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COMMISSION STAFF WORKING PAPER

IMPACT ASSESSMENT

Accompanying the document

COMMISSION RECOMMENDATION

on access to a basic payment account
(Text with EEA relevance)

{C(2011) 4977 final}
{SEC(2011) 907 final}

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Disclaimer

This impact assessment report commits only the Commission's services involved in its preparation and the text is prepared as a basis for comment and does not prejudge the final form of any decision to be taken by the Commission.

1. INTRODUCTION

Access to a bank account has become a pre-condition for participating fully in the economic and social life of a modern society and the use of cash is rapidly decreasing. Nevertheless, according to recent studies, around 30 million EU citizens over the age of 18 do not have a bank account. Among these 30 million 'unbanked' citizens, it is estimated that about 6.4 million are actually deprived of or do not dare to ask for a bank account when they would want to open one. These individuals cannot currently benefit fully from the Internal Market.

The provision of a basic payment account, which can be considered as a low-profit product, is unlikely to be a priority for banks that are focused on ensuring their stability, rationalising operations and improving and maintaining profitability. On the other hand, growing levels of unemployment in the aftermath of the financial crisis are likely to increase demand for such services. In the current economic climate, it is unlikely that this problem will resolve itself; addressing access to a basic payment account is thus an important part of the regulatory efforts to reform the financial sector.

In line with the Commission's better regulation approach, policy options need to be carefully considered and their impact thoroughly assessed in advance. This report focuses on the problems related to access to a basic payment account. Other services such as savings, credit and insurance are outside the scope of this initiative.

2. PROCEDURAL ISSUES AND CONSULTATION OF INTERESTED PARTIES

2.1. Procedural issues

Over the last three years, the Commission has undertaken a thorough analysis and carried out consultations concerning the problem of the lack of access to basic banking services.

In November 2007, the Commission published its Communication *A single market for 21st century Europe*[1], accompanied by a Commission staff working document on initiatives in the area of retail financial services[2] where the Commission invited all stakeholders to reflect on the possibilities to ensure that by a certain date no EU citizen or resident would be denied access to a basic bank account. The same objective was included in the Renewed Social Agenda[3] adopted in July 2008.

In May 2008, the Commission published a fact-finding study *Financial services provision and prevention of financial exclusion* covering the current situation in the EU.[4] The results of the study were presented on 28 May 2008 at a high-level conference[5] organised by the Commission. The main conclusion of the conference was that markets alone might be insufficient to achieve a more financially inclusive society and that public authorities, both at

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1 http://eur-lex.europa.eu/LexUriServ/site/en/com/2007/com2007_0724en01.pdf

2 http://ec.europa.eu/citizens_agenda/docs/sec_2007_1520_en.pdf

3 COM(2008) 412, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:DKEY=473792:EN:NOT.

4 http://ec.europa.eu/employment_social/spsi/docs/social_inclusion/2008/financial_exclusion_study_en.pdf and http://www.fininc.eu

5 http://ec.europa.eu/employment_social/spsi/events_en.htm#financial_exclusion

national and European level, have the responsibility to guarantee that all Europeans can access and adequately use basic financial services.

On 5 June 2008, the European Parliament adopted a Resolution on the Green Paper on Retail Financial Services[6] in which it stressed the need to ensure access to financial services for all interested parties.

A public consultation on ensuring access to a basic bank account[7] was launched in February 2009, and set out different policy options which could be followed by the European Union to ensure access to a basic bank account. Responses to the consultation revealed broad support for some EU action in this area. The majority of consumer and civil society stakeholders favoured a universal EU-wide right to a basic bank account provided free of charge or at a minimum fee. Most public authorities shared the objective of ensuring access to a basic bank account, emphasising that access should be a right rather than an obligation. The financial services industry recognised the importance of basic bank accounts but believed that the freedom to contract should be maintained (for a more detailed overview see Annex 1).

On the basis of the results of the consultation, in August 2009, the Commission engaged the Centre for Strategy and Evaluation Services to carry out a study (hereinafter: the CSES study) on the costs and benefits of a series of policy actions in the field of ensuring access to a basic bank account, ranging from the promotion and sharing of best practices to an EU legislative initiative, or a Recommendation. The study's conclusions favored a Recommendation as a first step.

