



**Finance Watch**


Making finance serve society

# Basic Financial Services

A European-wide study on financial services and products needed to tackle financial exclusion of citizens



**July 2020**



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

**Study on Financial Services Provision and Prevention of Financial Exclusion, European Commission, 2008**

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# Executive Summary

Access to financial services is increasingly necessary to participate in modern life and is a right under the European Pillar of Social Rights. Yet financial exclusion remains a serious problem in the EU, especially for vulnerable groups who lack the legal documentation, the financial means, or the ability to access financial products.

The EU's Payment Accounts Directive (PAD) aims to ensure that citizens can access a basic payments account. So far, there is no equivalent framework for other essential financial services and products, such as savings and insurance. This report argues that the EU could reduce financial exclusion by helping citizens to access a minimum basket of basic and essential financial services.

Using surveys, interviews and workshops conducted in multiple EU member states, we find that the products considered most essential and worth including in this minimum basket are:

- **a payments account**
- **access to cash**
- **a savings account**
- **a safe third pillar pension product**
- **motor insurance**
- **health insurance**
- **home insurance**
- **personal liability insurance**

We analyse why these particular products matter for financial inclusion and how this varies between Member States. We recommend practical steps for improving access to them, including through changes to the Payment Accounts Directive, EU Accessibility Act, PEPP Regulation and Consumer Credit Directive.

The survey also concludes that household credit should not be considered as an essential basic financial service, despite its prevalence, and that policymakers should do more to ensure that consumer credit is fair and not exploitative. We make recommendations to prevent exploitation and improve credit assessment processes.

## Introduction

**Access to financial services is needed for modern life and is a right under the European Pillar of Social Rights**

Financial services have become an important part of everyday life in Europe for many citizens. Having access to these services has been recognised as an essential right under Principle 20 of the European Pillar of Social Rights, which concerns ‘Access to Essential Services’.<sup>1</sup> This is because financial services are needed to participate fully and equally in society. As things stand, this right is not guaranteed for all European citizens. Many citizens are excluded from using some or all financial services. This exclusion can manifest in different ways, from not having the financial means to afford access, to issues with risk assessment caused by discriminative pricing of financial products and many other reasons in between.

Vulnerable groups of citizens are particularly at risk of being hit by many or all of the potential barriers to access.<sup>2</sup>

The key first step to ensuring that the right to access financial services is met is to identify a common minimum basket of basic financial services, comprising a) payments, b) consumer credit and mortgages, c) savings and pensions, and d) insurance.

The need for basic financial services has not only been recognised in Europe, it has also already been introduced for certain product categories. The EU Payment Account Directive (PAD) aims to introduce the right for all EU citizens to access a basic payment account. The recent EU Directive for a Pan-European Personal Pension Product (PEPP) also introduces the concept of a default or basic option. There are different issues with these two EU directives, from their enforcement at national level, to issues with their design. However, they are a clear first step towards ensuring access to financial services that are simple, safe and suitable for any EU citizen.

An important part of understanding how basic financial services can help address the issue of financial exclusion is to look at the different products that are currently available. A first idea of the services needed to be financially included can be found by identifying types of widely used products. This cannot give the full picture on inclusion though, as many of the barriers arise from the design and sale of these products.

The definition of financial exclusion has been established at EU-level as relating to both access and use of financial services:

*“Financial exclusion refers to a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong.”*  
European Commission, 2008<sup>3</sup>

1 European Commission, 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](https://ec.europa.eu/commission/priorities/deeper-and-fairer-economic-and-monetary-union/european-pillar-social-rights/european-pillar-social-rights-20-principles_en)

2 Finance Watch, Financial exclusion: Making the invisible visible, 2020, URL: [https://www.finance-watch.org/wp-content/uploads/2020/03/FW-Report\\_Vulnerable\\_Groups\\_March2020.pdf](https://www.finance-watch.org/wp-content/uploads/2020/03/FW-Report_Vulnerable_Groups_March2020.pdf)

3 Anderloni L. / Bayot B. / Bledowski P. / Iwanicz-Drozdzowska M. and Kempson E., FINANCIAL SERVICES PROVISION AND PREVENTION OF FINANCIAL EXCLUSION, European Commission, VC/2006/0183, 2008, URL: <https://www.finance-watch.org/wp-content/uploads/2018/06/FINANCIAL-SERVICES-PROVISION-AND-PREVENTION-OF-FINANCIAL-EXCLUSION-Executive-summary.pdf>

**Financial exclusion is still a problem, especially among vulnerable groups**

The World Bank has also taken on this definition. The latest edition of the World Bank's 'Findex' survey<sup>4</sup> in 2017 indicated tremendous growth in the access to and use of financial services since the previous edition in 2014. Some 515 million more people have gained access to formal financial services since 2014, with the total number of unbanked people falling from 2.1 billion to 1.7 billion.<sup>5</sup> The take-up of financial products has on average increased worldwide. What the Findex does not measure is whether or not these products are suitable for the people using them. It also lacks key information from those groups of citizens who are consistently excluded in Europe. It is based on a survey of around 150,000 adults through national level interactions in more than 140 countries across the world. The limitations for Europe come from the fact that interviews are held over the phone. This may create a sample bias against certain vulnerable groups of citizens, despite the use of face-to-face interviews in EU countries where telephone coverage was not considered sufficient. The sample then undergoes data-weighting based on available population level statistics. However, social exclusion has been recognised as a multidimensional phenomenon that is difficult to measure.<sup>6</sup> This can reduce the effectiveness of the Findex in illustrating the financial inclusion of these vulnerable groups.

**Europe's rate of financial inclusion could be improved by regulating for the provision of a minimum basket of basic financial products**

Financial inclusion is targeted at improving social inclusion and ultimately guaranteeing an existence worthy of human dignity.<sup>7</sup> This is not only an ethical responsibility of our society, but also a logical measure to help manage the social and economic costs that financial exclusion often creates.<sup>8</sup> It means that a minimum basket of financial services aimed at increasing financial inclusion must not only be accessible, but also suitable for all citizens.

## Methodology

**Research for this report used surveys, interviews and workshops around Europe to understand which products should go in the basket**

In order to investigate the different products that should form part of a minimum basket of financial services in the EU, Finance Watch has collected input from experts across Europe. Three qualitative methods were deployed to collect data and gain a more comprehensive understanding of financial exclusion issues relating to different categories of financial services. The basis for collecting data through each of these methods was a detailed questionnaire<sup>9</sup>. The following methods were then implemented to gather responses to the questions and help refine the overall set of responses.

- A. **Online survey:** In order to disseminate the questionnaire to as many respondents as possible it was put into an online format. A mapping exercise was undertaken to identify experts with relevant professional backgrounds, who have experience in dealing with people facing financial exclusion issues. They comprise specialised lawyers, con-

4 <https://globalfindex.worldbank.org/>

5 <https://www.fincaimpact.com/news-insights/encourage-saving-for-responsible-financial-inclusion/>

6 UN 2016 Report on the World Social Situation, chapter 1, page 22: <https://www.un.org/development/desa/dspd/world-social-report/rwss2016.html>

7 UN Declaration of Human Rights, Articles 22 & 23: <http://wwda.org.au/wp-content/uploads/2013/12/undchr1.pdf>

8 Richard Alström, 2016, Over-indebtedness and effects on health and working ability: what are the costs to society? A micro health-economical analysis, ECRI News, spring edition 2016 – N°50, pgs. 6-7, URL: <https://www.finance-watch.org/wp-content/uploads/2018/12/ECRI-Newsletter-no-50.pdf>

9 Questionnaire form: <https://www.finance-watch.org/wp-content/uploads/2020/07/Questionnaire-of-Finance-Watch-Survey.pdf>

sumer organisations, debt advisors, academics and independent researchers. Some 69 responses were collected from experts working in 24 different European countries, including 17 respondents from Romania, 8 from Denmark, 6 from Ireland, 4 from the United Kingdom, 5 from Sweden, 3 from Bulgaria, 2 from Lithuania, 2 from Belgium, 2 from Slovakia, 2 from Poland, 2 from Greece, 1 from Czech Republic, 1 from Cyprus, 1 from Latvia, 1 from Portugal, 1 from Croatia, 1 from Finland, 2 from Norway, 1 from Iceland, 1 from the Netherlands, 1 from Spain, 2 from Germany, 1 from France and 2 from European-level institution. Around 46% of the respondents are experts directly dealing with financial exclusion issues encountered by consumers or citizens (most often, these issues are related to credit and debt); 30% are academics or independent researchers; 25% of respondents have other types of profile, which 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, approximately<sup>10</sup> 20 phone interviews were held with national practitioners and experts, including relevant Finance Watch members. 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. These interviews also provided a better understanding of how the questionnaire was generally understood by the respondents. This additional knowledge has played a key role in how the data collected were interpreted.
- 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 one. 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,<sup>11</sup> there were 23 participants from four Nordic countries including Denmark, Ireland, Norway and Sweden. For the Bucharest workshop<sup>12</sup> 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.

Based on the data and information collected through these three methods a minimum basket of basic financial services has been identified for each major product category of: a) payments, b) consumer credit and mortgages, c) savings and pensions, and d) insurance.

There are certain limits to the results and qualitative approach that should be noted. Firstly, the input collected is based on field expertise in many cases. This means that the respondents are likely often referring to their own experience in the context of their profession.

<sup>10</sup> It has not been possible to guarantee the precise number of phone interviews, because of a failure in the use of the interviews' register.

<sup>11</sup> It was held on 5&6, September 2019 with the support of The Social Legal Aid

<sup>12</sup> It was held on 9&10, October 2019 with the support of Asociația Utilizatorilor Români de Servicii Financiare (AURSF)

This might give them more information and visibility on the situation of particular groups of people and not be an indication of a whole national population. Another limitation is the understanding of the questionnaire<sup>13</sup> and online survey. The questions and terms are sometimes similar and related and could cause issues of understanding and consistency in responses. The use of interviews and the workshops should mitigate these shortcomings to an extent, but they may also explain less clear or inconsistent findings from the online survey.

Another specific question of the weighting of the results has emerged from the high number of Romanian participants. Particular attention has, therefore, been given to mitigating the risk of imbalanced conclusions and findings by analysing the spread across countries and regions and not only the number of responses.

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<sup>13</sup> Questionnaire form: <https://www.finance-watch.org/wp-content/uploads/2020/07/Questionnaire-of-Finance-Watch-Survey.pdf>



# I. Category 1: Payments

Basic Financial Products Identified: Bank Account and Cash

## 1. Access to bank accounts across Europe

**The majority of citizens have access to a payment account**

Access to a bank account has already been identified as being key to financial inclusion in Europe. The Payment Accounts Directive (PAD) aims to ensure that all EU citizens can at least access a basic account. This is in large part because having a payment account is needed to access most of the services needed to be socially and economically included. The World Bank's Findex also uses payment account ownership as a key indicator of financial inclusion.<sup>14</sup> According to the Findex, in most EU countries, more than 80% of people aged 15 years or over hold a payment account. Hungary, Bulgaria and Romania are indicated as the exceptions with between 60 and 80% having a payment account.<sup>15</sup> This evidence of high product penetration would seem to support the fact that a payment account is needed to participate fully and equally in society in the EU.

**Vulnerable groups, such as asylum seekers, find it harder to open payment accounts because of anti-money laundering rules**

Currently the explicit aim in the EU of ensuring widespread access is recognised but is not necessarily a reality. There is an overlap between this key right and the need for appropriate protection against illegal activity. Article 13 of the 5th Anti-Money Laundering Directive (AMLD) sets out that the identification of a client is the responsibility of financial institutions. This responsibility, and the potential liability that goes with it, is potentially a strong disincentive for financial institutions not to offer payment accounts where there are doubts over the identification process. As a consequence, there is a risk that the anti-discrimination provisions in the PAD (article 15) will not be fully implemented. Article 16.2 of the PAD anticipates this risk by providing for a legal basis for remedy in certain circumstances, such as with asylum seekers or when customers have no fixed address or residence permit. This legal overlap sends a very complex message to credit institutions that they should be cautious (because they are liable) when it comes to identification processes, while also meeting the obligation to behave in an inclusive manner when granting access to a payment account with basic features. The European Banking Authority has identified the issue for asylum seekers in particular. One way to find a balance here is to guarantee widespread access to payment accounts, but where necessary increase due diligence requirements and restrictions on cash deposits and transfers of funds.

<sup>14</sup> Financial Inclusion: World Bank Europe and Central Asia Economic Update (Spring 2019) P18

<sup>15</sup> Financial Inclusion: World Bank Europe and Central Asia Economic Update (Spring 2019) P39

## 1.1 Summary of the survey results

### Questionnaire presentation

#### The average use of financial services for the general public in your country

This section is aimed to distinguish the frequency of use and necessity of financial products for the general public in your national market. It aims to provide a better view of the level of financialization of your society and the importance of specific financial products in your national market.

#### \*How do you consider these products in terms of frequency of use:

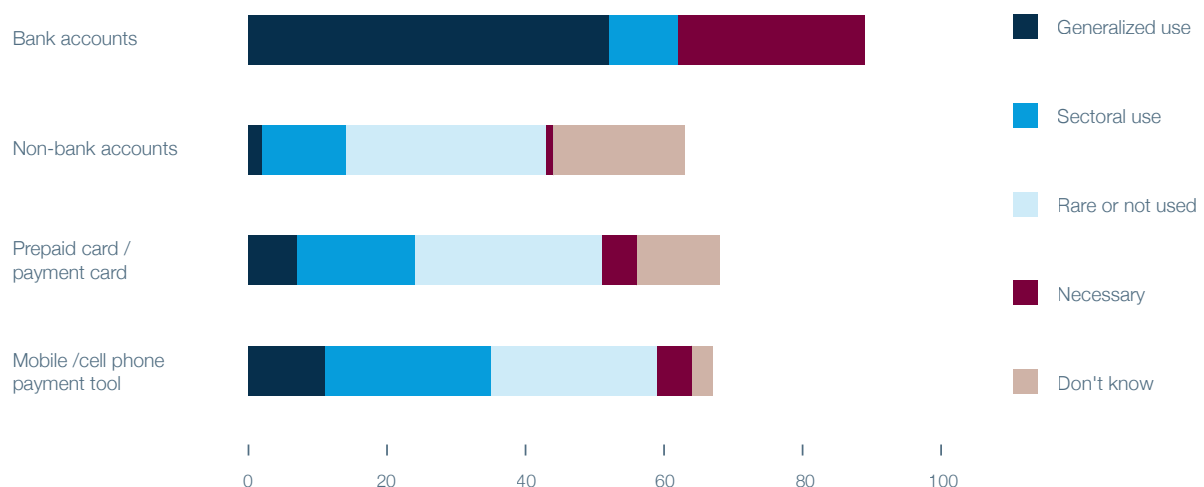
**Generalized use:** It is used by the majority of people.

