a risk profile that is comparable to other more active or capable consumers. The capacity to be an active consumer is also likely to depend on the level of skills, financial means and general life situation of an individual. This in turn can mean that vulnerable groups that tend to be disproportionately impacted by these points will be less active or capable consumers, if at all.

Indirect risks of exclusion and discrimination against people on low income or in poverty:

Motor insurance

- Indirect discrimination can arise from increased risk exposure experienced by low income people: for example, they may be more likely to have a car accident as they are only able to access a vehicle in a sub-optimal condition. They may also use the vehicle in an area that is more at risk due to limited infrastructure, upkeep or other related issues. Post codes or full addresses already form part of the criteria used in pricing by some insurance companies (EIOPA big data report, p.37).
- High cost premiums create a major risk of being excluded, which might lead to:
 - Reducing mobility with possible impact on job access and income;
 - Higher risks of delinquency: if using an uninsured vehicle.

Health insurance

- Indirect discrimination can arise from health expenditures, which can be reduced significantly via prevention, education, but also thanks to privileged access to higher qualities of food, safe and clean environments, resting and exercise and social contact for example. Many of these preventative measures are more likely to be available

Low income consumers face extra risks, especially in motor and health insurance ...

... this is a form of indirect discrimination

¹⁹ EIOPA, *Big data analytics in motor and health insurance: a thematic review*, April 2019, URL: https://eiopa.europa.eu/Publications/EIOPA_BigDataAnalytics_ThematicReview_April2019.pdf

and easily accessible for people with more financial means²⁰ and end up influencing the potential price of a premium cost or offer.

- A key example of a possible solution here can be found in the Irish Health Insurance Acts²¹ on how mutualisation can be achieved for minimum health insurance cover, as is it considered as being in the interest of the common good. The Acts create four principles that help ensure that health insurance is offered at an affordable cost to all citizens: lifetime community rating, open enrolment, lifetime cover and minimum benefit. These aim to ensure that identity characteristics such as age, gender or the health status of individuals will not prevent people from being able to obtain and keep a minimum level of health cover.

Aggressive marketing and sales techniques have been shown to target vulnerable groups such as ethnic minorities, elderly or sick people.²² This can directly incite over-consumption of inadequate, duplicative or not needed insurance services.

3. Key findings from survey and workshops implemented in 2019

Finance Watch gathered a range of data on different financial services available in the EU in 2019, as part of research to identify the basic services needed to fully and equally participate in society. The findings for the (non-life) insurances market identified the following prominent barriers to access:

Typical reasons why people are excluded from insurance include lack of knowledge or money, being in a high-risk category and not having a track record

- **Lack of knowledge or awareness of risk exposure by the citizen (no appetite for insurance).**
Solution: education and advice for the most essential basic financial services.
- **Lack of financial means to afford the insurance premium.**
Solution: access to cheaper premiums when possible, in particular for the essential basic financial services, which play a key role in social inclusion and/or where access is made compulsory by law.
- **Lack of access due to personal/individual characteristics (such as age and health).**
Solution: limit client segmentation / protection of minimal mutualisation standard / limit the use of “personal” characteristics in the pricing of essential insurance.
- **Lack of access related to customer behaviour.**
Solution: incentivize less risky behaviour – pay “ex-post” a “reasonably higher” premium when behaviour has effectively increased expenditure (bonus/malus).
- **Lack of access related to customer track record.**
Solution: propose “digital solutions” and others which reduce capacity for risky behaviour.

20 World Health Organisation Europe, *Poverty, social exclusion and health systems in the WHO European Region*. Copenhagen, WHO Regional Office for Europe, 2010, URL: http://www.euro.who.int/_data/assets/pdf_file/0004/127525/e94499.pdf

21 Irish Health Insurance Regulations, URL: <https://www.hia.ie/regulation/health-insurance-regulations>

22 Choudhury, P., *Consumer Interests and the Ethical Implication of marketing: A contingency framework*, Journal of consumer affairs, 37(2), 2003, pgs.364-387.

Rittenburg, T. / Parthasarathy, M., *Ethical implications of target market selection*, Journal of Macromarketing, 17(2), 1997, pgs.49-65.