The report *A new strategy for the Single Market – At the service of Europe's economy and society* (hereinafter 'the Monti report')[8] published on 9 May 2010 recognises the importance of the access to basic banking services. Professor Monti states that the lack of access to basic banking services prevents a relevant number of citizens from effectively accessing the Single Market. He suggests that in this context, the Commission should consider proposing, possibly on the basis of Article 14 of the Treaty on the Functioning of the European Union (hereinafter TFEU), a regulation ensuring that all citizens are entitled to a number of basic banking services. He adds that an EU framework for financial inclusion complementing the ongoing comprehensive reform of financial services regulation at EU level would allow an important part of the population, in particular in the new Member States, to reap more fully the benefits of the single market.

The Single Market Act[9] published on 27 October 2010 recognises the importance of creating a single market that serves consumers and announces a legislative initiative on access to certain basic banking services at the beginning of 2011.

A public consultation on the content of the possible proposal for ensuring access to a basic payment account was launched on 6 October 2010 with a deadline for responses on 17 November 2010. Stakeholders were invited to express their position on the principle of a European harmonised framework aiming at guaranteeing the right for consumers to access to a basic payment account. Input was also welcome on targeted aspects that this framework could regulate.

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6 http://www.europarl.europa.eu/RegWeb/application/registre/searchResultDetailed.faces
7 http://ec.europa.eu/internal_market/consultations/2009/financial_inclusion_en.htm
8 http://ec.europa.eu/bepa/expertises/visitor-programs/mario_monti/index_en.htm
9 http://ec.europa.eu/internal_market/smact/docs/brochure-web_fr.pdf

First, the financial industry was generally against a binding EU instrument in this field, arguing that such an initiative will not have a significant added-value compared to what has already been developed and what could be realised at national level in a dialogue with the industry. This report acknowledges the fact that lack of access to bank accounts has not been widespread at the same extent in all Member Sates and that legal, economic and social conditions differ from a country to another, but points to the fact that similar difficulties for consumers have been identified throughout the EU and that these consumers are encountering concrete difficulties in reaping the benefits of the internal market as a whole. Second, consumer representatives were supportive of an initiative that will ensure an effective access for all consumers to an account with a sufficient range of functionalities likely to enable them to live a normal life. They favour an EU level proposal which would introduce only minimum standards, leaving Member States free to adapt them in line with local conditions and consumers' needs. Third, both national public authorities and financial industry tend to consider that the compliance with customer due diligence requirement is a matter of the utmost importance.

The issues for which there was the most consistent cross-stakeholder approach vis-à-vis a possible EU action were the importance of acknowledging that access to a bank account for the widest part possible of the society is highly desirable and the need to ensure that any EU initiative would allow sufficient flexibility at national level.

An Inter-service Impact Assessment Steering Group, chaired by Internal Market and Services DG, was established in April 2010, involving representatives from Competition DG, Economic and Financial Affairs DG, Secretariat-General, Legal Service, DG Health and Consumers, Enterprise and Industry DG, Education and Culture DG and Justice DG. The Group met on 10 May, 13 July and 8 October 2010.

The report was presented to the board on 1 December 2010. The board concluded that the report needed to be improved and resubmitted. The board focused on three main recommendations to improve the report. These recommendations, as well as those expressed by the Board on 17 February 2011, have been incorporated into a revised version of the report.

The board recommended strengthening the analysis of the problem description to clarify the magnitude of the problem (see Section 4.2), by attempting to distinguish within the EU adult population without a bank account the part which actually is or considers itself deprived of such an economic tool, by assessing the relative importance of the specific drivers addressed by the initiative in question (see Section 4.1, and Table 3 in Sub-section 4.1.3) and by explaining better its impact on the functioning of the Single market. The board also suggested providing more information on the likely evolution of the problem taking into account parallel Commission initiatives and expected economic developments across the EU (see Section 4.4 and Annex 18). Furthermore, the board suggested strengthening the analysis of subsidiarity and proportionality, in respect of the different policy instruments examined (see Section 8.6). Finally, the board requested that the analysis of the impacts was further developed, in particular in providing more information about the assumptions, including cost assumptions, underpinning the quantification of net benefits, particularly with respect to transfers among stakeholders – consumers, taxpayers, payment service providers (see Section 8.4 and Annex 13), potential monitoring costs for banks and public authorities and effects on the competitiveness of the EU banking industry (see Section 8.5 and Annex 15).