**Sectoral use:** some sectors/sections/groups of the population might be using certain services.

**Rare or not used:** A few/ disproportionate amount of people are using it.

\*Please just indicate the products you find to be necessary for the functioning of normal life on a regular basis (lack of access creates social issues on a regular basis).

Figure 1: Summary of the survey results - payments



**Survey data confirm the central importance of bank accounts for payments**

#### Bank account

A **bank account** was considered to be generally used by at least one respondent in all the countries covered by the survey. The majority or all responses from every country responding to the survey except Romania considered a bank account to be a necessary financial product.

#### Non-bank accounts:

This category refers to payment solutions developed by firms that are not banks, such as electronic wallets and other FinTech payment applications.

The results show that sectoral use is considered to be higher than general use of non-bank accounts in 5 countries (Bulgaria, Germany, Ireland, Romania and Spain). This, combined with responses indicated that the use of these accounts is rare or not present in 17 countries (Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Iceland, Ireland,

Latvia, Lithuania, Norway, Poland, Portugal, Romania, Slovakia and Spain) indicates that it has a very specific and targeted use by certain sectors, sections or groups of the population. The relatively high number of 'don't know' responses also points to less widespread use of these accounts.

#### **Prepaid card/ payment card (not directly linked to a bank account):**

The results for prepaid or payment cards also seem to indicate targeted use by certain sectors or groups of the population, in 12 countries (Cyprus, Czech Republic, Denmark, Finland, Germany, Ireland, Norway, Poland, Romania, Spain, Sweden and the UK). In over half of the countries (Belgium, Bulgaria, Croatia, Denmark, Germany, Greece, Iceland, Ireland, Latvia, Lithuania, the Netherlands, Portugal, Romania, Spain and Sweden) covered by the survey these cards were considered to be only rarely used or respondents did not know about their use.

#### **Mobile/cell phone payment tool (not directly linked to a bank account):**

The general use of mobile phone payment tools was reported by at least one respondent in 6 Nordic and Northern European countries (Denmark, Finland, Iceland, Ireland, Sweden and the UK), significantly more than any other region. It was only considered as a necessary product by respondents in 2 of these countries (Finland and the UK). Responses were otherwise indicating specific use by certain sectors or groups of the population and generally indicated that these tools are currently rarely or not used in 14 countries (Belgium, Bulgaria, Croatia, Czech Republic, Denmark, France, Germany, Greece, Ireland, the Netherlands, Portugal, Romania, Slovakia and Spain).

The results of the questionnaire also identified access to a payment account as being necessary, with 40% of respondents (27 responses) believing that it is highly important in the context of the sub-products under the payment category. The information gathered at the workshops raised several points of context to this finding. Respondents reported that having a bank account was a legal requirement to receive many kinds of payment in their country. Issues were also raised over social exclusion that can arise where access is too dependent on a complex administrative process and documents required. A concrete example comes from the UK where access to an account requires the provision of certain identification documents such as a driving license and passport. Certain groups of people such as immigrants and people without a regular place of residence may find it difficult to produce these documents and will tend to use cash.

Another issue reported links to the proper enforcement of the PAD, as it seems that there is still no right to a payment account properly defined by law in many countries. The use of bank accounts is widespread in France, but it was reported that some people still struggle to access them. These excluded people seem to remain marginalised and the PAD is reported to have had limited impact on increasing their access to the banking system in France.

Further evidence was gathered on the importance of having a bank account to participate fully in society. It was reported that in many cases a bank account is needed to access employment, a home and other financial products. Having a bank account can be both a legal requirement and a condition imposed by financial institutions in these cases. Specific examples were reported in Croatia where a bank account is a prerequisite to receive wages and in Belgium where all legal income requires a payment account.

**The Payment Accounts Directive is not enforced evenly across the EU**

**In some countries, employees must have a payment account to receive their wages**

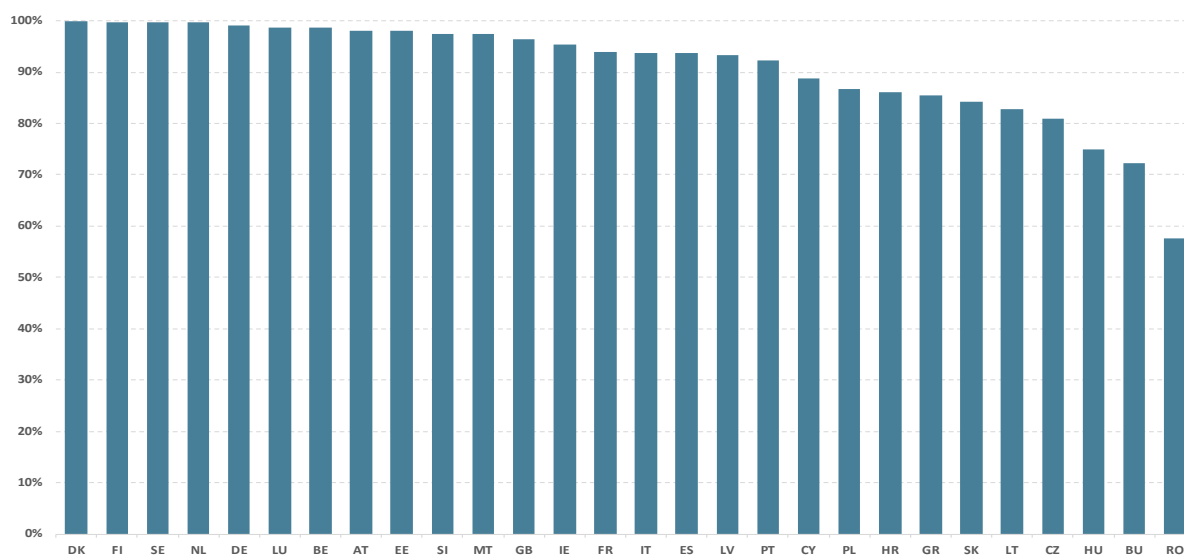
Respondents also raised the point that bank accounts are taking on increasing importance in countries that are moving towards becoming cashless. This can be seen in northern European countries in particular, which are reported as moving significantly towards becoming cashless economies and where having a bank account is a prerequisite for almost any economic activity.

## 1.2 Market indicators

The Findex data presented in Figures 2 and 3 illustrate the high degree of payment account penetration in the European economy and its evolution observed from 2011 to 2017.

These data do not contradict the qualitative data collected in the survey, which allows sound conclusions to be made on the key role that having a payment account plays in financial inclusion.

Figure 2: Percentage of the population aged 15 years or over holding a payment account in the EU



Source: Global Findex report 2017

Figure 3: Account ownership in Europe and Central Asia grew between 2011 and 2017

Subregion/country	2011	2014	2017
<i>Central Europe and the Baltics</i>			
Bulgaria	53	63	72
Croatia	88	86	86
Czech Republic	81	82	81
Estonia	97	98	98
Hungary	73	72	75
Latvia	90	90	93
Lithuania	74	78	83
Poland	70	78	87
Romania	45	61	58
Slovakia Republic	80	77	84
Slovenia	97	97	98
<i>Northern Europe</i>			
Denmark	100	100	100
Finland	100	100	100
Sweden	99	100	100
<i>Southern Europe</i>			
Cyprus	85	90	89
Greece	78	88	85
Italy	71	87	94
Malta	95	96	97
Portugal	81	87	92
Spain	93	98	94
<i>Western Europe</i>			
Austria	97	97	98
Belgium	96	98	99
France	97	97	94
Germany	98	99	99
Ireland	94	95	95
Luxembourg	95	96	99
Netherlands	99	99	100
United Kingdom	97	99	96
<b>Total</b>	<b>86</b>	<b>89</b>	<b>91</b>

Source: Global Findex database

## 2. Cash

The Findex report also indicates that holders of bank accounts do not necessarily use them regularly. The example of Italy is used where around 9 million adults pay utility bills in cash despite having an account and owning a mobile phone. The report shows that in other countries such as Romania about 1 million unbanked adults work in the private sector and are paid in cash. In Bulgaria and Hungary, over 40 % of unbanked adults receive payments such as wages, social benefits or pensions in cash. The conclusion drawn by the Findex report is that this illustrates the room to improve the use and uptake of payment

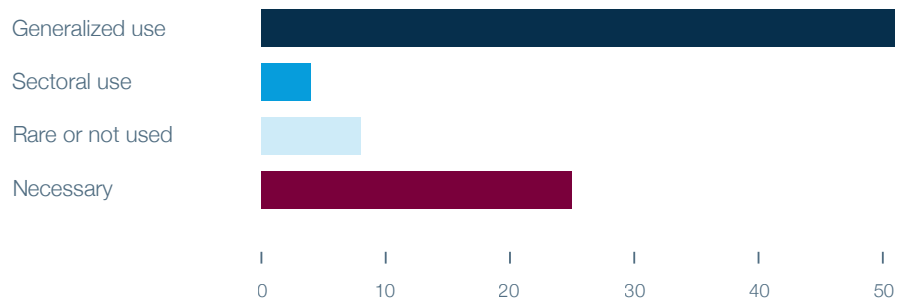


accounts in the EU. Whilst this is a valid conclusion, it should not be understood as if the only appropriate use of a bank account leads to the end of the use of cash.

## 2.1 Summary of the survey results

Figure 4: Summary of the survey results - Cash

Survey data show cash remains widely used, although it is falling out of use in some Nordic countries



### Cash

At least one respondent from all 23 countries covered by the survey, except France, found that cash is generally used. Respondents from 17 (Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Finland, Germany, Ireland, Latvia, Lithuania, Norway, Poland, Romania, Spain, Sweden, the Netherlands and the UK) countries also found that cash is necessary. This indicates widespread use of cash in Europe today and that it is relied on to a similar extent as a bank account. 7 out of the 8 respondents who indicated that cash is rarely or not used came from Nordic countries (Denmark, Norway and Sweden).

The importance of cash is also identified in the questionnaire responses. 36% of respondents (25 responses) indicated that cash is very important in their markets. Further insight and context was added to this from the Bucharest workshop in particular. Most of the workshop participants considered that cash still plays an essential role in the countries they are from. It was identified as being of particular importance to people living in the rural areas, where there is a lack of bank branches or ATMs in most eastern European countries, amongst others.

Cash is essential for financial inclusion, especially for those unable to access digital payments

**The key findings from the questionnaire, interviews and workshops confirm that the use of cash is still a widespread social practice amongst the groups of citizens best known to respondents and participants. Cash can also act as the sole access point to the economy for the poorest and most marginalised people. These people may not have access to financial products offered by financial institutions, but can still use cash as a means of payment in many cases. It therefore has a role as a last resort means of payment and access in some countries.**

The continued existence of cash also helps to limit the exclusion that arises from increasing digitalisation. Where different payment services and means increasingly require access to technology or devices with associated costs and skills required, cash remains a universally accessible alternative.

**Cash remains important, especially in countries including Romania and Lithuania**

A geographic divide was highlighted by respondents, with cash remaining a key part of everyday life in eastern countries. However, in mainly northern countries it is starting to be abandoned as these countries move towards a cashless economy. Cash is still reported as a means of payment used by companies and even for benefits. In Romania, for example, it was reported that employers are still regularly paying employees in cash. In Lithuania, it was reported that cash can be seen as a universal payment tool and used for all major financial payments needed in society. Evidence from Ireland shows that people collect social welfare payments at post offices in cash. A respondent from Italy has also explained that the use of cash remains widespread across generations. People in Italy have savings in cash, are used to have their pensions paid in cash. They often only have a bank account because it is mandatory and quickly withdraw any money credited to the account to use in cash.

Based on these responses, it would seem that cash must remain available for EU citizens, along with access to a payment account.

## 2.2 The question of privacy

Another group of respondents highlighted the benefits of cash for privacy and for preventing private financial institutions from building monopolies over the means of payment and personal transaction data.<sup>16</sup>

**The digitalization of payments raises difficult questions about privacy**

These responses question whether or not digital means of payment can offer equivalent levels of privacy to cash. For the time being transactions made through digital means can be tracked by providers (such as banks, credit card companies, on-line payment applications and others) along with other user data.

These data are then often used as part of targeted, persistent marketing campaigns towards consumers. Privacy issues reach beyond the use of data for marketing, but this example does underline some of the current issues for consumers using digital means of payment.

It is, however, equally important to acknowledge the extensive use of cash linked to illegal or criminal activity as well as tax evasion. It links to questions already outlined over finding the balance between guaranteeing access to cash and ensuring that anti-money laundering requirements are met, for example. This issue is one of the drivers behind efforts by some public authorities to restrict the use of cash. In this approach, one could imagine a means of payment being made available to citizens only through the use of payment accounts that have been verified in line with due diligence requirements and operating similarly to the various kinds of “trackable income” transferred into accounts. But given the advantages of cash for financial inclusion and the inherent tensions between privacy and digitalisation, such a development could only be acceptable if a digital means of payment could be designed that allows law-abiding consumers to spend their money without compromising their privacy.

<sup>16</sup> [https://www.beuc.eu/publications/beuc-x-2019-052\\_cash\\_versus\\_cashless.pdf](https://www.beuc.eu/publications/beuc-x-2019-052_cash_versus_cashless.pdf)

## 2.3 Digital public money

Another question raised by respondents was over the possibility offered to all citizens, not only consumers, to store value in the form of public money: a Central Bank digital currency.<sup>17</sup> Although public money is accessed through private financial institutions, it can then be stored outside of them, protected against any risk of bankruptcy and is managed in the general interest by central banks. This second set of concerns raised highlights a need for an alternative to cash that allows all citizens to store value in another form of universally accessible “digital” public money.

Overall, we can conclude that there is an important distinction to make when including a payment account in the minimum basket of financial services. Whilst the right to an account exists in Europe today, it still needs to become a reality for many. An important part of this is striking the right balance with implementing necessary anti-money laundering requirements. The issue of cash is also linked to the minimum level of basic financial services. Until digital alternatives exist that can fulfil the same role in terms of guaranteeing citizens privacy, cash should remain as a payment option. On top of this, for as long as access to payment accounts and digital alternatives is limited, restricting access to cash may disproportionately impact more vulnerable groups of citizens that rely on cash. The results of the questionnaire and findings across the board seem clear. **Ensuring access to a basic payment account should not be part of supporting a trend to move to a cashless society. Promoting access to basic payment accounts must be done alongside ensuring access to cash is guaranteed, as long as appropriate digital alternatives are not universally available.** This would be the only way to avoid excluding millions of cash users. For this reason, both access to a basic payment account and to cash should be considered part of the minimum basket of financial services.

**Access to a basic payment account and to cash should be included in the minimum basket of financial services**

<sup>17</sup> As such, a Public digital currency is not yet available for citizens, but the concept is being explored by some European Central banks (eg in Sweden - <https://www.riksbank.se/en-gb/payments--cash/e-krona/>)

## II. Category 2: Credits

### No Basic Financial Products Identified

#### 1. Lending to households

In the last chapter, the survey concluded that the use of cash and access to a basic payment account should be included in the basket of minimum financial services. This chapter looks at household debt overall, and then in more detail at mortgages and consumer credit. No specific credit products were identified as necessary basic financial services but there was strong agreement on the need to protect citizens from exploitative and unsuitable credit products.