Stephenson, J., *Is Target Marketing Ethical?*, 2010, URL: <http://ezinearticles.com/?is-target-marketing-ethical?&id=1333342>.

As with financial services more generally, there is a long list of categories of people who are vulnerable to exclusion from insurance

3.1 Groups of people potentially exposed to this barrier

People at risk of poverty represent 22.4% of Europeans (Eurostat 2017). Poverty is a multi-dimensional issue, which interacts with education, health, work intensity, job quality, family structure, generational transmission, an environment which includes an existing social protection scheme.

For these reasons, some specific groups of people might be more likely to be affected:

- People with housing issues, homeless;
- People with disabilities;
- Members of minorities;
- Migrants;
- Asylum seekers;
- Refugees;
- Roma and travellers;
- Prison inmates.

Being part of other groups can also have a multiplier effect in this case, increasing the overall level of vulnerability to this barrier. The following groups fall into this category:

- People with a low level of education, financial illiteracy;
- People with health issues;
- Among workers, the recent growth of the so called “*working poor*” which includes part-time workers, workers with short-time contracts, the self-employed, households with low work intensity, single workers, single parents, over-indebted people, the elderly due to low pension provisions;
- Students;
- Older people, aged over 65;
- Young people, aged between 18-35;
- Children, aged under 18;
- Women;
- Expatriates;
- People living in remote or rural areas, where there is no access to ATMs, branches of financial services companies etc.

23 Interconnection between the risks of poverty are correlated to low level of education / qualification. For example, the “In-work at-risk-of-poverty rate by educational attainment level” indicator from - EU-SILC survey shows a % 4.9 for people with tertiary education (level 5-8) but of 19.3 % for people with less than primary, primary and lower secondary education (level 0-2) in 2018. URL: <https://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do>

A low level of education is also impacting negatively the level of health. See: Feinstein L. / Sabates R. / Anderson T. M. / Sorhaindo A. & Hammond C; What are the effects of education on health?, pg.171, In measuring the effects of education on health and civic engagement: proceedings of the Copenhagen Symposium – © OECD 2006, URL: <https://www.oecd.org/education/innovation-education/37425753.pdf>

Amongst all these categories, unemployed people and people at risk of poverty can be identified as being most exposed to exclusion, as they are highly at risk of being exposed to multiple layers of vulnerability²³. Basic financial services, such as having access to a bank account, are often needed to gain access to employment for example. There are also issues linked to credit profiles, where these groups have a limited capacity to prove their creditworthiness. They rather find themselves more likely to be considered as “*subprime*” customers and therefore risk being completely excluded from accessing basic financial services. An example of this is for fishermen in the UK, who could be considered as being part of the so-called “*working poor*”. They cannot access certain financial services as credit loans, as banks will not accept their boats or future catches as solid bankable collateral.

Gender and age can increase vulnerability in some cultural contexts

In Italy the working-poor are mainly women, but the general understanding of the magnitude of this gender related issue is still low and the data available tend to reflect this lack of awareness. Furthermore in Italy banking as a professional activity as well as how household finances are managed is gendered. Men are generally considered to be the “*financial brain*” of the household and manage its finances. This also seems to be the case in France, where women generally tend to be responsible for operational financial tasks of the household (such as keeping the accounts updated, opening bank accounts, withdrawing money and bank transfers), whilst important financial decisions with a longer-term impact tend to be taken mainly by men.

Specific vulnerabilities might also arise from issues related to age. For instance, the younger population belonging to the so-called “*non-independent adult*” group can be affected by exclusion given their lack of financial independence before a certain age. As this group has only just become legally independent (by turning 18 years old) or have just found a first job or moved overseas to study, they are often unable to provide any financial records and find themselves rejected when trying to access basic financial services.

Is it also commonly recognised that vulnerability and risk of exclusion might also be linked with gender issues, particularly in Southern European countries, such as in the case of Italy. Indeed, women tend to be more exposed to financial exclusion resulting from the impact of ‘life shocks’ such as a divorce or a separation. In many cases if they were not used to take financial decisions they find themselves unprepared and potentially with a lack of confidence when interacting with financial institutions, even in case of very simple operations such as opening a bank account.