3. POLICY CONTEXT

3.1. Importance of having a bank account

Over the last decades, access to basic financial services has become a necessary pre-condition for participating fully in the economic and social life of a modern society. The use of cash is steadily decreasing as salaries, benefits and utilities are more and more paid via bank accounts. What is more, a bank account plays a gateway role as it is an essential tool to access other basic financial services, ranging from electronic payments to consumer loans, mortgages and life insurance[10]. Access to a bank account, offering a set of basic electronic payment transactions, has become a key to full participation in the internal market. Similarly, although to a lesser extent, gaining access to housing or a job might be facilitated by having a bank account.

3.2. Existing Member States policies and industry initiatives

Ten Member States have already recognised under one form or another the importance of having access to banking services, as banks may be reluctant to offer bank accounts to some strands of society, leaving them unbanked. However, approaches differ considerably in various Member States.

Four Member States have regulated access to a bank account (Belgium, France, Finland and Denmark, see also Annex 6) either by introducing a right to a bank account for everybody (Finland, Denmark) or only for the unbanked population (Belgium) or those who have been refused a bank account (France). Belgium and France guarantee access to a basic bank account, which is defined by law. One Member State (Sweden) guarantees access to a deposit account, which does not offer payment services. In Netherlands, an agreement between banks and the relevant authorities states that a bank may not refuse to open a bank account to any customer.

Table 1: Access to a bank account – Comparison of binding requirements[11]

Member States	Right to a basic bank account (defined by law)	Right to a regular account	Right to a deposit account (no electronic payments)	Agreement between the government and industry)
Belgium	X			
Finland		X		
France	X			
Denmark		X		
Sweden			X	
Netherlands				X

Source: CSES study and own research

In another four Member States, specific voluntary codes by the banking sector address the issue of payment bank account opening. They either state that banks should open accounts for anybody fulfilling standard requirements, e.g. concerning ID, address, compliance with anti-money laundering (AML) rules (Germany, Slovenia) or that they should offer a special basic

[10] *European Financial Integration Report 2008*, SEC(2009) 19 final.
[11] For more detailed information, see Annex 5.

bank account to those customers whose needs would be suited by such a product (United Kingdom). The situation in Italy is governed by the Patti Chiari Charter, a range of commitments provided by banks that includes also the provision of a payment account. Banks can choose between the 'Servizio Bancario di Base' and/or the 'Conto Corrente Semplice'. In addition, the Italian Banking Association (ABI) has recently promoted some initiatives to facilitate people's access to banking services. For a further description see Annex 6.

In addition to efforts undertaken by industry associations, individual service providers (usually social-oriented providers, like savings banks, post office banks and other mutual co-operative providers) have attempted to improve the accessibility and usability of financial services products, by offering products designed for the unbanked population.

Nevertheless, in most Member States, this problem is not addressed at all, meaning that some groups of EU citizens are deprived of access to electronic means of payments. The table below illustrates differences both in the scope and means by which access to banking services is ensured. Regulatory frameworks exist mainly in EU15 Member States, while the majority of EU12 Member States have no framework at all, whether of a regulatory or a voluntary nature. However, even in the EU15, only a minority of members has any regulatory framework in place. There is also a correlation between the existence of frameworks and the level of population with bank accounts. Five of the countries that have binding requirements in place have the highest average level of account penetration and the lowest level of the unbanked population. Similarly, Member States in which the banking sector has adopted specific charters have a higher bank penetration than those Member States with no frameworks in place.

The comparison between EU15 and EU12 illustrates important differences between the two groups. Only one of the EU12 countries (Slovenia) has voluntary charters addressing access to a bank account.

Table 2: Access to banking services – Country comparison

	Total countries	EU12	EU15	Average account penetration[12]	Countries
Binding requirement	5	0	5	99.3	BE, DK, FI, FR, SE
Industry charter	4	1	3	95.8	UK, DE, SI, IT
Agreement between the government and industry	1	0	1	99	NL
No framework	15	9	6	92	AT, CZ, EE, EL, LT, LV, LU, MT, PL, PT, ES, HU, CY, IE, SK
No framework BG, RO	2	2	0	51	BG, RO

Source: CSES study, own research

According to our information cross-border bank account opening is generally not addressed by Member States' policies or industry codes of conduct. However, in Finland, access to a bank account would be guaranteed to any consumer, regardless of his/her residency.