##### 1.1 General consideration of the EU lending market

**Credit has been promoted as a way of driving economic growth but it also allows consumers to be exploited**

Credit and lending have deep roots in Europe, although their regulation and practice have undergone significant transformations in recent years.<sup>18</sup> In particular, the use of credit has been heavily marketed and promoted to consumers in the EU. This is in part because creating debt by offering credit has been treated as an essential part of financing economic growth in Europe, even during periods of limited growth. As a result, it has become closely tied into the lives of EU citizens, including to provide access to potentially essential goods, to be able to invest in housing and to provide short-term financial help. Each of these uses of credit is subject to the threat of irresponsible or exploitative lending practices. This is particularly worrying given the consumer trends towards more credit and less savings. These trends paint a picture of a society that is vulnerable to financial shocks and where many people may be at risk of becoming over-indebted. They do, however, help us to identify the most used categories of credit to be considered for the minimum basket of basic financial services.

There is no right to credit in the EU, but there should be a right to a safe and responsible credit market.

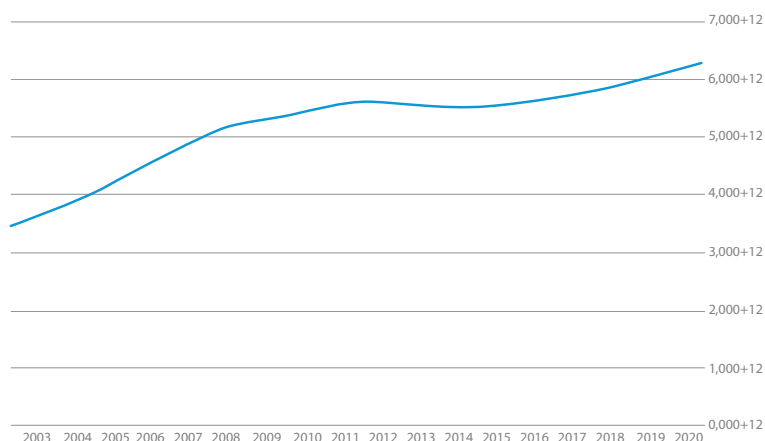
##### 1.2 Household credit use in Europe

The Global Findex takes the perspective on borrowing and financial inclusion that credit can help to build financial resilience. It therefore focuses on use of credit and its uptake to measure the development of borrowing. One of the first key distinctions it makes is between informal and formal borrowing. Formal borrowing is considered as being where a financial institution lends and informal borrowing where friends, family or other nonformal sources lend money. In the euro area, around 55% of adults are reported to have borrowed money (in 2016 under the 2017 Findex report). In the EU as a whole, the Findex puts lending from financial institutions to households at 62.3% of the total credit they granted.

<sup>18</sup> [https://www.finance-watch.org/wp-content/uploads/2019/06/What-makes-credit-so-risky\\_FW-paper\\_June2019.pdf](https://www.finance-watch.org/wp-content/uploads/2019/06/What-makes-credit-so-risky_FW-paper_June2019.pdf)

Figures at EU level also show that over the last years there has been significant growth in the provision of loans to purchase houses and consumer credit by financial institutions.<sup>19</sup> This confirms the increasing use and importance of credit provided by financial institutions for households in the EU is set to continue.

Figure 5: Total loans to households - Euro area - Monetary financial institution balance sheet statistics (2003-2020)

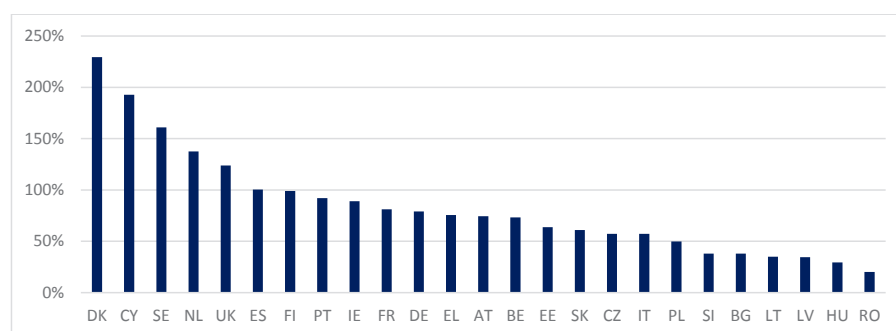


Source: ECB<sup>20</sup>

Levels of household indebtedness tend to be higher in countries with more developed financial markets

There is, however, a significant difference in the importance of credit to household budgets. The levels of household indebtedness generally appear to be significantly higher in countries with more developed financial markets.

Figure 6: Total credit to households as a % of disposable income of households, EU28 (2016)



Source: ECRI Statistical Package 2017

### Consumer credit is increasingly popular

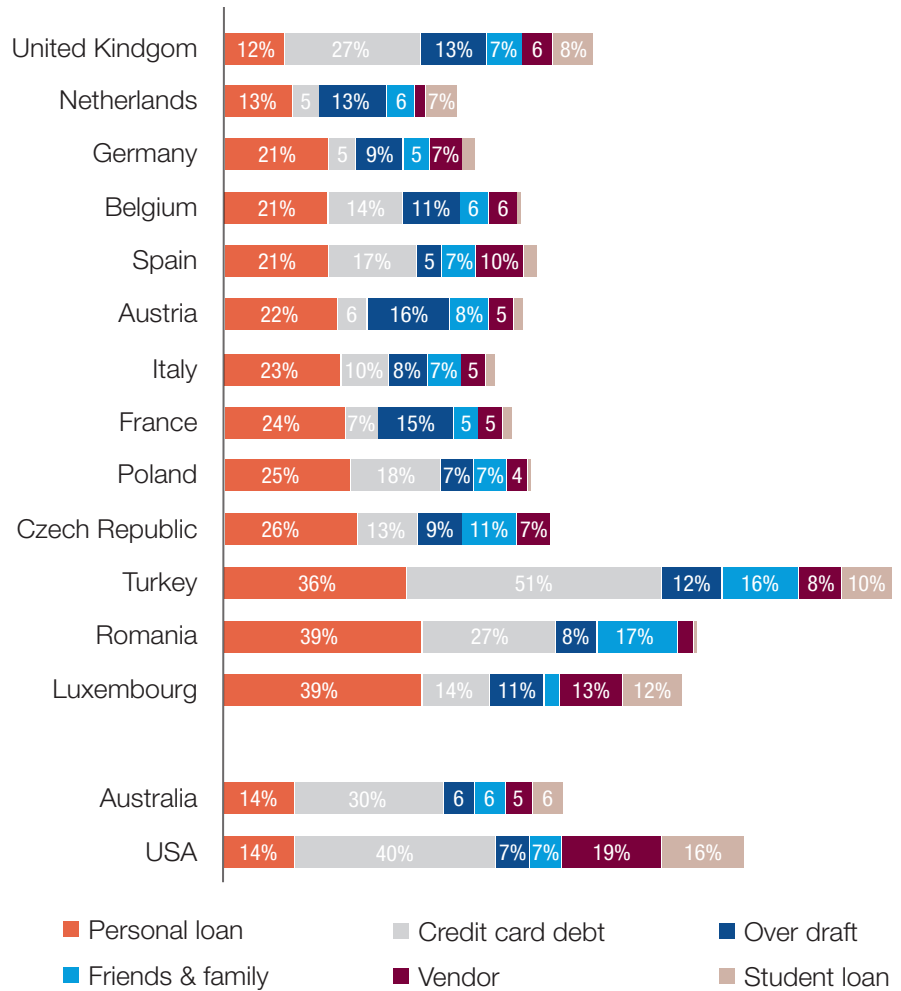
<sup>19</sup> Recent trends in consumer credit in the euro area, ECB: [https://www.ecb.europa.eu/pub/pdf/other/eb-box201707\\_03.en.pdf?ad68ed4b5b551c5f4472b36bb12d5525](https://www.ecb.europa.eu/pub/pdf/other/eb-box201707_03.en.pdf?ad68ed4b5b551c5f4472b36bb12d5525) last accessed date- 16th October, 2019

<sup>20</sup> <https://www.euro-area-statistics.org/banks-balance-sheet-loans?cr=eur&lg=en&page=0&charts=M..N.A.A20T.A.1.U2.2250.Z01.E+M..N.A.A22.A.1.U2.2250.Z01.E+M..N.A.A23.A.1.U>



The wide range of consumer credit products in use illustrates its “normalisation” in European consumer habits.

Figure 7: Consumer credit products in use in Europe

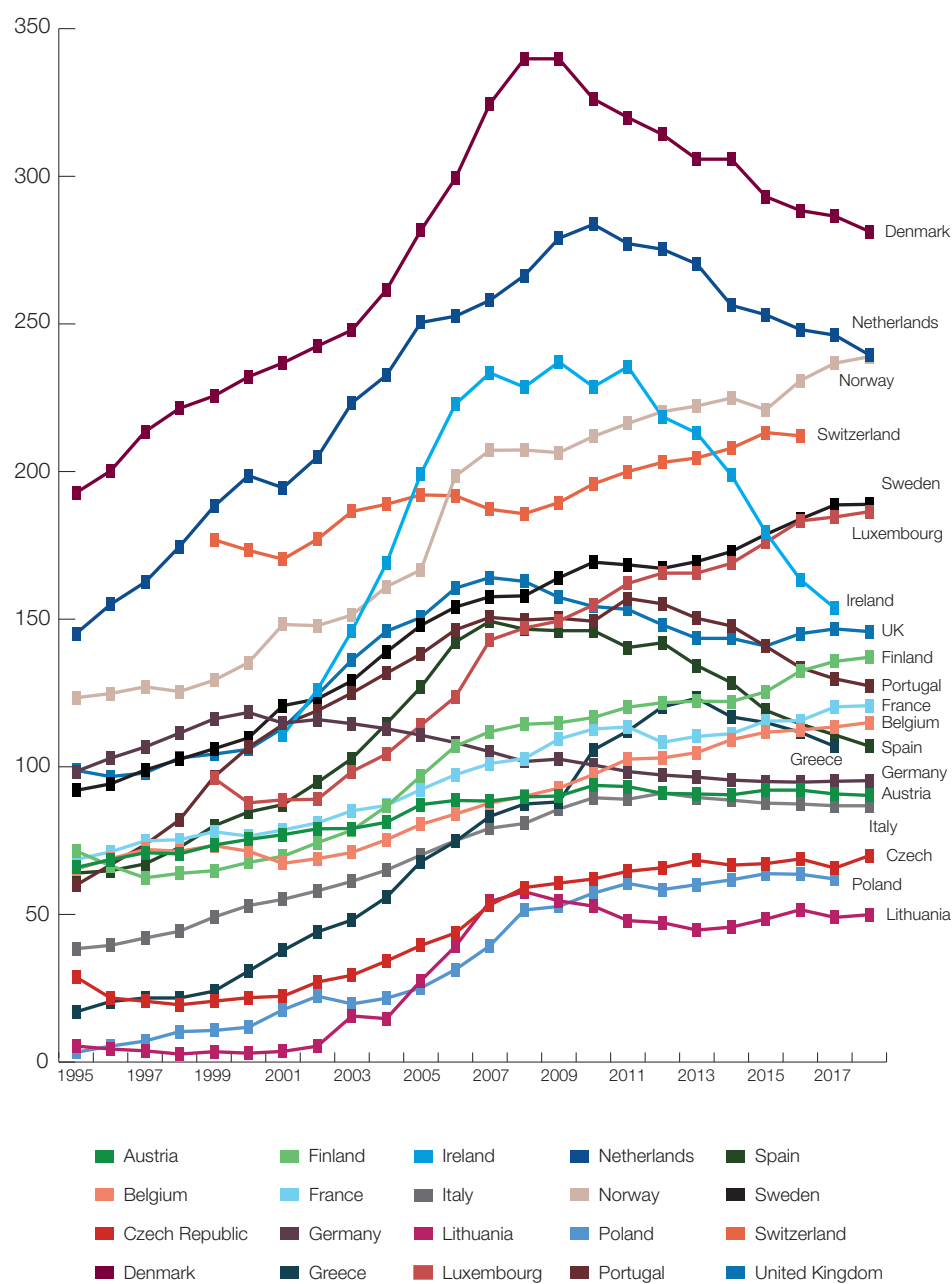


Source: ING, 2018<sup>21</sup>

21 ING Saving comfort – a path to happiness. Examining money choices in Europe, USA and Australia. ING International Survey. Savings February 2018

## The level of household indebtedness increases in a large range of European countries

Figure 8: Household debt, total % of net disposable income, 1995 - 2018



Source: OECD (2020)<sup>22</sup>

**Household debt has increased significantly in most Member States**

Over the longer term (1995-2017), despite the impact of the financial and economic crisis of 2008, the level of household debt has increased significantly in Europe.

<sup>22</sup> Household debt (indicator). doi: 10.1787/f03b6469-en (Accessed on 27 May 2020)

URL - <https://data.oecd.org/hha/household-debt.htm>

## 2. Sub-product: Housing loans

**Mortgages account for nearly 80% of household borrowing**

Financing housing loans is found to be one of the key reasons for borrowing in the global Findex. It indicates that around 25% of adults in the euro area have a housing loan from a financial institution.<sup>23</sup> Housing loans also account for 78.1% of the total credit provided to households in the EU. Industry figures for the EU mortgage market show that it is most prevalent in the UK, Germany, France, the Netherlands and Spain, where 72% of the overall outstanding residential mortgages in the EU are based.<sup>24</sup> These loans are also often the financial product with the largest impact on a household because of their size, their role in securing accommodation for the household, and their long duration.

The 2007/8 financial crisis clearly showed the impact that speculative bubbles in the housing loan market can have. The increased scrutiny of the financial industry after the crisis also shed more light on exploitative products, as more regulation was introduced.

**The Mortgage Credit Directive was introduced with the express aim of promoting mortgage lending in Europe**

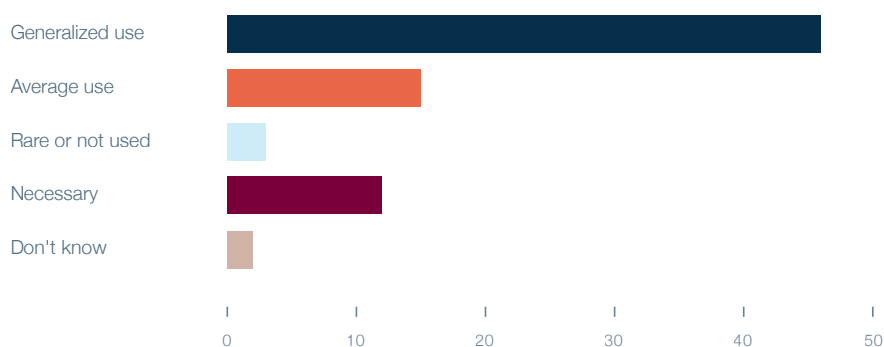
In the EU the sale of mortgage loans is regulated, since March 2016 (transposition deadline), under the Mortgage Credit Directive.<sup>25</sup> This Directive has the explicit aim of fostering a market for mortgage credit in the EU. If this is aimed at potentially benefitting all EU citizens then it could be a reason to consider whether this kind of product should be part of the minimum basket of financial services.