A positive practice has been flagged in Ireland, where the national money advice service (MABS) actively encourages low income, unemployed and vulnerable people in general to save regularly. The service tries to promote the idea that no matter how small the amounts saved are they can represent a necessary financial cushion to cope with unexpected life events (e.g. short-term income loss; illnesses; etc.).

III. Lack of required skills

1. Barriers related to financial service access points or means

1.1 The impact of digitalisation on service provision

Technology is increasingly replacing face-to-face interactions, creating a 'digital divide'

In order to access and use financial services, the financial industry offers a range of consumer experiences which range from traditional face to face human interventions to fully automated or digital means.

The latest trends show a clear shift from human intervention to fully digitalised means. This trend is so strong that even when only this kind of invention is able to solve a problem generated by a digital solution, the procedure to access it can be so complex that it can become an issue in and of itself.

Digitalisation is impacting the way consumers are prompted to complete transactions (payments, cash withdrawal etc.) all the way through to how they can use financial services (credit, investment products, insurance etc.). The process of encouraging transition to the provision of services through digital means is undertaken to limit direct contact with staff of financial institutions.

Access to financial services then starts to depend on access to digital means and the ability, to use them.

Two of the key ways in which this can impact vulnerable groups of people are:

Digital exclusion

Elderly people in particular can find it difficult to access bank services digitally, while traditional forms of access are increasingly subject to charges

Increases in the level of digitalisation of the supply of financial products raises questions over the capacity to use the necessary digital devices. Access to these devices is often not free of charge and certain groups of vulnerable people are less likely to have the capacity to use them.

The transition to an all-digital environment, in particular for accessing banking services, is creating a new category of financial excluded people among a population that was fully integrated into society so far: elderly people are particularly affected by this change.

Cost of using non-digital services

It is becoming increasingly difficult to use 'traditional' services without incurring additional costs. For example, the additional fees introduced to access bank statements, other than through internet banking. Certain groups of people can be considered to be "*digitally excluded*". They are often groups that already experience barriers to using financial services (elderly people, people with disabilities etc.). This effectively means that they can be penalised on two cumulative levels.

1.2 Issues arising from varying levels of literacy

Lower levels of language and or writing skills can lead to difficulty in using financial services. In many instances, a person can be considered literate, but this does not mean that they have the capacity to access services through the means available.

Levels of education, literacy, physical and mental abilities can all affect people's ability to access financial services

The key areas that can constitute barriers to inclusion are:

- Literacy; both of native language speakers, as well as of foreign language speakers.
- Financial literacy; where the specific knowledge needed to assess the best product options, manage a budget or understand the means to use financial services is lacking.
- Self-exclusion due to lack of trust or lack of self-esteem amongst people that have (or perceive themselves as having) low levels of education or training and believe that certain products or means to access them are not suitable for them.

1.3 Issues related to access for people with disabilities

- Service access points or the means to access them might require visual, hearing, physical or mental abilities that are considered 'standard'. Where people have a different level of ability they may then be excluded simply because the access point or means does not meet their needs, even if would be eligible to access the services otherwise. This specific issue has been partly recognised under EU law, by the Accessibility Act,²⁴ which should start to help address access to banking services when it comes into force. This is not, however, sufficient to ensure that full access to services needed to be socially included is guaranteed.

1.4 Additional access point or means issues that disproportionately effect vulnerable groups of people

There are a number of issues that effectively end up affecting vulnerable groups of people related to the access points for financial services. These barriers relate to several of the different issues already identified above, but lead to vulnerable groups of people being disproportionately targeted by exploitative financial services. Two key issues are linked to product design:

- Financial products and services are specifically designed to exploit vulnerable groups of people.
 - As an example, people on low income can often most easily access high cost or revolving credit, because the loans offered are often for smaller amounts.
- Difficulty in identifying adequate products. Complex products or complex marketing tools tend to make it particularly difficult for vulnerable groups to choose and buy the right products to fit their needs.