12 Flash Eurobarometer 282. *Consumers' Views on Switching Providers*.

3.3. Scope of the impact assessment

This Impact Assessment discusses the causes of lack of access to a bank account offering payment services and proposes measures to ensure wide accessibility of payment accounts. In the problem description we refer to bank accounts, as studies and evidence refer to bank accounts. In the assessment of options we refer to payment accounts, as this is a wider term, already used in the EU legislation, describing any account, including a bank account, used for the purpose of execution of payment transactions. A 'payment account' is defined in the Payment Services Directive (PSD) as "an account held in the name of one or more payment service users, which is used for the execution of payment transactions"[13]. A basic payment account will be defined be payment services it will offer – the assessment of services which should be offered with a basic payment account is presented in Section 7.1. The PSD directive defines also payment services providers, which include banks but also other providers (see Glossary in Annex 2). The PSD establishes information requirements concerning the provision of payment services as well as rights and obligation for payment services providers and consumers (such as liabilities of parties, maximum execution time of payment transfers and rules of refund).

This Impact Assessment does not deal with access to credit, insurance or any other financial instruments. Nor does it address the issue of inadequate financial literacy, although this is one driver of self-exclusion; financial literacy is the subject of a separate initiative[14].

4. PROBLEM DEFINITION

Evidence[15] shows that there are still considerable efforts to be made across the EU to ensure access to transaction banking services for all. Today, many people in the EU cannot enjoy all the benefits that the internal market has to offer due to the lack of electronic means of payment, incur higher costs because of the use of cash only or, worse, experience problems when taking up jobs, renting accommodation, receiving wages or benefits. Individuals going cross-border for study, traineeships, or on (temporary) employment can face all these problems because they are likely to be denied a bank account on grounds of residence and nationality.

According to a study available and Eurobarometer surveys[16], on average, 7 % of all EU consumers i.e. 30 million Europeans over the age of 18, do not have a bank account[17] (Annex 3). This limits their participation in the financial market and the internal market, resulting in persisting inequalities and, in some cases, possibly leading to financial or social exclusion[18].

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13 Article 4(14) of Directive 2007/64/EC.

14 Communication Financial Education adopted in December 2007.

15 *Financial Services Provision and Prevention of Financial Exclusion*, DG Employment, Social Affairs and Equal Opportunities, European Commission, 2008, pp. 21-25 (hereinafter: DG Employment study); *Study on the Costs and Benefits of Policy Actions in the Field of Ensuring Access to a Basic Bank Account*, Centre for Strategy & Evaluation Services CSES, July 2010, p. 6 (hereinafter: CSES study).

16 Flash Eurobarometers 243 and 282 respectively of 2008 and 2009. Consumers' Views on Switching Providers, European Commission.

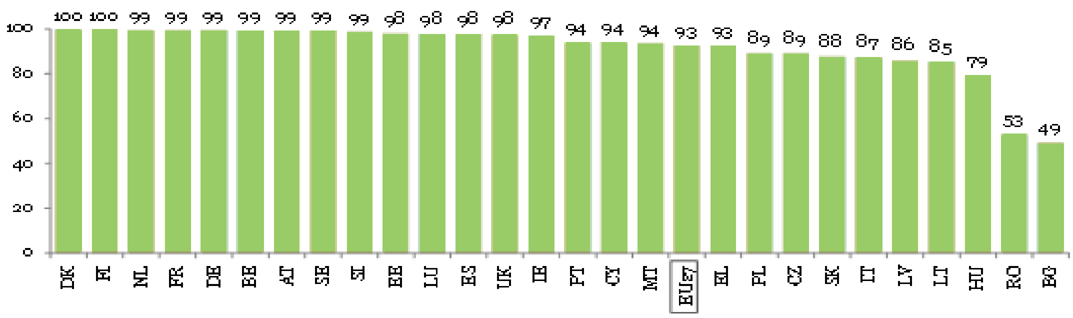
17 It should be noted that whereas there are few data on individuals' access to a bank account, there are even fewer research on households, which make it a less reliable basis on which to base a policy.

18 *European Financial Integration Report 2008*, SEC(2009) 19 final.