### 2.1 Summary of the survey results

#### Housing loan

Figure 9: Summary of the survey results - credit

**Survey data show that mortgages are considered essential in only nine - mainly northern - Member States**



At least one respondent from all the countries covered by the survey except Latvia and the Czech Republic found that that housing loans are generally used. In both Latvia and the Czech Republic, they were rather considered to have average use. Housing loans were con-

23 Financial Inclusion: World Bank Europe and Central Asia Economic Update (2019) P36

24 HYPOSTAT 2019: A REVIEW OF EUROPE'S MORTGAGE AND HOUSING MARKETS, European Mortgage Federation, p6

25 Directive 2014/17/EU on credit agreements for consumers relating to residential immovable property, URL: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014L0017>.

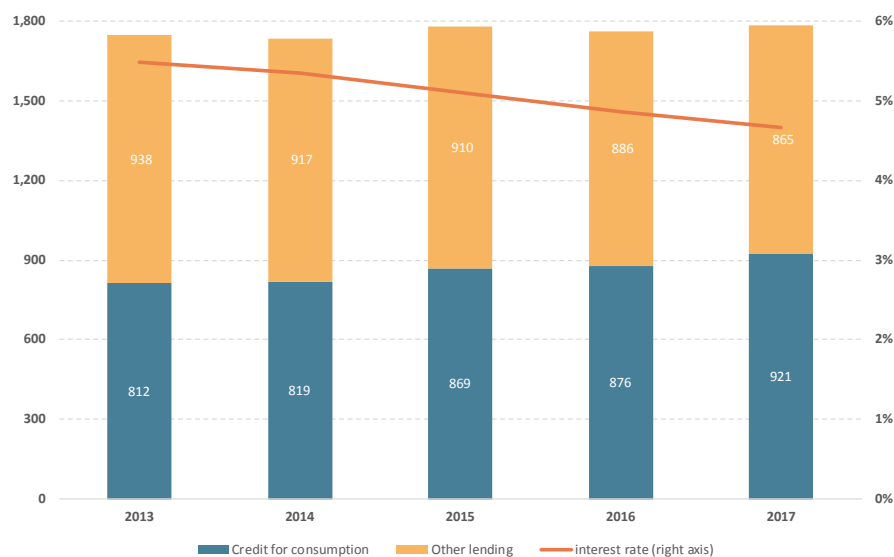
sidered to be a necessary financial service by respondents in 9 countries (Belgium, Finland, France, Ireland, Norway, Romania, Spain, Sweden and the UK) and were only considered to be rare or not used in Romania (3 responses).

### 3. Sub-product: Consumer credit

#### Consumer credit market in Europe

The majority of the remaining credit provided to households in the EU by financial institutions is consumer credit. This includes credit card loans, car loans and other loans for durable consumption or cash-flow management (revolving credit). Hire-purchase agreements were not included in the remit of the study, as they are not currently considered as credit agreements under EU law. In the EU, the Consumer Credit Directive (CCD) aims to create a single market for sales of credit over 200 euros. However, hire-purchase was raised during the research as a candidate for the minimum basket of basic services and this would require further study. There are strong arguments to support the inclusion of hire-purchase agreements under the scope of the CCD, based on the consumer issues raised by several workshop participants. Similarly, to the housing loan market, the consumer credit market in the EU has been growing in recent years.<sup>26</sup>

Figure 10: Consumer credit, 2013-2017 (billion euros, outstanding amounts)

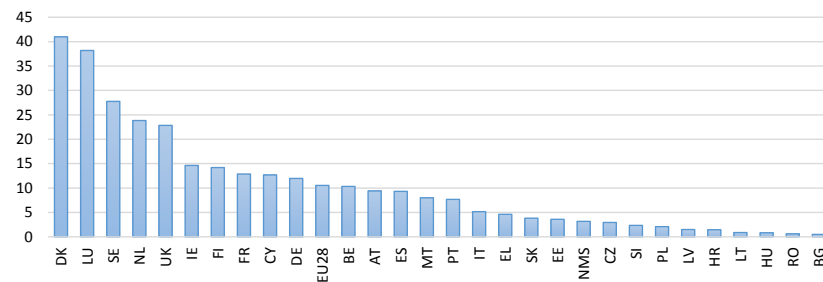


Source: ECB

<sup>26</sup> The ECRI Statistical Package 2018: Lending to Households and Non-Financial Corporations, pgs.11-12

Hire-purchase currently constitutes around 12% of the total credit provided to households. However, in the new member states<sup>27</sup> it accounts for more than double this percentage and accounts for about 26% of the total credit provided to households. This could be both linked to different levels of household indebtedness, to the size of the mortgage credit market (see housing loans section), as well as credit culture differences between older and newer EU member states.<sup>28</sup>

Figure 11: Housing loans per capita, in real terms (thousand euros)



Source: SCRI Statistical Package 2018

### Products identified

Access to credit has become an important part of life in the EU. A variety of different types of lenders offer everything from short term credit less than 200 euros<sup>29</sup> to housing loans of hundreds of thousands of euros to retail customers. Whilst access to credit is important it should not be considered as a right.<sup>30</sup> A potential borrower must have the capacity to repay a loan in order to be granted access to credit. Easily avoidable issues arise from the fact that this capacity to repay may not currently be properly assessed. Citizens also find themselves targeted by inappropriate or exploitative credit when they are in urgent need of finance. These two issues could be addressed by ensuring access to an appropriate credit product.<sup>31</sup> Whilst there would still not be any right to credit, there would be increased access where a capacity to repay exists and a possibility to eradicate inappropriate or exploitative products.

Evidence gathered from the survey and the workshops was largely that housing loans should not be considered as a basic financial service. Almost 80% of respondents did not believe

27 The new member states are considered to be the 13 countries that joined the EU as part of 2004 enlargement and afterwards. They include Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovenia and Slovakia.

28 ECRI Statistical Package 2017 - Lending to European Households and Non-Financial Institutions(2017), pg. 5: [http://www.ecri.eu/sites/default/files/key\\_findings\\_from\\_the\\_ecri\\_statistical\\_package\\_2017.pdf](http://www.ecri.eu/sites/default/files/key_findings_from_the_ecri_statistical_package_2017.pdf)

29 This type of credit, also called a "payday loan", is not regulated by the Consumer Credit Directive (see next reference).

30 Consumer Credit Directive 2008/48/EC - Recital (26) "Member States should take appropriate measures to promote responsible practices during all phases of the credit relationship, taking into account the specific features of their credit market. Those measures may include, for instance, the provision of information to, and the education of, consumers, including warnings about the risks attaching to default on payment and to over-indebtedness. In the expanding credit market, in particular, it is important that creditors should not engage in irresponsible lending or give out credit without prior assessment of creditworthiness, and the Member States should carry out the necessary supervision to avoid such behaviour and should determine the necessary means to sanction creditors in the event of their doing so." & art 8: Article 8 Obligation to assess the creditworthiness of the consumer.

31 This refers to personal micro-credit practices. Information available on – URL: <https://www.financite.be/fr/reference/personal-microcredit-capic-conclusion>

**To tackle over-indebtedness, credit providers should have to assess borrower's financial capacity properly**

**Regulation should ban exploitative practices**



that it would be appropriate and some even found that credit in general was not needed in their country. A response from Bulgaria on this point stated that credit is rather likely to be detrimental given that contract conditions tend to be unfavourable for consumers.

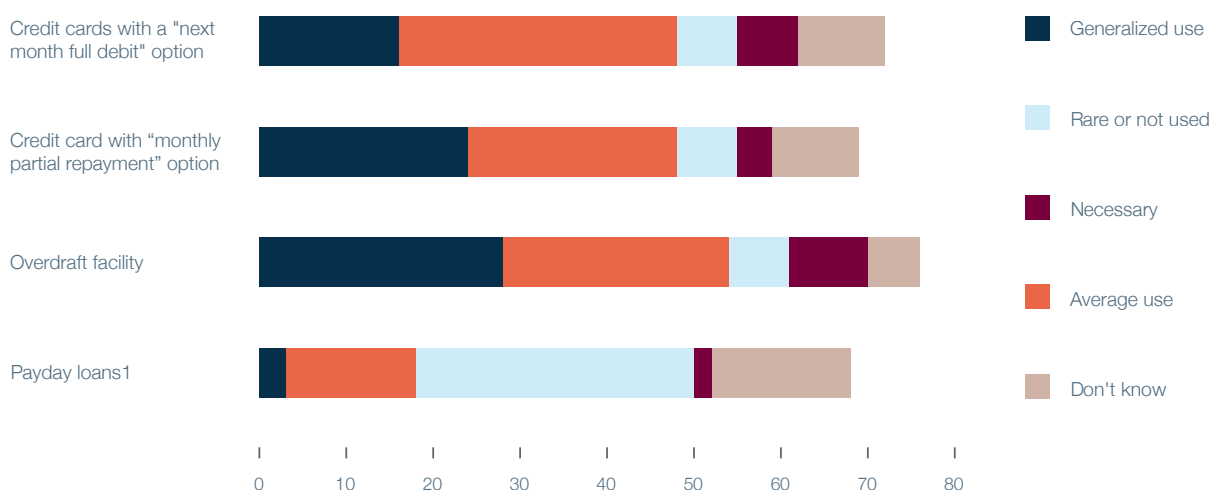
**Local attitudes to home ownership vary between countries, as do views on whether mortgages are considered essential or not**

Several respondents did, however, paint a different picture of the importance of housing loans in their countries. A respondent from Ireland explained that there is an ongoing cultural prioritisation of home ownership, which makes access to a housing loan a necessary part of full and equal participation in society. A similar example was also raised from Spain, where 80% of people own their house and need a loan to do so. This shows that the use of housing loans depends heavily on whether or not a culture of home ownership is present in a country or not. A Belgian respondent also pointed out that there are large differences between housing markets. For example, in some countries rent is very high and in others there is still a large amount of public housing available, which has a direct impact on housing prices in both cases.

The evidence raised by respondents could mean that housing loans should only be included in a minimum basket of necessary financial services where they are necessary to participate fully and equally in the society of a particular state. In this regard, it is essential to ensure that responsible lending practices exist for mortgage credit. Where there is a stronger culture of home ownership, borrowers are more likely to accept unreasonable or exploitative practices. This can be seen from the examples of Ireland and Spain, where responsible practices are hard to come by and which contributed to the speculative housing bubble that disproportionately inflated house prices.

### 3.1 Summary of survey results

Figure 12: Summary of survey results - credit



**Survey data show that credit cards and overdrafts are widely used in Europe. They are only considered essential in a few northern European countries**

### Credit cards with a “next month full debit” option

This kind of product, in which the credit card debt is cleared every month, was considered to have general use by respondents in 12 countries (Belgium, Bulgaria, Croatia, Cyprus, Denmark, Greece, Iceland, Ireland, Norway, Romania, Slovakia and Spain). Respondents from 15 countries (Belgium, Bulgaria, Denmark, France, Germany, Greece, Ireland, Latvia, Norway, Poland, Portugal, Romania, Sweden, the Netherlands and the UK) indicated average use of these products. Overall, this means that at least one respondent from every country covered by the survey except the Czech Republic and Lithuania indicate general or average use. Respondents from 5 countries (Bulgaria, Czech Republic, Ireland, Lithuania and Romania) indicated rare or no use of this kind of products. This kind of products was only considered necessary by respondents from 5 northern European countries (Belgium, Finland, Norway, Sweden and the UK). This would seem to indicate widespread use, to different extents, across Europe. The results also suggest that these products may be more used and needed in northern European countries and less used in central and Eastern Europe.

### Credit card with “monthly partial repayment” option

In this kind of product, the debt does not have to be cleared every month and can therefore accumulate more easily. Respondents from 13 countries (Belgium, Bulgaria, Croatia, Cyprus, Finland, France, Greece, Ireland, Norway, Romania, Slovakia, Spain and the UK) indicated general use of this kind of product. Respondents from 10 countries (Czech Republic, Denmark, Germany, Ireland, Latvia, Poland, Portugal, Romania, Sweden and the Netherlands) considered these products to have an average use. Overall, this means that at least one respondent from every country covered by the survey except Iceland and Lithuania indicate general or average use. The product is considered necessary by respondents from 4 countries (Finland, Norway, Sweden and the UK) and is indicated as being rare or not used in 6 countries (Belgium, Denmark, Germany, Iceland, Lithuania and Romania). When taking into account overlaps in responses the results indicate widespread use to differing extents across Europe and perceived need for this kind of products in northern Europe for the moment.

### Overdraft facility

At least one respondent from every country except Lithuania and Spain indicated either general or average use. Respondents from 16 countries (Belgium, Bulgaria, Croatia, Cyprus, Denmark, Finland, France, Germany, Iceland, Ireland, Norway, Romania, Slovakia, Sweden, the Netherlands and the UK) indicated general use of this product. Respondents from 13 countries (Belgium, Bulgaria, Czech Republic, Denmark, Greece, Ireland, Latvia, Norway, Poland, Portugal, Romania, Slovakia and Sweden) indicated average use of the product. Respondents in 9 countries (Belgium, Denmark, Finland, France, Ireland, Norway, Sweden and the United Kingdom) find this kind of product to be necessary. Although there appears to be widespread use, to differing extents, of this kind of product across Europe for the time being it seems to be considered most important in the north of Europe.

### Payday loans<sup>32</sup>

Respondents from 9 countries (Bulgaria, Croatia, Czech Republic, Denmark, Ireland, Norway, Romania, Sweden and the United Kingdom) indicated average use of this kind of product. Only respondents from the UK indicated that this is a necessary product. Respondents from 16 countries (Belgium, Cyprus, Finland, France, Germany, Greece, Iceland, Ireland,

<sup>32</sup> Contrary to the other types of credit mentioned, this particular type of credit is not regulated neither by the Consumer Credit Directive nor Mortgage Credit Directive.

**Survey data show that payday loans are not considered essential anywhere outside the UK**

Latvia, Lithuania, Norway, Portugal, Romania, Slovakia, Sweden and the Netherlands) found that this kind of product is rare or not used. This would seem to indicate that there is limited use of this kind of product across Europe. A relatively high number of ‘don’t know’ responses could indicate limited knowledge in some countries of this kind of product, but also may confirm limited use.