Some products are designed to exploit vulnerable groups, such as high cost credit offered to people on low incomes

Complex wording and unclear disclosure can often make proper comparison of products and service difficult. *"According to the consumer associations, even if consumers are 'financially literate' they may not necessarily make a rational decision, mainly because the*

²⁴ European Commission, *Directive on the approximation of the laws, regulations and administrative provisions of the Member States as regards the accessibility requirements for products and services*, December 2015, URL: <https://ec.europa.eu/social/main.jsp?catId=1202>

terms and conditions may be opaque and not understandable. In relation to this, consumer associations considered that consumers' lack of financial education should not be used as an excuse for financial institutions to provide complex and costly products".²⁵

The way products are personalised before a price is given can make it hard to compare products

Additionally, because of offer personalisation, the real price to be paid is only made available to the consumer after they have provided a certain amount of information, which acts as a barrier to proper price comparison.

Groups of people potentially exposed to this barrier

Considering the strong link between poverty risk and educational level,²⁶ the barrier of lacking the skills required to access financial services might affect a significant number of people at risk of poverty.

Legislation is an effective tool for protecting vulnerable groups from discrimination

When people in situations of financial fragility are also part of other vulnerable groups, due to illness or disability for example, the issues of access and the risk of discrimination increase. Regulation can be put in place to reduce this risk. It can also help to ensure that people with disabilities, for example, have access to low-risk, tailored loans to facilitate their full and equal participation in society. This includes being able to use these loans to purchase equipment, or to adapt their homes to their needs, where this is not covered by the state. In Romania for instance, the National Council for Combating Discrimination (CNCD) clearly states that "[...] *The refusal to grant a bank loan for adapting the home of a person with disabilities to [their] needs [...] is an act of indirect discrimination [...]*". Two national banks and high-street retailers have been fined, because they refused to grant loans to people with disabilities. The applied principle is that a person with disabilities who receives public benefit, regardless of the type of disability, should not be prevented from accessing credit simply because their income is exempt from seizures, if in the case of repayment issues.

People living in remote or rural areas are also disproportionately at risk of exclusion

The issues that these people face almost all arise from barriers to accessing cash and financial services. People living in remote and rural areas may also be part of other groups, meaning that their geographical location acts as a further cumulative barrier to inclusion.

Customers in rural areas or with restricted mobility face additional problems and costs in accessing financial services

- **Insufficient geographical coverage:** In remote areas a key issue is the lack of access to ATMs, bank branches or automated bank services. These issues have been raised for many countries covered in the survey, with respondents from Sweden, Romanian and Bulgarian identifying it as a particular problem. People living in these areas who need cash have to travel to a bigger city, for example. This is a particular problem for people with reduced mobility (such as some elderly people or persons with disabilities). It often means that they would have to give their bank card and PIN code to a third party, if this is even an option.
- **Lack of infrastructure:** In these areas even people with mobility, or who are digitally included can face problems of access related to a lack of infrastructure. Key examples are where internet access or phone signal coverage is limited or lacking. Another example is where public transport options are not available to connect areas with locations where there is access to services.
- **Cost of cash withdrawals:** The high cost of cash withdrawals in rural or remote areas has been reported as an issue by Romanian and Bulgarian participants to the workshops. This cost has been reported to be as high as three euros per withdrawal.

²⁵ European Banking Authority, Consumer Trends Report, 2018-2019, pg.59

²⁶ op. cit. OECD 2006

al, which represents a heavy cost when considering the average income in these countries.

Many older members of the population come from a cash-only generation which traditionally has not made use of banking, credit, savings or insurance products now seen as central to financial inclusion.

Another example comes from Greece, where unemployed people over the age of 55 with low soft and digital skills are among the most affected by financial exclusion. Also retired people with unemployed family members are among the most financially fragile, as their disposable pension income is not sufficient to cover the needs of the entire household. According to an EEKE²⁷ study from March 2019, the unemployed represented 35% of over-indebted persons in Greece and retirees made up 14.7% of the national population most affected.

27 EEKE: Union of Working Consumers of Greece - <https://eeke.gr/en/>

IV. Conclusion

This paper does not offer an exhaustive overview of financially excluded groups of vulnerable people. It rather offers an analysis of the significant problems encountered by the vulnerable groups of people that can currently be identified and shows that there are multiple causes for their vulnerability and exclusion.