At the same time, this global average figure hides disparities among Member States as well as among the actual unbanked population at stake which need to be examined in more details. In fact, the reality and the acuity of the situation may differ, according to whether one lives in a Member State with a developed banking sector or not, whether one has been denied access to a bank account for reasons e.g. of level of income or residency status, or does not want to have a bank account, either for lack of financial education or as a 'political statement'. The magnitude of the problem may therefore also differ. The different reasons for not having a bank account or not having access to a bank account are examined thereafter. The extrapolations (see Section 4.2) made in this respect show that about 6.4 million persons out of the 30 million unbanked adults in the EU are actually deprived of a bank account.

The diversity of the situation in the EU regarding the lack of a bank account is illustrated by the graph below based on a Eurobarometer poll carried out in 2009. With the exception of Romania, Bulgaria and Hungary, at least 85 % of the respondents in each of the other Member States have a current bank account. In the case of Romania and Bulgaria, around half of the respondents do not have a bank account. In two of the Member States, namely Denmark and Finland, virtually everyone has a current bank account. The comparison between EU15 and EU12 is quite distinct; average bank penetration for EU12 is 91 % and for EU15 is 97 %. Apart from Slovenia, Malta, Estonia and Cyprus, the percentage of the population in EU12 countries with a current bank account is generally lower than the EU27 average. Of the EU15, only Italy has bank account penetration that is below that of the EU27 average.

Graph 1: Proportion of adults with a bank account



Source: Flash Eurobarometer 282 – Year 2009

4.1. Reasons for lack of access to a bank account

Research has been carried out to identify factors that influence access to financial services in general, and to a bank account in particular. Within the framework of Employment, Social Affairs and Equal Opportunities DG's study, causes of financial exclusion have been studied in 14 countries (for the summary of results, see Annex 7).Some social and economic factors such as changes in the structure of labour markets (greater job insecurity, high levels of youth unemployment, income inequalities) and the demographical changes – technological gap between generations (with an ageing population having difficulty in staying up-to-date with new technology) have been identified as factors that contribute to difficulties in accessing to a bank account.

These issues however fall outside the scope of this Impact Assessment.

Another series of explanatory factors relate to the demand side as well as to the supply side[19].

4.1.1. Demand side

People are deterred from accessing and using transaction banking services for a range of psychological, cultural and educational reasons. Many of these can be explained by a lack of basic financial literacy skills or a lack of awareness of the advantages brought by the use of banking services.

According to a Commission study[20] there is a strong link between being unbanked and being on a low income. Various studies support this by demonstrating a strong correlation between being unbanked and relatively low household income as well as between being unbanked and low educational attainment.

Many researchers[21] have looked at what types of people do not have access to a bank account. They have concluded that problems with access to a bank account mostly affect vulnerable groups: people living on a low income, the unemployed, single parents, people unable to work through disability and recipients of social assistance[22].

They have also found a link between the lack of access to financial services and age, with the youngest (mostly EU15) and oldest people (mostly EU12), being most likely to be excluded, as well as with the level of education. Being unbanked is also very prevalent among ethnic minorities and migrants[23].

Social factors are however outside of the scope of this Impact Assessment.

Psychological and behavioural factors

Some people for instance are of the opinion that dealing only in cash gives them more control over their budget and spending behaviour. Others are mistrustful of financial services providers due to the lack of financial education or by bad past experience. Also low self-esteem and belief that banks are not for poor people prevents some of the unbanked from applying for a bank account.

Low financial literacy

The problem of financial illiteracy has been recognised as one of the main causes of self-exclusion. Consumers with little or no financial education are intimidated by the often complex nature of financial products and by their own lack of understanding of such products.

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19 Anderloni and Carluccio, 2006; Corr, 2006; Gloukoviezoff, 2005; Kempson, 2006 after DG Employment study, pp. 40-41.

20 DG Employment study, pp. 31-35.

21 Anderloni, 2003; Anderloni and Carluccio, 2006; Bank of Italy 2004, BMRB, 2006; Barr, 2004; Bayot, 2005; Błędowski and Iwanicz-Drozdowska, 2007; Corr, 2006; Devlin, 2005; Disneur et al, 2006; Gloukoviezoff, 2005; Kempson, 2006; Kempson and Whyley, 1998; Idzik, 2006; IFF, 2000; IFF, 2006; Marketing Partners Ireland Ltd, 2006; Mintel, 2005; Test Achats, 2001; after DG Employment study, pp. 31-35.