### 3.2 How can a position on consumer credit be built?

**Three consumer credit products were identified as useful: bank overdrafts, certain types of credit card, and micro-finance/ credit union loans**

The results of the questionnaire show that respondents identified three different kinds of credit that are important for citizens to be socially included. These included, overdraft facilities linked to a bank account (13%, 8 respondents), a credit card with a “next month full debit” option (12%, 7 respondents) and a micro-finance / credit union loan (12%, 7 respondents). These products were therefore put up for further discussion in the workshops to ascertain if or how they might be considered part of a basic minimum basket of financial services.

**These three products can be helpful for certain groups, such as vulnerable citizens, those with irregular incomes, and those living in near-cashless societies**

In many cases, the main reason given for defining these consumer credit products as basic financial services was because they are found to provide support, or to be currently used by, particularly exposed groups of people.<sup>33</sup> These views are particularly interesting as the terms and conditions of this kind of credit are generally considered as being not very reasonable. This would seem to confirm that these are really the only products available to vulnerable groups.

Another point here is that many of the people using these products are aware<sup>34</sup> of the associated risk and that they can only provide short-term financial relief. They know that using these products will likely leave them worse off in the end, but do not feel there are any alternatives available to them. This in turn puts into question the consent given when such a contract is signed.<sup>35</sup>

A respondent from the UK reported that these kinds of products can be essential for people who do not have a stable income. This could include people working in the gig economy or seasonal workers and allows them to have access to credit to cope with periods when their expenses exceed their income. Whilst these products do not address the issue of economic insecurity that many people experience, they can provide relief from short term financial difficulty and flexibility to some groups.

Evidence was provided from a different perspective from Norway, which is moving towards becoming a cashless economy. Here it was reported that these kinds of credit products have become a necessary part of everyday life, because many payments and access to services require the use of debit and credit cards. Norway can be considered a card-reliant country where the proportion of consumers holding credit card debt is nearly double the number of consumers with other kinds of consumer loans.

33 Finance Watch, Financial Exclusion: Making the invisible visible, 2020, URL: [https://www.finance-watch.org/wp-content/uploads/2020/03/FW-Report\\_Vulnerable\\_Groups\\_March2020.pdf](https://www.finance-watch.org/wp-content/uploads/2020/03/FW-Report_Vulnerable_Groups_March2020.pdf)

34 Jérusalmy O., Les ouvertures de crédit :pour quoi faire ?, Réseau Financement Alternatif, Juin 2011, pg.35, URL: <https://www.financite.be/sites/default/files/references/files/1795.pdf>

35 Finance Watch, What makes credit so risky? A consumer perspective, June 2019, pg.7, URL: [https://www.finance-watch.org/wp-content/uploads/2019/06/What-makes-credit-so-risky\\_FW-paper\\_June2019.pdf](https://www.finance-watch.org/wp-content/uploads/2019/06/What-makes-credit-so-risky_FW-paper_June2019.pdf)

Micro-finance and credit union loans were highlighted as having an important targeted role that could justify their inclusion as a basic financial service. Several respondents raised the positive impact that these kinds of credit can have for people in vulnerable situations, where it can be a solution to help them manage their financial difficulties.

### 3.3 Is consumer credit the appropriate response to household cashflow issues?

The response to this question depends on the nature of the cashflow issue encountered.

**Consumer credit can be convenient for households with savings and regular sufficient income but it adds to difficulties for those in poverty or with budget problems**

Potentially the answer could be yes, for a household that is exclusively using the “next month full debit” option of a credit card (free of charge) where monthly income is high enough to clear the balance once a month, maintaining the level of debt under a certain level of control. However, the situation depends on the level of household savings. For households without savings, facing a life accident could easily become a situation with a high risk of becoming over-indebted.

On the other hand, consumer credit may not be an appropriate cashflow solution where a household only has access to high cost credit (overdraft facilities and payday loans) in circumstances where they are not able to clear the credit balance in a month or they cannot avoid using it regularly.<sup>36</sup> These situations underline the structural imbalance of the household budget. In this case, a high cost credit product does not a good solution because the interest rate and fees only diminish an already constrained purchasing power. The solution to an imbalanced budget is to be found in structural changes in income (increasing income, activating allowances when proposed), and by reducing the expenditures (where possible) through changes in consumption behaviours, such as renegotiating contracts, increasing understanding of competition and avoiding unnecessary products, amongst others.

Consumer credit is not a tool to combat poverty or an unbalanced budget

### 3.4 What can we learn from micro finance?

**Micro-credit is used in some countries specifically to promote financial inclusion and reduce over-indebtedness**

In some European countries, personal micro-credit has been designed and implemented as a tool for the financial and social inclusion of vulnerable groups of people. It has also been used as a tool to prevent over-indebtedness (the process to access a micro-credit increases skills in budget management and impacts positively the level of income: through activating allowances and social rights) or even as a tool to be used in specific situations of over-indebtedness (for example, to maintain the mobility necessary to keep a job, as when a car has to be replaced or repaired).

#### How personal micro-credit has any positive role in the life of vulnerable households?

In 2010, an EU-funded study investigated how the supply of personal micro-credit has been set-up in four EU countries (Belgium, France, Italy, United-Kingdom), through partnerships between a public body, a private company and a NGO.<sup>37</sup>

<sup>36</sup> European Financial Inclusion Network (EFIN), Working Group on Over-Indebtedness – Unfair Lending Practices and Toxic Loans, December 2016, URL: <https://www.finance-watch.org/wp-content/uploads/2018/12/EFIN-Unfair-Lending-Practices-and-Toxic-Loans-VF-6Dec.pdf>

<sup>37</sup> Réseau Financement Alternatif, 2012, pg.3

Interestingly, this form of consumer credit has been designed to solve a large range of issues encountered by vulnerable people that do not otherwise have access to (safe) credit.

### Personal micro-credit: why?

Here are some fictional case studies from the study to illustrate the sorts of difficulty that micro-credit can help with:

#### *Mrs & Mr Over are over-indebted*

*They have been involved in a legal procedure since 2010 to resolve their insolvency and their family car has recently stopped working. They risk losing their jobs as they will now find it hard to travel to work. The family lives in a rural area, their working schedule is irregular and the company is not offering any flexibility over other solutions. In this particular case, the couple does not have access to credit because they are blacklisted on a credit database.*

*Mrs Rety is retired and the owner of her apartment, which is in an old building with poor energy efficiency. Since she is over 65 years of age, Mrs Rety has trouble in finding an adequate offer of credit to finance new double glazing for her windows. Only some credit providers are willing to put forward an offer, but with very bad terms and conditions.*

*Mrs Single is a single parent with two teenagers (under 18 years old). It is hard to make ends meet, as she is not working and has two teenagers at home. It is also hard to avoid having some IT equipment for the children's studies and entertainment. This equipment would also be useful for her, to find a new job. She can only access a credit card, revolving credit card or money lender services. No appropriate credit is available at a reasonable cost.*

*Mrs Forlife leaves her companion, discretely, without being able to take many of her personal belongings. This was probably the hardest decision Mrs Forlife has taken, to leave her home because her life was in danger, despite being very much in love with her companion. After a short period spent at a women's shelter, she has to find a new place to live and needs some money for her new rent deposit and to buy some basic equipment and furniture for the flat.*

*Mrs & Mr Manikidz have 5 children, are unemployed and are finding it hard to make ends meet.*

*Their washing machine is broken and they need to get it fixed as soon as possible. It is hard for them to avoid using high cost credit as they do not have any savings to pay for it in cash. How can they avoid going to a shop that sells washing machines on a pay-weekly basis?*

This form of credit has also been specifically designed to prevent over-indebtedness, by being available to people that are particularly at risk, often at the very moment when credit or financing of some kind is needed.

The study focuses on micro-credit that is specially designed for people on low incomes with the ability to repay. However, micro-credit is also appropriate for people with irregular income or financially excluded as a result of any other negative risk assessment. Repayment amounts can be calibrated to suit low-income creditworthiness and personalised so that the duration and instalments are fixed and known in advance. The interest rates are usually

**These micro-credit products are carefully designed and administered to match the financial capabilities and needs of borrowers**



lower than the market average (BE, FR & IT) and the sub-prime market (UK). Indirect costs are usually close to zero or very low (no add-on insurance contracts, no or low administrative fees, etc.). The usual minimum criteria to qualify for this kind of credit is a lack of access to other kinds of credit to meet a need that the credit provider considers legitimate. In practice, a formal proof of refusal from mainstream credit providers is not requested.

These micro-credit products are carefully designed to provide credit to low income households while preventing over-indebtedness. Their application and assessment processes have certain key characteristics:

1. Credit amounts and costs (interest/fees) are adjusted to low income households;
2. The creditworthiness analysis is detailed and is based on bank statements from the last three months, always aiming for a balanced budget (taking into account relevant constraints)
3. The funding need is legitimate: credit is regularly granted for projects aiming to improve employability (by improving or maintaining the mobility, for IT equipment, for professional training, etc.), or to ensure a standard of living worthy of human dignity (financing furniture and essential electric goods expenditures).

#### **Requirements and documents to complete a credit application:<sup>38</sup>**

Some essential documents are requested to complete the credit application, including:

- ID card copy
- Income: last 3 salary slips / or proof of unemployment benefits or other social allowances of any kind (pension, health,...)
- Budget: complete the budget sample provided in order to assess creditworthiness.
- Bank statements from the last 3 months, including for a legal partner to accurately estimate the household budget.
- Proof of household composition (provided by the local administration)
- Extract of central national credit database status (provided for free at the National Bank)
- Any other relevant documents such as invoices, order notes, etc.
- In case an amicable debt settlement plan is in place, a copy of the plan is required.

### **3.5 No right to credit, but a right to properly designed consumer credit**

Over the last 30 years, over-indebtedness has hit a growing range of households in Europe, and the last financial and economic crisis in 2008 has pushed more EU citizens into financial hardship. In 2018, the European Commission's package of measures to tackle Non-Performing Loans<sup>39</sup> underlined the unprecedented threat that over-indebtedness represents for the global stability of the financial sector. In this environment it would make sense to reflect on the role played by consumer and mortgage credit in financial and social inclusion.

<sup>38</sup> The following description refer to the Belgian case study.

<sup>39</sup> URL - [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_18\\_1802](https://ec.europa.eu/commission/presscorner/detail/en/IP_18_1802)

### 3.6 Input from the survey

Almost all the information that was collected as part of the survey, via interviews and work-shops, was given from the perspective of experts who work daily with over-indebted people suffering from the impact of inappropriate credit. What can we learn from these experts?

**The survey concluded that household credit should not be considered a basic financial service, despite its prevalence. But policymakers must ensure that consumer credit is fair and not exploitative**

These respondents concluded that household credit products should not qualify as necessary basic financial services, despite the large and growing size of the credit market and the increasingly commonplace use of consumer and mortgage credit. Nor should they qualify simply because of the crucial role that consumer credit can play in the daily life of households to preserve a dignified standard of living. All of the respondents did, however, agree that exploitative credit must be banned, that having savings to insulate against the financial impact of life accidents is key, and that it is irrelevant whether a “right to credit” exists or not.

Throughout the survey, respondents’ input focused on these key points:

- checking if credit is affordable for the borrower and refusing to offer it where budgets are insufficient;
- the safety of the credit proposed (terms and conditions);
- the suitability of the credit offer to the situation of the households.

### III. Category 3: Savings and Pensions

Basic Financial Products Identified: Savings Accounts, Products to Incentivize Savings and Supplementary Occupational Pensions

#### 1. Savings and Pensions markets in Europe

**Household savings are key to surviving life accidents but a third of people do not have them**

Having savings is considered one of the most important ways to combat the negative financial impacts of life accidents. A lack of precautionary savings is the key cause of over-indebtedness. Saving allows the accumulation of a financial buffer that can help to prevent situations of over-indebtedness and mitigate the risk of falling into poverty when faced with the financial impact of a life accident.<sup>40</sup> The EU statistics on income and living conditions (SILC)<sup>41</sup> show that many EU citizens that are above the poverty threshold do not have the ability to meet unforeseen expenses. Some 34% of citizens are reported as not having the ability to cope with unforeseen expenses, whereas the rate of citizens at risk of poverty is 17%. However, the Global Findex indicates that people in Europe may generally save less than in other high-income economies. Even though that may be the case, 67% of citizens in the euro area are reported to have put money aside over the previous year, with a clear majority of 73% of them having saved through financial institutions. This seems to represent a sufficiently large proportion of the population using savings products to consider that they have widespread and common use. The Global Findex does not cover pensions, potentially because public pensions are considered to be available to all citizens where they exist. However, pensions can play an equally important role to savings given the current risks of old-age poverty in the EU. Some 18.2 % of EU citizens aged 65 or over were at risk of poverty or social exclusion in 2016.<sup>42</sup> These people overwhelmingly rely on state pension benefits, which make up around 70% of their income on average.<sup>43</sup> The level of government spending on pensions does, however, vary significantly in the EU. For example, in Denmark spending is 15 times higher than in Bulgaria, 10 times higher than in Romania and nine times higher than in Lithuania (Figure 13).<sup>44</sup> This raises a series of questions over pension adequacy and differences in living standards across Europe. It also shows that there is likely to be a significant need for citizens to turn to other kinds of privately managed pension products.

**Poverty among over-65s is highest among those on state pensions, which vary widely between Member States**

40 Financial Inclusion: World Bank Europe and Central Asia Economic Update (2019) P34

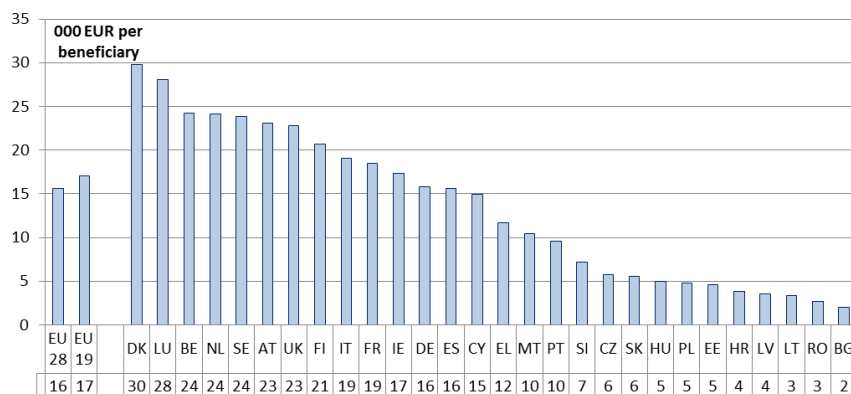
41 The European Union Statistics on Income and Living Conditions (EU-SILC), URL: <https://ec.europa.eu/eurostat/web/microdata/european-union-statistics-on-income-and-living-conditions>

42 EU Pension Adequacy Report 2018, URL: <https://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=8084&furtherPubs=yes>

43 EU Pension Adequacy Report 2018, URL: <https://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=8084&furtherPubs=yes>

44 The Pension Adequacy Report 2018: current and future income adequacy in old age in the EU, P34

Figure 13: Pension expenditure per beneficiary for old-age and survivor's pensions, thousands euros, 2015



Source: Eurostat<sup>45</sup>

## 2. Sub-product: Savings accounts

Household assets in Europe seem to be largely concentrated around current accounts and equity, or in some exceptions also pensions.<sup>46</sup> Evidence seems to show that whilst the proportion of citizens with savings is high, the use of investment products is lower.<sup>47</sup> The situation differs across Member States but indicates that citizens are saving but not making use of or accessing investment options other than property. Saving has been identified as key to creating a financial buffer, which can help to cope with situations of financial difficulty. Life accidents that cause financial difficulty are not the sole cause, they are a real trigger for over-indebtedness, where there is no buffer. This is particularly important in the current environment where there appears to be a lack of a savings culture and persistent poverty in Europe. However, access to savings options does not seem to be well developed in Europe.

