EU countries mapping- Summary report

Introduction

For the beginning of 2014, a mapping survey has been conducted in 15 countries: Belgium, Bulgaria, Czech Republic, France, Germany, Greece, Hungary, Ireland, Italy, Poland, Romania, Spain, Slovakia, Sweden and United Kingdom.

The main purpose has been to collect information about savings habits and initiatives with specific attention to households with lower savings capacity in order to share and promote knowledge, awareness and the more successful initiatives across the European network.

Country reports summarize households' national consumption, indebtedness and savings behaviour. They describe, at the national level, the economic situation and income households' trends during the recent years. After that, an in-depth analysis of savings tools is reported where for each initiative/tool are mentioned: the problem to tackle, the target public, the proceedings of the project and its effectiveness. Each option is then assessed on three criteria: financial inclusion dimension, scale of initiative and social impact. Finally, the results and lessons learned are emphasized by a SWOT analysis in order to figure out opportunities and threats to be covered for the future.

All the information are collected via desk research based on studies and datasets by European and National Statistical Office, official documents by commercial banks or financial institutions, micro-finance literature, surveys and informal exchange with experts in the field.

Frequently lack of consistent data and complexity to find information about savings habits is disclosed: indeed a non-exhaustive and qualitative aspect of this EU countries mapping needs to be stated.

In parallel, a who is who database identifying all the stakeholders.

Which are the most common savings tools/initiatives?

A wide range of savings options has been identified among private banking, governmental and NGO sectors; even if based on different national and economic backgrounds, the most common ones are here below reported.

- Many commercial/state savings products available (free of charges of opening and maintaining, low minimum amount and guaranteed protection)
- Local non-traditional savings initiatives (co-operatives, Tontine, micro-savings groups,etc.)
- Savings products for children
- Pre-savings for housing support and consequently loan with state-subsidized

- Products and specific programs offered by financial institutions as ethical banks or credit unions.
- Financial education programs and pilot-projects.
- On-line comparable tools

It is interesting to emphasize how the point of view for savings definition can highly vary: from a traditional meaning represented by an amount of disposable income not spent on consumers' consumption but accumulated or invested, to savings used for delivering credits up to a narrower vision where it is just an amount of money into a bank deposit.
Some summaries report combination of savings and credits in order to fund and achieve more important future objectives; others focus their attention on savings products just for managing small periodical amount of money. Even the way in which the amount of money saved is invested, turns out to have a different influence in the perception of savings among EFIN SWG members.

Among the 15 EU countries mapping, some common elements need to be mentioned:

first of all it is interesting to highlight that in most of all countries only banks are allowed to offer savings products to consumers, thus is reported a lack of alternative micro-savings products and an insufficient promotion of financial inclusion. Moreover entrance barriers sometimes are very high and while they try to protect clients against usury or financial losses, result to complicate and prevent the potentially development of micro-savings programs (Italy, Greece and Germany).

Secondly, for different countries, interesting pilot-projects or savings initiatives are reported as the well-known Saving Gateway in 2010 for UK or the Swallow House program started in the late '90s in Hungary. Unluckily governments for most of these programs revoked the funds and subsidies because of the recent economic downturn: thus incentives are no more available. Another case is reported by the German national report where among the 15 first selected programs just 5 result to be eligible because since the last fiscal reform in 2009 there are no more tax incentives. Again the Product Building Savings has been completely abolished for Slovakia.

Finally, savings products above mentioned, while should commonly promote financial inclusion, turn out not to target properly low income people. Examples can be mentioned for UK with the change from the “Child Trust Fund” to the “Junior ISA” where focus has been on better-off earners and government does not sustain any more the project. Even for Hungary, the long-term investment accounts with exemption from tax on interests, are not affordable for low-income families since the investment period is too risky as too long. Even housing savings initiatives prove to be favourable but surely hard to reach for more vulnerable people without sure income. Thus a large part of the savings products are not attractive enough or accessible to fragile inhabitants.

Nevertheless current circumstances lead Governments to be more involved into support of start-up businesses, entrepreneurial skill or assistance of consumer debtors rather than recognize the importance of incrementing the savings rate (Poland and Greece).

Initiatives with best impact for financial inclusion

Concerning the social impact of the savings initiatives, it is useful to distinguish products provided by public institutions, private profit-oriented and private not-for-profit organizations. Even if it is not possible to affirm that the type of institution has a direct impact on the level of social impact given by the services, surely a correlation can be highlighted.
Therefore private not-for-profit initiatives show better results regarding the target of low income people and the issue of promoting financial inclusion. On the other side, commercial and public institutions provide a great variety of savings products but often not targeting the most vulnerable populations.

Since each initiative has been quoted according to three criteria (financial inclusion dimension, scale of the initiative, social impact), hereafter the focus will be on savings initiatives and tools that are particularly relevant for the financial inclusion impact.