22 Referred to as 'marginal' consumers.

23 See footnote 21, p. 30.

Consumers are prevented from accessing financial services because they are not aware of the benefits of an account, because they do not know how to use or manage accounts or other basic financial services or ignore they incur high costs because they do not have a bank account. Because they may also have a fear vis-à-vis new electronic banking technologies (like ATMs) because they are familiar with the tools, or because they mistrust banks. Lack of understanding of banking products prevents consumers from applying for them. The issue of improving financial literacy is dealt with in a separate initiative and thus falls outside the scope of the present Impact Assessment.

In this respect, it is necessary to distinguish within the 30 million unbanked adult EU citizens, those who are either self-deprived or have been refused access to a bank account from those who prefer not to have a bank account, even if this might result in individual, if not societal, economic inefficiencies. An attempt to calibrate the size of the respective populations is made under Section 4.2 on the magnitude of the problem.

The supply side drivers influence the demand side in the relation to 'marginal' consumers – as consumers will not apply for an account, if they do not find an offer that suits their needs (e.g. a basic bank account). Banks' policies also influence customers' decision whether or not to apply for a bank account. Self-exclusion may be caused by the belief that a bank would reject an application but also because there are no appropriate basic offers on the market.

Pricing conditions, lack of transparency and comparability of the information on bank account fees may deter consumers from applying for a bank account if they do not have clear and transparent information on prices and find fees relatively high in relation to their income.

4.1.2. Supply side

4.1.2.1. Level of development of the banking sector

This driver affects 'marginal' consumers[24] as well as 'mobile'[25] consumers living in the Member States with a bank sector which is still in development, particularly in terms of infrastructure coverage.

Existing research points towards a correlation between economic development and access to a bank account. On the whole, economically less prosperous societies, where financial/electronic payment circuits tend to be less developed/used, tend to suffer from lower levels of access to bank accounts[26] (see Annex 4).

The size of the banking sector in the economy and the level of banking penetration vary greatly from one Member State to another. The size of banking assets is smaller than the GDP in Romania, Lithuania, Bulgaria, Poland, Slovakia and the Czech Republic but up to seven times GDP or more in Luxembourg, Malta, Ireland, Cyprus, United Kingdom and Denmark[27].

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[24] People living on a low income, the unemployed, single parents, people unable to work through disability and recipients of social assistance

[25] Consumers who want to open a bank account in the host Member State (in which they are not residents).

[26] DG Employment study, see footnote 9, pp. 19-20; *Policy Level Response to Financial Exclusion in Developing Economies: Lessons for Developing Countries*, Kempson, E. (paper presented at *Access to Finance: Building Inclusive Financial Systems*, Washington DC, 30.-31.5.2006).

[27] Bank Watch, 15.4.2010.

The very low percentage of the population having a bank account in Bulgaria (49 % of the adult population) and Romania (53 %) may be explained by a lower level development of the banking sector compared to other Member States. The dynamic baseline scenario for Bulgaria and Romania is discussed in Section 4.4.

It is noticeable that the banking sector is growing rapidly in EU12 (e.g. the volume of loans has multiplied 6- or 7-fold in the last few years in Lithuania[28]). This will lead to enhancements of either retail banking networks or online banking facilities. As the use of bank accounts increases in those Member States, so will the need for access to a bank account.

It is worth noting that in countries with a widespread financial system that also tend to have a lower percentage of unbanked population, the impact of not having a bank account may be very profound. Due to the widespread use of banking services, unbanked consumers may sometimes have little choice but to pay through electronic means (credit transfers, online). Being unbanked in those societies (where the size of the banking sector in relation to GDP is high) is very likely to lead to social exclusion. The level of development of the banking sector is outside of scope of this Impact Assessment.

4.1.2.2. Product design

The limited availability of products

The limited availability of products for customers perceived as commercially unattractive concerns mainly marginal consumers but also mobile consumers.