**Most citizens have savings but they use a narrow range of investment products**

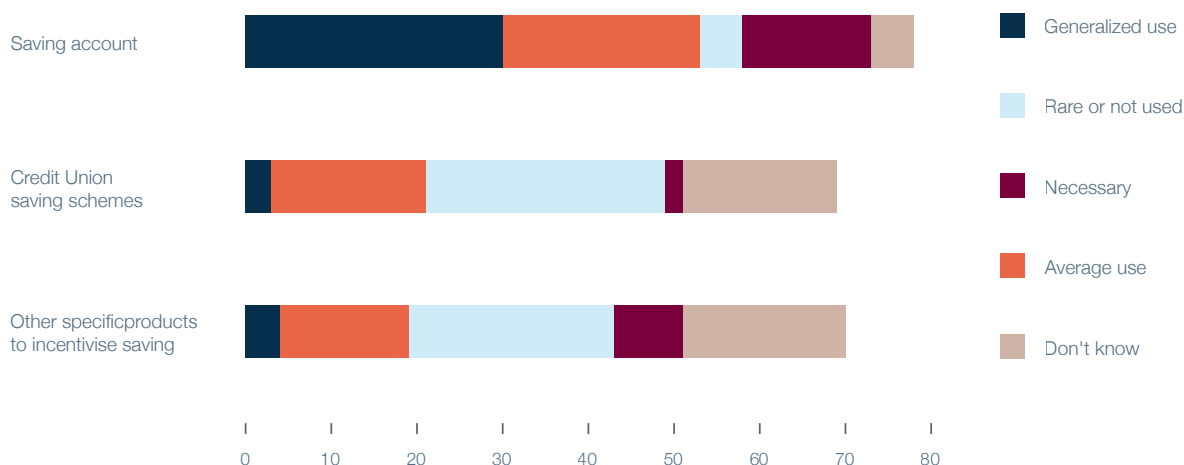
<sup>45</sup> For CY: elaboration on Eurostat data. Notes: Data refer to total expenditure divided by total beneficiaries; Poland 2012 data

<sup>46</sup> [https://ec.europa.eu/info/sites/info/files/180425-retail-investment-products-distribution-systems\\_en.pdf](https://ec.europa.eu/info/sites/info/files/180425-retail-investment-products-distribution-systems_en.pdf)

<sup>47</sup> [https://ec.europa.eu/info/sites/info/files/180425-retail-investment-products-distribution-systems\\_en.pdf](https://ec.europa.eu/info/sites/info/files/180425-retail-investment-products-distribution-systems_en.pdf)

## 2.1 Summary of survey results

Figure 14: Summary of survey results - Savings and pensions



**Survey data indicate that savings accounts are widely used but credit unions and other forms of savings much less so**

### Savings account

Respondents from 17 countries (Belgium, Bulgaria, Cyprus, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Norway, Portugal, Romania, Slovakia, Sweden, the Netherlands and the UK) find that savings accounts are generally used. Respondents from 9 different countries (Belgium, Denmark, Finland, France, Germany, Ireland, Romania, Sweden, the Netherlands and the UK) also found that a savings account is a necessary financial service. This range of geographical representation indicates more use of these products in larger or northern European economies, with some exceptions. Only respondents from 3 countries (Latvia, Lithuania and Romania) indicated that this product is rare or not used.

### A credit union is a community savings and loans provider<sup>48</sup>

Traditionally, credit unions have been small, non-for-profit financial organisations set up by members with something in common to benefit their community. That common factor may be living in the same town, working in the same industry (eg. the Police Credit Union) or belonging to a particular trade union.

The two traditional services offered are:

- **Savings**

All unions offer some form of savings account. The difference between these and high street accounts is that credit union savings often pay you a dividend, which is dependent on the return on investment earned by the credit union that year, rather than a guaranteed interest rate.

- **Loans**

Most credit unions in the United Kingdom offer loans of smaller amounts, under £3,000<sup>49</sup>. Many people who borrow these amounts would otherwise only be able to resort to doorstep lending or payday loans as an alternative. Compared to these providers, credit unions offer much better conditions.

<sup>48</sup> The information presented is based on an article published on the "money saving expert" website.  
URL: <https://www.moneysavingexpert.com/loans/credit-unions/>

<sup>49</sup> Approximately € 3,500

**Credit Union saving schemes:**

Respondents from 18 countries (Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Finland, Germany, Greece, Iceland, Latvia, Lithuania, Norway, Portugal, Romania, Slovakia, Sweden, the Netherlands and the UK) indicated that credit union savings schemes are either rarely or not used. Respondents from 10 countries (Cyprus, Denmark, France, Ireland, Norway, Romania, Slovakia, Spain, Sweden and the UK) indicated that these schemes have an average amount of use. Only respondents from 3 countries (Bulgaria, Greece and the UK) indicated that these schemes are generally used and only 2 (Romania and EU-level organisation) indicated that they are necessary. Use is limited both across Europe and throughout different sizes of economies. This seems to suggest that these products are used in specific situations and that their use is not widespread amongst the general public. This is further confirmed by the high number of 'don't know' responses. It should be noted that credit unions do not currently exist in all EU countries.<sup>50</sup>

**Other specific products to incentivise saving:**

Respondents from 9 countries (Greece, Ireland, Latvia, Lithuania, Romania, Slovakia, Sweden, The Netherlands and the UK) indicated that these kinds of savings products are either rare or not used. Respondents from 10 countries (Bulgaria, Cyprus, Denmark, France, Germany, Ireland, Norway, Poland, Portugal, Sweden and the UK) indicated that these products have an average amount of use. 5 respondents (Belgium, EU-level organisation, France, Ireland and Romania) indicated that these products are needed in their country and 4 (Bulgaria, Finland, Iceland and Spain) indicated that they have general use. Large numbers of 'don't know' responses, along with these results indicate that these kinds of products are less well known. It may indicate that they rather have targeted use in certain countries for specific situations.

**The need for families to have a financial buffer suggests that a savings product is essential; credit unions would be the ideal starting point but they are under-developed**

The survey and wider evidence clearly show the essential role that saving can play in preventing over-indebtedness. A European strategy is needed to help ensure that a suitable savings product is available to all EU citizens, including those with a limited savings capacity. It would have a significant positive economic and societal impact.

Where low-income households save, it allows them to build a financial buffer, but also to finance purchases, to invest and to pay for building repairs (this can include purchasing a second hand vehicle, household and electrical appliances, training costs, reuniting a family, installing an energy-efficient boiler). In all of these cases the credit union model seems to be the best starting point. It provides a product with good conditions that are adapted to the actual budget and savings capacity of the user. There is, however, still much to be done to build on these models, which are still largely only available at local level or still being tested.

### 3. Sub-product: Supplementary pension products

Retirement income provided by public pensions (pillar one) is not likely to be sufficient for most EU citizens in the future and even now cannot secure decent retirement living conditions for many.<sup>51</sup> This means that occupational pensions (pillar two) and private pensions (pillar three), or other solutions will be needed by most people to supplement the income

<sup>50</sup> More information available on the Credit Union Network website, URL: [http://www.creditunionnetwork.eu/cus\\_in\\_europe](http://www.creditunionnetwork.eu/cus_in_europe)

<sup>51</sup> Finance Watch, A Pot of Gold at the End of the Rainbow A position paper on the future of pensions in the EU, June 2017, URL: <https://www.finance-watch.org/wp-content/uploads/2018/08/pensions-report-final.pdf>

**Pillar 1: Where state pensions are inadequate, they need supplementing with additional pension products**

provided from public pensions. The current coverage of occupational and private pensions varies significantly across the EU (see Figure 16 below).

Figure 15: The three pillars of pension provision

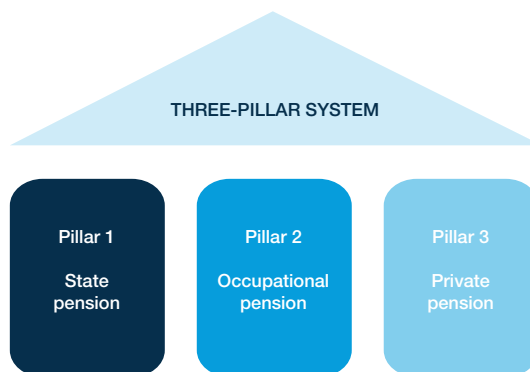


Figure 16: Coverage rate by gender and gender gap in coverage, by pension system, persons aged 65+, based on SHARE survey

Countries	Public			Occupational			Personal		
	Men	Women	Gender Gap	Men	Women	Gender Gap	Men	Women	Gender Gap
SE	92.2	92.5	-0.3	86.8	80.9	5.9	26.1	22.9	3.3
DK	98.5	99.3	-0.8	44.9	36.0	8.9	23.6	15.1	8.5
NL*	99.6	98.2	1.4	83.6	49.8	33.8	14.2	5.5	8.7
DE	99.1	97.5	1.6	31.9	17.5	14.4	5.9	4.3	1.6
BE	98.8	83.1	15.7	2.4	1.5	0.9	3.3	1.5	1.8
LU	96.4	92.0	4.4	9.5	1.6	8.0	4.2	1.7	2.4
FR	98.9	97.1	1.8	1.3	0.9	0.4	5.3	3.8	1.5

Countries	Public			Occupational			Personal		
	Men	Women	Gender Gap	Men	Women	Gender Gap	Men	Women	Gender Gap
AT	97.0	88.6	8.5	9.1	3.8	5.3	1.9	2.0	0.0
ES	95.1	69.3	25.8	1.4	0.4	1.0	0.6	0.4	0.2
IT	90.2	80.1	10.1	1.3	0.2	1.2	0.2	0.2	0.0
EL	84.7	68.4	16.4	0.7	0.8	-0.2	0.2	0.5	-0.3
PT	87.2	78.8	8.4	:	:	:	0.8	1.0	-0.2
CZ	98.6	99.3	-0.6	n/a	n/a	n/a	0.7	0.7	0.0
PL	97.2	94.9	2.3	0.0	0.0	0.0	0.3	0.7	-0.4
SI	90.2	87.6	2.6	1.1	0.7	0.3	1.8	2.1	-0.3
EE	99.3	99.6	-0.3	n/a	n/a	n/a	0.9	0.4	0.5
HR	82.8	80.7	2.1	1.0	0.9	0.0	0.7	0.5	0.1
HU*	94.8	94.0	0.8	0.0:	0.2	-0.2	0.1	0.0	0.1

Source: SAAGE, (2018) based on SHARE Wave 2 (2006/07), Wave 4 (2011); Wave 5 (2013) and Wave 6 (2015) Release: 6.0.0. Notes: Latest wave for NL is Wave 5 (2013), for HU -Wave 4 (2011) and for IE - Wave 2 (2007): - not available; n/a - not applicable

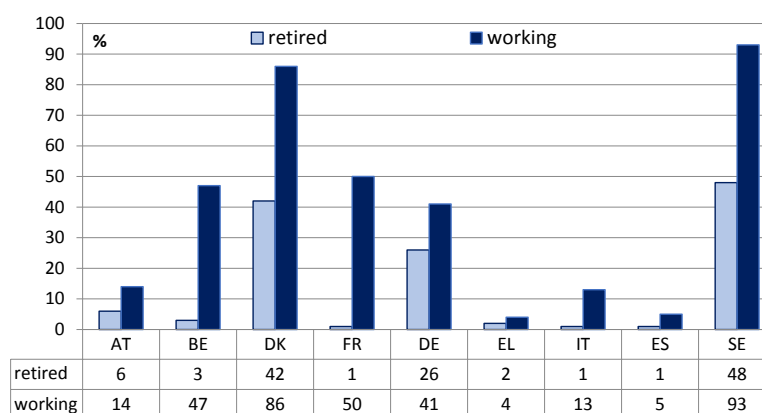
Even where supplementary pension products benefitting from tax exemptions exist, coverage is for the moment limited.<sup>52</sup> This puts pension products on an unusual and contradictory footing when potentially being considered as part of the minimum basket of necessary financial services. There is a clear need to supplement retirement income, but limited use of the current pillar two and three products to do this throughout the EU.

## 4. Sub-product: Occupational Pension Products

The use of occupational pensions is very different across Europe. Coverage rates are higher in central and northern European countries, but this does not necessarily correspond with employment rates across the EU.<sup>53</sup> This suggests that other factors have affected the development of this market, including how the first pillar pension system has been designed. In the three most developed markets of Sweden, Denmark and the Netherlands more than a third of people aged 65 and over are covered by occupational pensions, but otherwise coverage is significantly lower.<sup>54</sup> Coverage of people currently in work is, however, significantly higher in many Member States (see Figure 17 below). This would indicate that pillar two pensions are growing in importance, although also likely speaks to a decline of pillar one pensions.

### Pillar 2: Occupational pensions vary widely around the EU

Figure 17: Coverage of retirees and working people (aged 50+) by occupational pensions, 2017, %



Source: SHARE wave 7 (preliminary release)<sup>55</sup>; countries with missing values not shown; survey does not include IE, NL and UK. Notes: "retired" refers to share of retirees with an occupational benefit; "working" refers to share of working people with an occupational pension entitlement. All respondents are older than 50.

52 The 2018 Pension Adequacy Report: current and future income adequacy in old age in the EU, P80

53 [https://ec.europa.eu/eurostat/statistics-explained/index.php/Employment\\_rates\\_and\\_Europe\\_2020\\_national\\_targets#EU\\_Member\\_States\\_compared](https://ec.europa.eu/eurostat/statistics-explained/index.php/Employment_rates_and_Europe_2020_national_targets#EU_Member_States_compared)

54 The 2018 Pension Adequacy Report: current and future income adequacy in old age in the EU, P72

55 Countries with missing values not shown; survey does not include IE, NL, and UK. Notes: 'retired' refers to share of retirees with an occupational benefit; 'working' refers to share of working people with an occupational pension entitlement. All respondents are older than 50.