1. Inequality, poverty, increased vulnerability

The analysis in this paper shows that there has been an increase in the range of EU citizens and residents that are part of vulnerable groups. This highlights that the need for an inclusive EU market for financial services has become even more urgent, as the number of categories of vulnerable citizens has increased over the last decade.

The EU Pillar of Social Rights aims to give political priority to addressing social issues, through implementing 20 principles. These principles now need to be translated into concrete EU policy action. This can bring significant improvements to the lives of all EU citizens as reducing inequality goes hand in hand with a stronger and healthier economy.²⁸

2. An inclusive society and an inclusive market

Several areas that are already covered by regulation at EU level should be revisited to help ensure that all citizens and residents, including vulnerable people, can make use of their right to participate fully and equally in society by accessing financial services. These recommendations can help improve the following categories of problems;

- A. Minimum legal requirements;
- B. Low income or poverty;
- C. Issues with access points and means.

Targeted solutions are needed to tackle each of these areas to ensure that they take into account the particular groups most at risk of exclusion in each case.

A. Minimum legal requirements and the possibility for people to access and fulfil them

Relevant stakeholders: Public authorities

1. European Commission

Main concern: the concept of proportionality requires in-depth investigation, with particular attention needed on the impacts it has on social inclusion and guaranteeing human dignity (should illegal migrants, for example, receive the same treatment as criminals?).

Proposed solution: assess impact of regulation on anti-money laundering and anti-terrorism financing on identification requirements. From the AMLD/ATF perspective, people should not be locked into an “*untraceable*” world, by being forced to use cash or crypto-currencies. Guaranteeing migrants’ access to digital payment means, with limited features and appropriately increased levels of scrutiny would be

Financial exclusion is affecting more categories of people in the EU

The EU needs to address issues with documentation, poverty, and points of access:

offer basic financial products for those without full documentation

28 OCDE Direction de l'emploi, du travail et des affaires sociales, *Inégalités et Croissance*, December 2014, URL: <https://www.oecd.org/fr/els/soc/Focus-Inegalites-et-croissance-2014.pdf>

a more appropriate preventative solution and much more aligned with human rights principles.

2. National authorities

Work is needed to deal with identification issues and other relevant administrative services`.

B. Low income or poverty and financial means

1. Direct discrimination

European Commission – Directorate-General Justice and Consumers

Main concern: Lack of access to consumer credit due to discriminative/inadequate use of data in the risk assessment.

Proposed solutions: a revision of the Consumer Credit Directive should ensure that the discriminative dimension to credit scoring is tackled.²⁹

The practice of carving financial services out of equal treatment regulation should be stopped. The current exceptions often end up constituting discrimination. The key example here is the EU Gender Directive that was subject to a court challenge from the Belgian consumer organisation Test Achats. The case led to a ban on the use of gender criteria for pricing motor insurance premiums³⁰.

2. Indirect discrimination

European Commission – Directorate-General Justice and Consumers

Main concern: the risk of the negative impact poverty might have on the prices of the insurance premiums offered to people on low income or in poverty and that constitute indirect discrimination.

This can lead to an increased lack of access to protection for the poorest and the increased exposure to risk might create individual issues with societal impacts.

Proposed solution: initiatives need to be designed to counterbalance or neutralise this indirect discrimination.

To do so, an in-depth analysis of the use and the impact of data stigmatising the poor through pricing is needed. This should aim to document how the use of this data impacts on and increases the costs of credit and/or insurance premiums and consequently reduces their accessibility.³¹ This means controlling the type of data used on pricing and limiting the range of premium prices for the same or an equivalent risk level. It could be achieved by guaranteeing a basic option product at a reasonable price and by creating a mechanism to guarantee access to compulsory or necessary insurance.