As has been described in Section 3.2, special products designed to meet the needs of commercially unattractive consumers are offered only in a few Member States. In Belgium and France they are guaranteed by law. In Netherlands six major banks have signed a basic bank account covenant. Basic bank accounts are available also in the United Kingdom, Germany and Italy (where specific voluntary codes apply to provision of basic bank accounts). Co-operative or savings banks also offer products specially designed for commercially unattractive consumers. However, they often operate in a limited geographical area and usually focus on customers that are residents in their business district. What is more, they do not operate in the majority of Member States with lower bank penetration. Generally speaking, socially oriented financial institutions (like co-operative, savings or postal banks) have a very limited presence in EU12 where the levels of unbanked population are higher. The Van Dijk Management Consulting study[29] has found that special products designed for the financially excluded consumer are offered in a total of nine Member States. As a result, the majority of unbanked consumers are not offered products designed for their needs. This driver concerns predominantly the group of the excluded (marginal) consumers. However, mobile consumers seem to be considered commercially unattractive because of enhances potential of fraud, risk (due to the lack of access to credit histories) and enhanced requirements concerning due diligence.

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[28] Bank Watch, 7.4.2010.

[29] Study *Data collection for prices of current accounts provided to consumers*, Van Dijk Management Consulting, 2009, p. 26.

Pricing conditions

This driver mainly concerns 'marginal' consumers (low-income, unemployed, receiving social benefits) who are very price sensitive. 'Mobile consumers' are concerned when they are offered different price conditions than home consumers[30].

The price level and transparency of information on the total amount of charges attached to bank accounts are particularly important for consumers. A lack of clear information as to the total amount of charges for an account and its related services can deter some consumers from applying for an account. Banks differ in their pricing methods which can lead to difficulties for consumers in comparing products and assessing the total amount of annual charges. The Commission has recognised this problem and asked the banking industry to come up with a self-regulatory initiative enhancing the transparency and comparability of bank fees. This problem falls therefore outside of the scope of this Impact Assessment.

The DG Employment study[31] has confirmed that charges for the use of a bank account deter both access and use. The study shows that terms and conditions may not be suited to the needs of basic users. A requirement to keep a minimum balance (or to have a minimum opening balance) is detrimental to consumers on low incomes. Regressive charges (both monthly and per transaction) disproportionately affect people on low income. An account that in principle is free of charge may become very expensive if the bank applies high charges for any credit transfer, direct debit or cheque transaction that fail due to insufficient funds.

The Van Dijk Management Consulting study *Data Collection for Prices of Current Accounts Provided to Consumers* has also confirmed that the pricing of accounts may not always correspond to the types of transactions which are more likely to be used by the given profile of users: e.g. when the total price of a basic bank account covers a significant number of credit transfers that are not frequently used by basic account users.[32] The same study has revealed significant price differences for the provision of payment services through a payment account, depending on the profile of users: average, active, passive, basic (Annex 9).

Neither the correlation test applied nor the graph below revealed the existence of a direct correlation between the price level of accounts on offer (including on purchasing power parity basis) and the level of a population without a bank account. Although in a few countries, there would seem to be some relation between price levels for basic profile users and the unbanked population.

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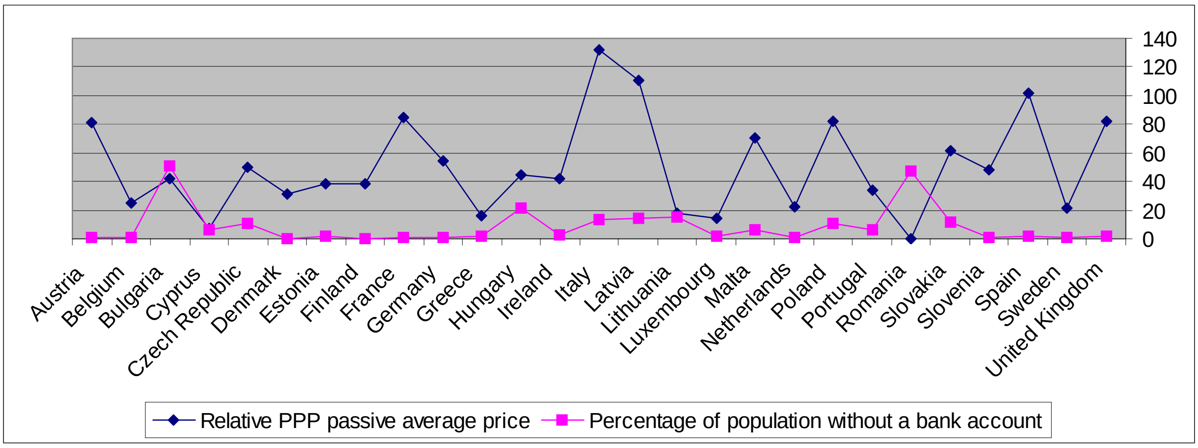
30 As indicated in the complaints sent to the Commission services.