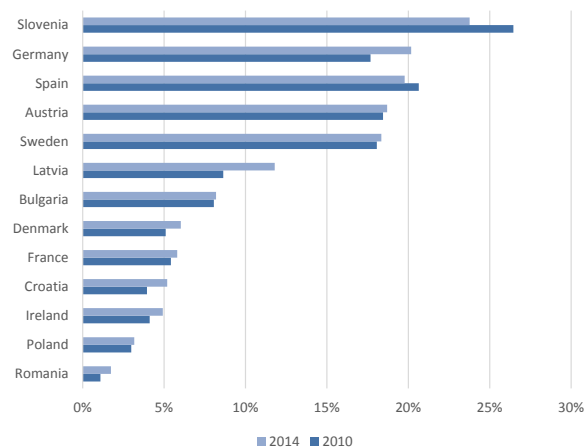


## 5. Sub-product: Personal Pension Products (PPPs)

**Pillar 3: The Pan-European Personal Pension Product aims to fill the gap but has many challenges**

Currently third pillar, personal pension products are not widely used across the EU. Fewer than 10% of EU citizens use these products, but the number of users is growing and has risen by 5% since 2010 (Figure 18).<sup>56</sup> The market has, however, been targeted as having potential for development by the European Commission, which launched an initiative for a Pan-European Personal Pension Product (PEPP). The PEPP could bring about a significant change in uptake of third pillar products in many countries. The identification of third pillar pension products as an area to develop by the Commission already indicates that a change in use could take place. However, as it currently stands, third pillar products are neither widely used nor established as a part of the solution for the current issues with first pillar pensions. A key issue is changing demographics in Europe with ageing populations, caused by increases in life expectancy, lower fertility rates and the ageing of the 'baby boomer' generation. This means that there will end up being fewer working citizens to finance the pensions of those who have retired. Current employment is also a factor, as fewer citizens are able to contribute consistently through income tax payments. Although levels of employment have been on the rise since the financial crisis,<sup>57</sup> many citizens are employed either part-time or in temporary employment.<sup>58</sup> Public expenditure on social protection is not being raised to be able to cope with these trends.<sup>59</sup> These issues could point to third pillar pension products as being an important avenue for citizens to save for retirement. However, an annual study<sup>60</sup> on third pillar pension products has consistently shown that they are often not good value for money and are currently at risk of offering negative returns.

Figure 18: PPP coverage by Member State 2010-2014



Source: European Commission, 2017

56 Study on the feasibility of a European Personal Pension Framework (2017), European Commission, p181

57 Eurostat Employment Statistics, URL: [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Employment\\_statistics](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Employment_statistics)

58 Eurostat Employment Statistics Database, URL: <https://ec.europa.eu/eurostat/web/lfs/data/database>

59 Finance Watch, A Pot of Gold at the End of the Rainbow A position paper on the future of pensions in the EU, June 2017, URL: <https://www.finance-watch.org/wp-content/uploads/2018/08/pensions-report-final.pdf>

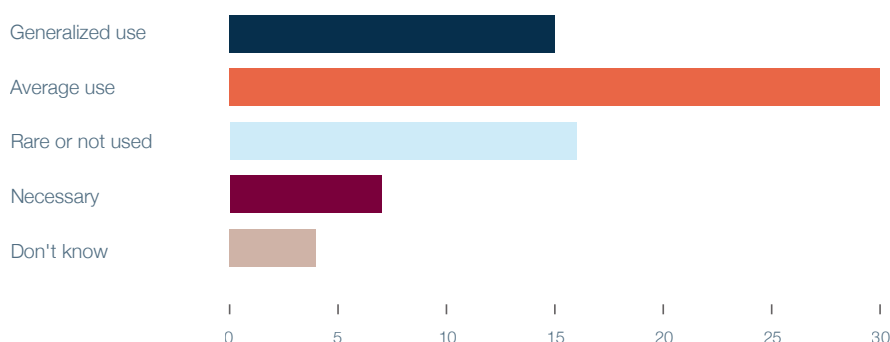
60 Pension Savings: The Real Return - 2019 Edition, Better Finance, <https://betterfinance.eu/publication/pension-savings-the-real-return-2019-edition/>

## 6. Basic products identified

The results of the online survey show that the largest number of respondents, 21% (13 responses), indicated **that access to a savings account is needed**. This is consistent with the current reality where savings are likely to be kept in current accounts or cash, as it would provide an easily accessible alternative. 12% of respondents (7 responses) also indicated that products with an incentive to save are needed. An incentive would generally be related to a tax advantage that could be gained from income saved. Finally, 10% of respondents (6 responses) find that pension or “private” retirement products are needed in addition to compulsory public schemes.

### 6.1 Summary of survey results

Figure 19: Summary of survey results - Savings and pensions



#### A pension or “private” retirement product

Respondents from 19 countries (Croatia, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Latvia, Norway, Poland, Portugal, Romania, Slovakia, Spain, Sweden, the Netherlands and the UK) indicated that these products have average use. Respondents from 9 countries (Bulgaria, Denmark, Germany, Greece, Iceland, Lithuania, Norway, Romania and the UK) indicated that they are generally used. Respondents from 7 countries (Denmark, Finland, France, Ireland, Norway, Romania and Sweden) found that these products were necessary, whilst 7 respondents (Belgium, Bulgaria, Croatia, Germany, Poland, Romania, Sweden) found that these products were rarely or not used. Given overlaps between the responses from the same countries at times, the use of these products seems to be fairly widespread, but not yet high across Europe.

Many respondents found that **saving is fundamental to ensure financial resilience and good financial health**. A respondent from Finland confirmed these finding and that savings accounts are important to help people prepare for unexpected expenses or save for smaller purchases or expenses. A respondent from Ireland similarly found that everyone should have some sort of savings to fall back on as a buffer in case of emergencies, or to save for future events.

A related point came from the UK, where the respondent highlighted the role that savings can have in allowing people to finance predictable expenses, such as holidays that are an

important part of normal life in many countries. On the point related to financial health, a respondent from the Netherlands raised the positive impact that having access to a separate savings account can have on financial literacy, as it helps raise the need to save and encourages people to look into their accounts.

**Savings can help reduce the need for high-cost consumer credit**

Several respondents also pointed out the role that savings can have in avoiding dependency on consumer credit, which can lead to over-indebtedness. Respondents in Finland and Denmark raised particular support for this point.

**Tax incentives that promote saving are less effective for people on low-incomes**

Many respondents raised an issue over the current levels of interest rates being a barrier to the use of savings accounts. They found that currently savings accounts do not constitute a good savings option, but can rather be used to create a financial buffer in case a financial shock occurs. A related point was also raised over the incentives provided to save. A respondent from Belgium found that savings are not properly promoted and incentivised for people on low-income in particular. These people are not generally able to benefit from a tax incentive schemes for savings accounts in Belgium.<sup>61</sup> The example of credit unions in the UK was raised here that has run a “save as you borrow” practice<sup>62</sup> that aims to encourage people to save and create good habits.

61 Marchand A. / Jérusalmy O., Incitants fiscaux à l'épargne et piste d'amélioration, pgs.137-145, in L'épargne en jeu: L'épargne pour tous est-elle possible ?, Réseau Financité, November 2014, ISBN 978-2-9601254-2-9

62 <http://fairbanking.org.uk/wp-content/uploads/2017/02/Save-While-You-Borrow-web-1540217.pdf>

## IV. Category 4: Insurance

Basic Financial Product Identified: Fire Property Insurance, Medical Expense Insurance, Motor Liability Insurance and Family Liability Insurance

### 1. Non-life insurance market in Europe

For the purpose of this report and the survey, the life insurance market has not been considered. The focus is on the non-life insurance market, as access to the associated product can in turn preclude access to employment and help provide insulation from the financial impact of life accidents.

The survey looks at four widely used kinds of non-life insurance: medical, fire, motor and general liability

In Europe there are four key kinds of non-life insurance, comprising medical expenses, fire property, motor and general liability insurance. These business lines account for the largest share of premiums written in the EU currently.<sup>63</sup> The Global Findex again does not look at use of this kind of financial product to measure financial inclusion. This may be due to very different levels of dependency on and necessity for insurance products internationally. In Europe although there are significant differences in the use of certain non-life products, such as medical expense insurance in particular, their use is widespread.

#### 1.1 Sub-product: Medical Expense Insurance

The largest non-life insurance product category in the EU is currently medical expense insurance. This is, however, a type of insurance closely linked to national healthcare systems. In certain countries, such as the Netherlands, the healthcare system is built around medical expense insurance and so it accounts for a huge part of the non-life market. In other EU countries that have a largely publicly funding healthcare system, such as in Austria, it is a negligible product category. Whether it belongs in a minimum basket of essential financial services would therefore depend on the healthcare system of the country in question. It is likely to be essential for citizens in countries where healthcare systems are closely linked with medical insurance, but irrelevant for cases such as Austria. It could be considered for the minimum basket of services, with the caveat that its inclusion is dependent on its relevance to accessing healthcare.

#### 1.2 Sub-product: Fire Property insurance

Property insurance comprises a range of policies that cover risks to property such as theft, weather damage and fire. Fire property insurance is the most commonly sold kind of property insurance, accounting for 17.2% of non-life business in the EU.<sup>64</sup> One indication present in several EU countries of where certain kinds of insurance are considered necessary is if they are covered by guarantee schemes. These schemes ensure that compensation is guaran-

<sup>63</sup> European Insurance Overview (2018), EIOPA, [https://www.eiopa.europa.eu/sites/default/files/publications/pdfs/sa\\_eio.pdf](https://www.eiopa.europa.eu/sites/default/files/publications/pdfs/sa_eio.pdf) p.14

<sup>64</sup> [https://www.eiopa.europa.eu/sites/default/files/publications/pdfs/sa\\_eio.pdf](https://www.eiopa.europa.eu/sites/default/files/publications/pdfs/sa_eio.pdf)

teed to policyholders in the event of an insurance company failure. This is in a sense a recognition of how important this compensation might be and in turn how necessary the insurance cover is. In Denmark, Ireland, Latvia, Malta, Norway, Spain and the UK these schemes cover fire property insurance.<sup>65</sup> On the other hand these schemes tend to differ quite significantly across Europe and whilst there are initiatives to harmonise them, currently the more developed the schemes are the more likely that they will include fire property insurance along with many other types of non-life insurance.

### 1.3 Sub-product: Motor insurance

The importance of motor insurance has been established at EU level, with a Directive<sup>66</sup> already in place. It requires all motor vehicles to be covered by compulsory third party liability insurance. Guarantee funds have also been established to ensure that compensation also exists in the case of cross-border accidents and uninsured drivers. Motor insurance is also one of the largest categories of non-life insurance, accounting for 12.4% of the market.<sup>67</sup> Over half of EU citizens own a car in Europe.<sup>68</sup> For many EU citizens their employment or mobility directly relies on the use of a vehicle. Given that this financial product is a legal prerequisite to use a vehicle, it must therefore also be considered as necessary to fully participate in society.

### 1.4 Sub-product: General Liability Insurance

General insurance accounts for a significantly smaller part of the non-life insurance market at 7.7% of gross premiums written.<sup>69</sup> According to the definition set out in the Solvency II Directive<sup>70</sup> it includes all kinds of liability insurance not relating to motor vehicles, aircraft or ships. The most relevant category of general liability insurance for the minimum basket of basic services is personal or family insurance. This tends to cover the cost of legal expenses and damages arising from accidents involving a third party. Data on the current size of the market for this kind of insurance in the EU is limited. It is therefore difficult to assess how far it is used and in which national contexts.

## 2. Basic products identified

The results of the survey confirm that the top four insurance sub-products that respondents consider necessary are motor insurance (38%, 26 responses), home insurance (fire, storm, etc.) (26%, 18 responses), personal or family liability insurance (15%, 7 responses) and health insurance (16%, 11 responses).

65 EIOPA Consultation Paper on Proposals for Solvency II 2020 Review, Harmonisation of National Insurance Guarantee Schemes, [https://www.eiopa.europa.eu/sites/default/files/press/news/eiopa-bos-19-259\\_consultation\\_paper\\_on\\_harmonisation\\_of\\_igss.pdf](https://www.eiopa.europa.eu/sites/default/files/press/news/eiopa-bos-19-259_consultation_paper_on_harmonisation_of_igss.pdf), pages 64-67

66 <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32009L0103>

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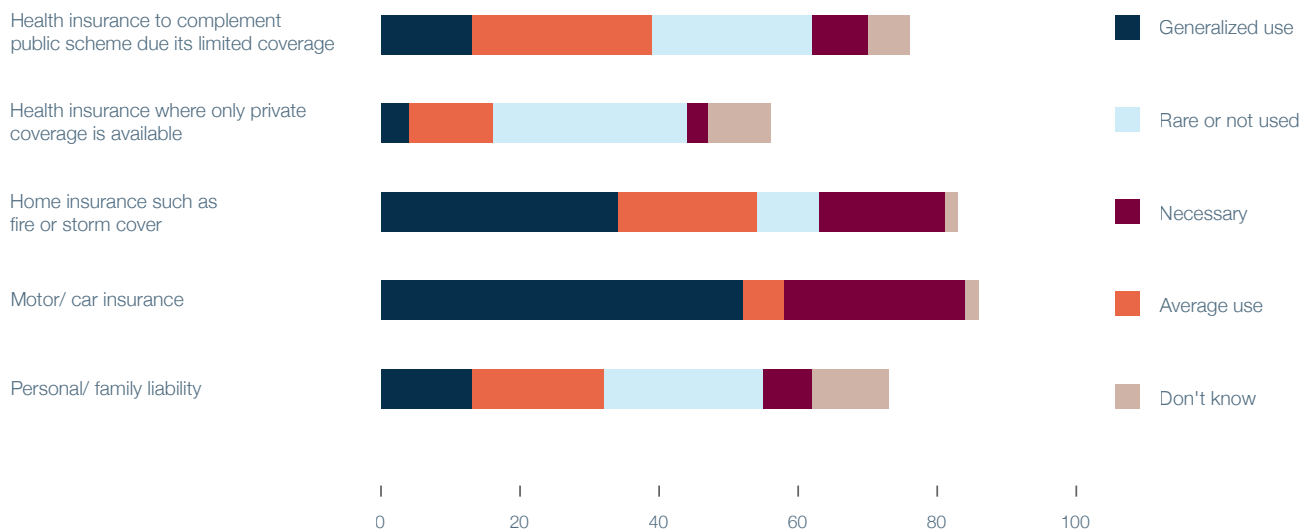
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## 2.1 Summary of survey results

Figure 20: Summary of survey results - Insurance



### Health insurance where only private coverage is available:

Respondents from 9 countries (Bulgaria, Croatia, Cyprus, Denmark, France, Germany, Greece, Ireland and the Netherlands) indicated general use of health insurance to complement a public scheme. However, respondents from 9 countries (Bulgaria, Czech Republic, Denmark, Lithuania, Norway, Romania, Slovakia, Sweden and the UK) indicated that it was rare or not used, the same number as the responses indicating general use. For respondents where private cover is available in 8 countries (Cyprus, Denmark, Iceland, Ireland, Latvia, Romania, Slovakia and Sweden) were found to generally use health insurance. However, respondents from 13 countries (Croatia, Denmark, Finland, Greece, Ireland, Lithuania, Norway, Poland, Portugal, Romania, Spain, Sweden and the UK) indicated rare or no use where only private coverage is available. The overlaps of responses indicate potentially different interpretations of these kinds of health insurance here, or where coverage is limited to the range of healthcare covered, for example.