C. Issues with access points and means

Handling and accessibility standards should allow all citizens (not only those that fit standardised profiles) to properly use the financial services proposed on the market. This should include extending the provisions on the EU Accessibility Act to ensure minimum national / EU standards exist to allow all EU Citizens to have reasonably easy and

31 The use of the address in the pricing can be seen as a major way of creating a "higher cost for the poor". This means people not having the opportunity to live in safe area (which is a societal issue) who behave very cautiously (in driving, in managing their budget) might be restricted in the use of essentials financial services because of unaffordable prices. An inclusive market should build its pricing differentiation on more neutral and objective data. See: Supposedly 'Fair' Algorithms Can Perpetuate Discrimination How the use of AI runs the risk of re-creating the insurance industry's inequities of the previous century, 2/05/2019, URL: <https://www.wired.com/story/ideas-joi-ito-insurance-algorithms/>

29 Jérusalmy, O., "Credit scoring : une approche objective dans l'octroi de crédit ?", Financité, 2007, URL: https://www.financite.be/sites/default/files/references/files/215_0.pdf

30 European Justice Court - Case C-236/09, 1 March 2011, URL: <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?isOldUri=true&uri=CELEX:62009CJ0236>

free access to: ATMs, banking units (branches or shared branches, bank bus, or other solutions) and phone services.

The current criteria used to guarantee handling and accessibility by the financial industry should be reinforced and upgraded to better fit the issues encountered by vulnerable users and, in particular, the citizens that are excluded today.

The complexity of financial services has been identified as an important barrier to access or properly use financial services and should be tackled in an effective and pragmatic way.

32 Here education is referred to as part of compulsory national level school studies, where specific programmes on finance could be compiled and integrated into curriculums after the appropriate assessment and analysis by experts in the field. Given that there is no EU competence to address the issue of financial education in this way, the emphasis should rather be put on introducing basic product options suitable for any EU citizen or resident.

Even if financial education³² can improve the general situation, this cannot be seen as a realistic long-term solution to the problem of, continuously increasing in complexity. This problem should be addressed with a 180° approach.³³ Inspired by systemic analysis developed for psychotherapy (Palo Alto School), easy and simple products should be made available to facilitate consumer access and choice, together with proper product use.

3. A solution to tackle all the problems at once? Basic financial services³⁴

Basic financial services could be designed, marketed and distributed to solve a very large part of the various issues analysed in this paper.

A set of financial services has been identified as being a necessary part of everyday modern life and part of a minimum basket of goods and services that allow any citizen to be socially included in EU society. Basic financial products should aim to address the following points:

- Overcome the issues of access:
 - Simple products: basic but with adequate features;
 - Affordable prices: all basic (default option) products, given their aim to tackle exclusion, should be offered at a reasonable and low cost. This low cost should be socialised within the sector (in line with the Irish Health Acts example) to avoid creating competitive disadvantages for the more engaged companies supplying vulnerable groups (considering the basic product might be less profitable).
- Overcome difficulties of use:
 - An appropriate suitability test: to ensure that the products offered fit the situation, demands and needs of customers;
 - Plain language to explain the terms and conditions of products;
 - Limits for penalties and extra-fees: the use of basic products should not be made costly through these additional and often unclear costs (for example, when a bank account does not come with formal overdraft or credit options, but the system of the provider still wrongly allows the user to make payments when they do not have the funds available and then charges a penalty fee);
 - Easy provider switching should be guaranteed.

33 Rohrbaugh MJ, Shoham V., *Brief Therapy Based on Interrupting Ironic Processes: The Palo Alto Model*, Clin Psychol (New York). 2001; 8(1):66–81. doi:10.1093/clipsy.8.1.66 URL: <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC2789564/>

34 Finance Watch, Upcoming report on Basic Financial Services for Inclusion [to be published in May 2020].

About Finance Watch

Finance Watch is an independently funded public interest association dedicated to making finance work for the good of society. Its mission is to strengthen the voice of society in the reform of financial regulation by conducting advocacy and presenting public interest arguments to lawmakers and the public. Finance Watch's members include consumer groups, housing associations, trade unions, NGOs, financial experts, academics and other civil society groups that collectively represent a large number of European citizens. Finance Watch's founding principles state that finance is essential for society in bringing capital to productive use in a transparent and sustainable manner, but that the legitimate pursuit of private interests by the financial industry should not be conducted to the detriment of society. For further information, see www.finance-watch.org

Finance Watch
Rue Ducale 67 b3
1000 Bruxelles
T: + 32 (0)2 880 0430
contact@finance-watch.org

www.finance-watch.org