- ***A basic bank account*** free of charge of opening and maintaining (example is given by Belgium and France) is the first step to favour financial inclusion and consequently savings tools since it guarantees to everyone the right to access at essential bank operations for a fully inclusion in today society. In April 2014 the adoption of "The Payment Account Directive" by the European Parliament has guaranteed the right to a basic payment account irrespective of a citizen's place of residence or financial situation. Still many negotiations are in process: not all banks would have the obligations to provide basic accounts, unclear criteria to open and close it down or demand of self-regulation measures for going beyond this proposal (request has come by the British government since in UK the basic bank account offers less inclusive services such as limited access to ATM or no debit card availability). In the opposite direction of the British vision, the Irish pilot-project "Standard Banking account" had given a positive example in 2013: targeting Irish citizen earning less than €9,000 in a three-month period, especially those in receipt of social welfare supports, it allows no fees for normal day-to-day services and no charge on ATM. Badly, this project had a duration of only 6 months.

- ***Existence of banking savings tools tailored to target low-income people:***

  1. Popular savings book (France) for people not taxable or with an amount of income tax lower than 769 Euro (in 2012). It's an interest-bearing savings account with a deposit ceiling of 7 700 € with an Interest rate of 1.75 % since 01/08/2013.Interests are exempted from income tax and social contributions.
  2. Savings Lottery (Germany) where the goal is to increase total sum of savings. A specific share of the amount of money saved, goes into the lottery thus the client has the possibility to gain. But more effort in the initiative, details and information are still needed.
  3. Savings account (Greece - "Mporw") helping households that want to save regularly small amount of money. It offers a higher interest rate (4%) whether account holder manages to save regularly (each 1 or 3 months) from 20 up to 500 Euro.

- ***Presence of other savings tools tailored for low-income people but offered by private non profit-oriented:***

    1. Traditional and Occasional Social Fund (Romania) where members of Credit Unions are encouraged to save (on a monthly base for Traditional Social Fund or in different moments for the Occasional Social Fund) in order to withdraw money respectively for long-term or short-term urgent loans and needs. Moreover the Social Assistance Fund (Romania) provide the possibility to withdraw for specific more onerous moments of life such as birth, children's education, unemployment, diseases.

Many other savings tools and initiatives are often matched with a more specific future goal: provide *savings for youth, help and supplement state pension, proper insurance investment strategies as remedy to welfare state deficiencies or to give workers a first defence apparatus and incentives for housing building and purchase.*

Plenty of examples are given by EU countries mapping but the programs, above all those increasing awareness to save for housing, are often qualified for people with a job, regular income and banking account. Thus, they do not represent efficient incentives for low-income households' savings.

- ***Still some initiatives, among them, show interesting incentives thus they deserve to be reported.***

    1. Housing savings account or plan (France) that allow under certain conditions to obtain a bank loan at a preferential rate to make an investment in real estate and higher access to home-ownership. As well there is a savings State premium and tax exemption on interest.
    2. IDA Housing program (Hungary) that provides financial literacy, case management,home ownership counselling and other asset-goal specific trainings to its IDA participants.
    3. Child Trust Fund (United Kingdom) active but only for those children born between 1st September 2002 and 2nd January 2011, offer to parents the opportunity to save money, tax-free and at an advantageous rate per year until they reach the age of 18. Almost the same concept for Baby Bond (babakötvény) - Support for Lifestart - Start Account (Hungary).
    4. Pension Fund - third pillar (Czech Republic) or **Premiepension -Premium pension (Sweden) thanks to which savings is supported by the state in order to build up supplementary pension funds.**

- ***Other elements helping financial inclusion and so indirectly, savings aptitudes are all the initiatives promoting financial education.***

Nevertheless savings tradition and cultural-economic situation of each country show that a higher degree of financial education is needed for some countries rather than others. The Germany report affirms that “Germans have a very high awareness for savings, so there is no need to sensitize and educate customers for savings”; similarly Italy and Sweden report a long standing historical roots of savings in their national tradition. On the other side, mostly eastern countries such as Hungary, Romania and Bulgaria, ask for an intensification of the financial education in order to fight against over-indebtedness and a lack of savings culture.

1. “Reducing financial illiteracy: Innovation and impact” (Greece) a preventive, advisory service programme regarding financial education and managing of personal financial issues among households.

2. "Pomóż oszczędzać rodzinie" - Help the family to save (Poland) a project that provide aid in planning and in the management of personal finances for low-income families often exposed to over-indebtedness.
3. National standard for financial literacy (Slovakia) organising training and courses in order to raise knowledge in financial operations.
4. National assembly for increased financial self-confidence (”Gilla din ekonomi”), Guidelines and on-line help in private economy and ”Lyckoslanten”- The happy coin (Sweden). Respectively a very well-organised network based on collaboration and involvement of different members in order to launch project and share knowledge on financial issues and education ; an on-line help seeing Swedish Consumer Agency to provide an internet-based service where households can find useful information about how to handle their own budget and other information about savings and products. Finally a magazine for children widely used in teaching for increasing children's knowledge of economics and savings issues since primary school.