### Home insurance such as fire or storm cover:

Respondents from all of the countries in survey indicated either general use (17 countries comprising Belgium, Bulgaria, Cyprus, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Norway, Romania, Slovakia, Spain, Sweden, the Netherlands and the UK) or average use (11 countries comprising Belgium, Bulgaria, Czech Republic, Germany, Greece, Ireland, Latvia, Lithuania, Norway, Poland and Romania) of this kind of product. Respondents from 14 countries (Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Norway, Portugal, Romania, Spain, Sweden, the Netherlands and the UK) also considered this kind of product to be necessary. These results seem to indicate widespread use in the different regions and sizes of economies across Europe.

### Motor/ car insurance:

Respondents from every country except Croatia and the Czech Republic indicated that this kind of product is generally used. At least one respondent from 16 countries (Belgium, Bulgaria, Croatia, Denmark, Finland, France, Germany, Greece, Ireland, Norway, Portugal, Romania, Spain, Sweden, the Netherlands and the UK) indicated that this is a necessary

product. Here the clear majority of responses from across Europe indicate widespread and common use of this kind of product.

#### Personal/ family liability:

Respondents from 12 countries (Belgium, Bulgaria, Finland, France, Germany, Ireland, Latvia, Norway, Romania, Slovakia, Sweden, and the UK) found that this kind of product has average use. Respondents from 7 countries (Belgium, Bulgaria, Denmark, Greece, Ireland, the Netherlands and the UK) indicated general use of this kind of product. Under both of the categories, 5 countries (Belgium, Denmark, France, the Netherlands and the UK) also had responses indicating that the product was necessary. Respondents from 9 countries (Bulgaria, Croatia, Greece, Ireland, Lithuania, Poland, Portugal, Romania and Spain) indicated that this product type is rare or not used. Despite some overlapping responses and several 'don't know' responses, there appears to be evidence of more widespread use and perceived need for this kind of product in northern European and larger economies.

### 3. Input from the survey

**Medical, fire and motor insurance may be requirements for citizens to access healthcare, housing, and to be able to drive**

**In some countries, general liability insurance is bundled with home insurance**

Evidence gathered from the workshops and interviews generally identified the widespread use of motor and fire property insurance in Europe. In many of the countries reported on these kinds of insurances are also mandatory. A respondent from Portugal explained that car insurance is a requirement for all registered drivers and that home insurance is required for all homeowners. Similar evidence was collected from Belgium, Croatia (on motor and not home insurance), Denmark, France, Poland and the UK. Respondents also reported that in some cases, such as in the UK or France, personal liability insurance is generally included as part of home insurance.

A more specific insight was provided from the UK that underlined the need for home insurance, even though it is often overlooked. It outlined that this kind of insurance can be essential for a home owner or tenant on low income or in poverty, who would suffer drastic consequences if they were hit by the expense of damages caused by a fire, for example. A relevant example here came from Romania, where even though all homeowners are obliged to insure their property, in reality only a part the population actually end up paying for the cover. It seems that many people in rural areas may not insure their properties. Respondents from many countries such as Ireland and Norway indicated that home insurance is a requirement to be able to have a housing loan.

**Payment protection and income protection insurance are not generally considered essential**

The responses gathered on health insurance seemed to confirm the findings of research undertaken, confirming that the different situations at national level in Europe have a key impact on whether or not it is considered as a basic necessary service. In some countries, such as Norway, respondents indicated that a sufficient welfare system exists and therefore negates the need for private health insurance. There is, however, a tendency for wealthy people to have additional supplementary health insurance. In other countries where welfare systems provide less coverage, health insurance inevitably plays a more important role. In Ireland, for example, the welfare system is organised in a specific way, where in many cases private health insurance is provided by the employer. As part of the survey, several other kinds of insurance were also considered and input gathered. These included payment protection and income protection insurance. However, responses indicated that these kinds of insurance would not for the moment qualify for the minimum basket of basic services. Their use often appears to be limited and targeted at self-employed people or specific groups.

# Conclusions

By collating available information on the current markets for financial services and their use, with the expertise of professionals working in fields related to financial inclusion, a list can be compiled of the basic financial services that are needed to participate fully and equally in society.

The research undertaken has confirmed that access to financial services is necessary for citizens to participate fully in European society. Over the last four decades, European citizens have seen a sharp increase in the use of financial services in their daily lives. This financialisation of society has dramatically changed the way people receive their income and spend their money. The importance of financial products has grown to such an extent that lack of access can create a real challenge for financially excluded citizens to be fully active and integrated in society.

Currently, the market for financial services offers products to a large range of citizens. However, the impact of financial exclusion on social inclusion has meant that ensuring all citizens are able to access services is now a political concern. This has been acknowledged at European level through the European Pillar for Social Rights under Principle 20:

“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.”

The list of financial services that has been established aims to meet both the criteria of being essential and of good quality. It is important to mention that these services are not considered to be obligatory, but should be available to all citizens. A minimum basket of basic financial services is a key way to fight against the negative externalities arising from financial exclusion such as low employability, long-term sickness, lack of mobility, poverty, over-indebtedness and others.

One of the most interesting findings from the survey is that the highest number of respondents identified motor and home insurance as being necessary basic financial services. However, discussions that took place in interviews and the workshops raised access to a bank account, cash, pensions and credit products as being equally important or even more important in many cases. Another important and recurrent finding was the divide between countries with higher levels of financialisation than others. In countries with a high level of financialisation, the basket of minimum necessary products may need to be wider, as they have become more integrated into different aspects of daily life. This seems to be particularly related to the digitalisation trend, which is affecting the consumption of products by financially included consumers, but also often creating another barrier to inclusion.



In order to reach an overall conclusion, an initial list of basic financial services categories identified in research and through the survey was put to workshop participants. The participants then discussed and agreed on the following list that should form the basis for a common minimum basket of financial services needed, where a lack of access risks creating a negative societal impact and externalities:

- A payment account coupled with guaranteed access to cash
- A safe consumer credit market
- A savings account
- A pension scheme
- Motor, House, Personal/Family Third Party Liability and Health insurance

## The minimum basket of basic necessary financial services

Payments	Savings & Pensions
<p>The right to a basic payment account already exists<sup>71</sup> and should be properly implemented.</p> <p>The use of cash is currently at risk of being phased out or restricted in certain countries. It should be protected as a means of payment.</p>	<p>A savings account with attractive conditions for all citizens should be designed and made available on the market.</p> <p>A safe third pillar pension product with attractive conditions for all citizens should be designed and made available on the market.</p>
Credit	Insurance
<p>Affordable, responsible and tailor-made consumer credit should be made available on the market for creditworthy customers.</p>	<p>Motor, health, home and personal/ family liability insurance should be available to all citizens at an affordable cost and provide appropriate cover.</p>

<sup>71</sup> Finance Watch, Financial Exclusion: Making the invisible visible, 2020, URL: [https://www.finance-watch.org/wp-content/uploads/2020/03/FW-Report\\_Vulnerable\\_Groups\\_March2020.pdf?mc\\_cid=3e58d0bba6&mc\\_eid=6aa7949e24](https://www.finance-watch.org/wp-content/uploads/2020/03/FW-Report_Vulnerable_Groups_March2020.pdf?mc_cid=3e58d0bba6&mc_eid=6aa7949e24)

# Recommendation

## How can these financial services overcome existing barriers to access?

Basic financial services should be designed and distributed to specifically tackle financial exclusion. To achieve this objective, basic financial products should ideally be designed, marketed and sold in order to overcome the barriers faced by excluded citizens, who are the most at risk of financial exclusion. As part of the same research project Finance Watch identified particular groups of citizens, characteristics of groups and the barriers that they face to being financially included.<sup>72</sup>

**A key role for the minimum basket of basic financial services is to increase access for vulnerable groups by removing barriers to access.**

The barriers identified fall into the following categories:

- **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. Without it the chances of exclusion are high.
- **Financial requirements for access:** Financial services are often too expensive for low income households or for those at risk of poverty. First, access to financial services often has partly hidden costs, such as a phone or internet connection. Second, the poor and vulnerable often face higher costs of financial services as they are perceived to carry higher risk for providers.
- **Lack of required skills or means:** A lack of literacy can disproportionately affect vulnerable groups. There are also serious issues over the physical abilities needed to access financial services: certain visual, hearing, physical or mental abilities are considered 'standard' and access may not always be possible for those with different abilities.

To ensure that each of the products and categories that have been identified for the minimum basket of goods addresses these barriers, a number of provisions can be used as a guideline. The tables below outline these provisions and should be used by policymakers when introducing new rules or adapting existing rules to implement Principle 20 of the European Pillar of Social Rights.

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<sup>72</sup> Finance Watch, Financial Exclusion: Making the invisible visible, 2020, URL: [https://www.finance-watch.org/wp-content/uploads/2020/03/FW-Report\\_Vulnerable\\_Groups\\_March2020.pdf?mc\\_cid=3e58d0bba6&mc\\_eid=6aa7949e24](https://www.finance-watch.org/wp-content/uploads/2020/03/FW-Report_Vulnerable_Groups_March2020.pdf?mc_cid=3e58d0bba6&mc_eid=6aa7949e24)

## Provisions for the basic set of necessary financial services

Payments		
Basic payment account	Legal requirements	<p>The right to basic payment account exists BUT a strong barrier has been identified related to Anti-Money Laundering / Terrorist Funding regulation. Articles 11 and 13 of the AMLD, set 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.</p> <p>To reconcile the objectives of these two necessary regulations, the right to a basic payment account should be applied with certain adjustments to propose a proportionate response to the risks related to AML/ATF and social inclusion.</p>
	Financial means	<p>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”. This must now be properly assessed to ensure that Article 18 is sufficiently enforced. This assessment should also examine whether or not Article 18 is appropriate to ensure access for vulnerable groups.</p> <p>Article 16(1) of the PAD should be improved to ensure the same price for access is guaranteed for both digital and non-digital or online and offline services. Currently use of non-digital or offline services can result in additional costs.</p>
	Skills	<p>Online or digital access often necessitates certain tools and devices. These devices and tools must be designed for all levels of visual, hearing, physical or mental abilities and all skill sets. The EU Accessibility Act should be enforced, assessed and amended as necessary to ensure that this is the case.</p>
Cash	Legal requirements	<p>All citizens should be able to access and store value in universally accessible public money. Until this is possible through alternative digital means, access to cash should only be restricted in line with the AMLD.</p>
	Financial means	<p>The use of cash should be maintained as an alternative payment option, to ensure fair, equal prices and access to goods and services.</p> <p>Cash payments should not be coupled with additional fees and costs.</p>
	Skills	<p>Cash access points should be designed for all levels of visual, hearing, physical or mental abilities and all skill sets.</p> <p>The EU Accessibility Act should be enforced, assessed and amended as necessary to ensure that this is the case.</p>

Savings & Pensions		
<b>Savings account</b>	Legal requirements	Ensure that document and identification requirements for basic option products are proportionate and achievable for all EU citizens.
	Financial means	<p>There should not be a minimum first deposit amount requirement to open a savings account.</p> <p>Public tax or other incentives should be extended to vulnerable groups to encourage saving.</p>
	Skills	Online or digital access often necessitates certain tools and devices. These devices and tools must be designed for all levels of visual, hearing, physical or mental abilities and all skill sets. The EU Accessibility Act should be enforced, assessed and amended as necessary to ensure that this is the case.
<b>Private/ third pillar pensions</b>	Legal requirements	Ensure that document and identification requirements for basic option products are proportionate and achievable for all EU citizens.
	Financial means	The PEPP Regulation should ensure that the basic PEPP is a simple, standard, low cost product that is suitable for all EU citizens. A basic third pillar pension product must also be financially attractive and adapted to customers from vulnerable groups, by ensuring that there is no risk of loss. Customers from these groups are often not able to benefit from current financial incentives associated with these products, such as income tax reductions.
	Skills	<p>Online or digital access often necessitates certain tools and devices. These devices and tools must be designed for all levels of visual, hearing, physical or mental abilities and all skill sets. The EU Accessibility Act should be enforced, assessed and amended as necessary to ensure that this is the case.</p> <p>Citizens should have access to an independent, publicly-funded (including through industry levies) pensions calculator or equivalent tool. This should allow citizens to easily access the expected future income that their first pillar pension will provide. It should also allow them to make simulations to understand how investing in a third pillar pension, and how their second pillar pension if applicable, will impact on their expected retirement income.</p>

Credit		
Consumer credit	Legal requirements	Ensure that document and identification requirements for basic option products are proportionate and achievable for all customers.
	Financial means	<p>The Consumer Credit Directive should be amended to:</p> <ul style="list-style-type: none"> <li>• Ensure proper assessment of creditworthiness.</li> <li>• Enlarge the scope to include credit under 200 euros and hire purchase agreements, among others, to eradicate exploitative products that often specifically target vulnerable groups and where freely given consent is at risk.</li> </ul> <p>Explore the use of microfinance and credit union schemes.</p> <p>Scale-up the key findings from use of microfinance and credit unions to improve the market supply to vulnerable groups.</p>
	Skills	Online or digital access often necessitates certain tools and devices. These devices and tools must be designed for all levels of visual, hearing, physical or mental abilities and all skill sets. The EU Accessibility Act should be enforced, assessed and amended as necessary to ensure that this is the case. The online experience should be designed to increase the understanding of risk and costs related to credit taking in the pre-contractual phase. Key findings from “behavioural economics” should impact the online journey to limit inefficient information disclosure and replace it with a dialogue / questionnaire that tests the understanding of the consumer AND assesses their creditworthiness based on accurate and sound budget analysis that is properly documented.

Insurance		
<b>Motor, health, home and personal/family liability insurance</b>	Legal requirements	Ensure that document and identification requirements for basic option products are proportionate and achievable for all EU citizens.
	Financial means	<p>Ensure that risk-based pricing models are fair and that an affordable basic option product exists.</p> <ul style="list-style-type: none"> <li>• Pricing rating factors should be carefully selected to avoid any risk of direct or indirect discrimination, or any risk of unfair bias;</li> <li>• Basic products should in particular be based on reinforcing the principle of mutualisation and exclude rating factors that might result in “poverty” identification and related extra charges;</li> <li>• As these products might be less profitable the obligation to offer and provide them should be equally shared by all market players to distribute cost.</li> </ul>
	Skills	Online or digital access often necessitates certain tools and devices. These devices and tools must be designed for all levels of visual, hearing, physical or mental abilities and all skill sets. The EU Accessibility Act should be enforced, assessed and amended as necessary to ensure that this is the case.





## 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](http://www.finance-watch.org)

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