Furthermore in some countries pilot-projects have been implemented with considerable results or the presence of private not-for-profit groups is providing stimulating alternative savings options.
Important pilot-projects as SIMS - Social innovation and mutual learning on Micro-savings in Europe (Belgium, France, Hungary) or Savings Gateway (United Kingdom) have already been largely discussed and their benefits are constrained by the duration of the program.

- ***Regarding alternative private initiatives, various groups are present in Spain, Italy, Belgium, Germany, Hungary, Bulgaria.***

1. CAFs - Self Funded Communities (*Belgium, Spain, Italy): open to any people interested, especially low income, their system is an adapted tontine system where each member saves money in a collective fund. The members of the CAF grant credit to each other with a system of interest. It is not charity system but a solidarity-based system of investment within the group.* Each SFC can be composed of 10 to 40 people, who, through the investment of small sums of money, become the owners and customers of the organization, generating revenue through the interest on the loans. This methodology has been designed to satisfy local demands

of financial services for various types of individuals thus it does not pretend to become a competitor of the existing financial system but rather to cooperate with it, providing efficient services where the formal system is inefficient. Thus, it has a measurable effect in poverty reduction, financial education and creation of social networks.

2. Credit Unions (Romania, Ireland, Bulgaria) promoting part of initiatives as savings funds at UNCAR initiative for Romania, collecting money in the form of a membership fee, that are accumulated as equity of the cooperative union. And whether necessary, the participants draw on their savings to finance some of their activities in Bulgaria. Finally in Ireland Credit Union Network is considered mainstream since it is the only long-established savings tools aside from state-sponsored programme.
3. Mutual savings and aid funds (Bulgaria) an organization that collects savings and provide credits to Bulgarian households and micro-entrepreneurs with assistance, training and development of legal framework to protect members' savings.
4. La Payote ASBL (Belgium) that incites members to build up savings for 6 months. After six months of regular savings, the investor can borrow three times the amount saved.
5. Savings groups/clubs (Germany) are an informal way to save based on group meetings : at each meeting every member brings a certain amount (e.g. 50 EUR) of money, but just one of the club members receive the aggregated amount (e.g. for ten club members in this case it is 500 EUR). Each meeting another club member receives the aggregated amount, so it goes round by round. The key factor for this approach is the trust among the group/club.
6. La Rosca (Spain) a communitarian-based savings system in which a group of persons agree to create regularly (weekly or monthly) a common fund that will benefit all the members of the group by turn (by lottery or through a predefined order).

Conclusion

Everyone agrees to disseminate best savings initiatives enhancing their tools in order to cover possible market gaps for vulnerable people. The current post-crisis situation is threatening our society with financing constraints, structural rigidities, heavy taxation and austerity measures. The risk of poverty rises and save money seems more and more tough for many families.

Overall, it appears that traditional market provides a great variety of traditional savings tools with fiscal, financial and regulatory incentives, mostly State-subsidized. Not only, savings initiative are targeting each part of society from young to elderly people through tools, as above mentioned, such as Baby bond, pension scheme, housing savings plans,...

However a deep insight of these programs reveals that they are not giving enough attention at targeting low-income and vulnerable people: many of them turn out to be focused on middle-class households since for being better-off is required a regular income, a stable job or a very long-term engagement.

What is due and must be clear is the need to offset in a most efficient way the higher cost of deprivation that savings implies for low-income people. Indeed, if savings means to put away an amount of money that a person could spend currently, it does not imply merely a present monetary loss but also an individual cost for the effort of depriving himself from the ease of current consumption. This additional cost is higher when higher is the vulnerability of savers and it needed to be compensate by fairly attractive tools.

The market gap is then covered by informal savings initiatives provided by private not-for-profit organizations. They aim to reach a wide public showing particular attention at people with difficulties of access to formal bank services. These initiatives represent a concrete and great sustain for people at risk of social and financial exclusion. Unfortunately these initiatives are implemented just in small-scale dimension and often with high costs: most of the time they are just exceptional positive example. Even if the popularity of alternative savings tools is increasing in these recent years, these projects still target a tiny fraction of the population: they are constrained by high operational cost, lack of funds or as pilot programmes, limited by a fixed period of implementation, fixed amount of subsidies and a restricted number of eligible participants.

Finally, several experts have underlined the fact that the strict banking regulation might be a market entrance barrier for new innovative providers in the micro-financial sector. Banking Law, while is trying to protect clients against usury, could represents an obstacle for financial inclusion of low-income people.
Whether to lighten bank regulation or begin to recognize alternative private non-for-profit initiative should inspire a debate.

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