31 DG Employment study, p. 41.

32 Van Dijk Management Consultants study, see footnote 26, p. 29.

Graph 2: Proportion of unbanked population in relation to average bank account price



Source: European Commission, Internal Market and Services DG based on Flash Eurobarometer 282 & Van Dijk Management Consultants study, 2009

In summary, whilst the problems faced by the different groups of consumers may vary in intensity depending on whether one is looking at marginal consumers or mobile ones (two categories which overlap in some cases), both groups are confronted with a failure of the market to respond to their needs, as shown in Table 3 (Section 4.1.3).

4.1.2.3. Commercial policy

Commercial policy of banks has consequences both for 'marginal'[33] consumers and 'mobile'[34] consumers.

Some consumers are denied access to a bank account because they do not fulfil certain eligibility conditions, some of them stemming from legal requirements such as identity checks, and others established by banks: such as residency requirements, proof of income, profitability, risk assessment, credit history etc.

Identity requirements

It is obvious that people unable to satisfy identity requirements cannot open an account. The third EU Anti-Money Laundering Directive (2005/60/EC) clearly requires that individual unable to provide adequate identification when applying for a bank account must be rejected. Whilst the requirement to carry out customer due diligence stems from the law, banks in a few Member States have sometimes interpreted the 'know your customer' legal requirement in such a way as to politely refuse commercially unattractive customers. This has been particularly the case for non-resident customers trying to open a bank account in another Member State. But the issue has also been reported problematic for low-income marginal consumers in those Member States in which there is no national ID, e.g. in Ireland, unbanked consumers face problems with providing appropriate documents for identification (passport, driving licence, utility bills, etc)[35] However, the assessment of the implementation of the Anti-Money Laundering Directive is outside of the scope of this Impact Assessment.

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33 Consumers found commercially unattractive by banks.
34 Consumers seeking to open a bank account in the Member State other than of their residence.
35 Glukoviezoff, Understanding and Combating Financial Exclusion in Ireland, p. 5, unpublished.

Profitability

Banks sometimes have their own requirements for the opening of a bank account e.g. in terms of a minimum level of economic activity and the financial status of the applicant.[36] This certainly may constitute an obstacle for the unemployed or people of low and/or unstable income. In general, banks target profitable consumers thus excluding marginal consumers, consumers on low income or engaged in temporary employment may appear to many financial institutions (especially commercial ones) as not profitable because they are likely to be passive users of a bank account and undertake low volume of transactions. Furthermore, such consumers are unlikely to make much use of financial products other than a basic bank account, at least in the short term. Analysis shows that people on low incomes are not commercially unattractive for many financial services providers since their needs are modest and therefore profit margins are small or non-existent.[37] An example of such an approach can be found in the code of practice of the Association of Cypriot Banks, which states that one of the criteria for denying their services may be the real or expected volume of transactions with a specific customer[38].

Whilst it is fully legitimate for public and private banks engaged in a commercial activity to ensure their profitability – and this is even more acute in the present economic and financial situation – there are circumstances where market forces do not cater for some needs of our modern societies, including access to a basic payment account and leave some categories of population, mainly 'marginal' consumers, in a disadvantaged position. However, also mobile consumers may be found less profitable due to higher costs of their identification and the conduct of business rules, like 'know your customer'.

Risk assessment

Banks also perform a risk assessment of customers (not only for accounts with an overdraft facility or a credit line). Consumer organisations in several Member States report that individuals in economic distress find it more difficult to gain access a bank account, even where these accounts have no overdraft facilities attached. Overindebted and bankrupt customers in particular, may have problems with opening a bank account. In many countries e.g. in Germany, people can be rejected because they have an unimpaired credit history. UK banks have the right to deny a basic bank account if the individual is an undischarged bankrupt. Bankrupt customers may also be perceived by banks as carrying a legal risk in respect to their dealings. Risk assessment may be also detrimental for non-residents trying to open a bank account in another Member States ('mobile' consumers), since banks may be unable to access their credit data and thus may be unable to conduct risk assessment.

Residency

Experience has shown that there are difficulties to the cross-border mobility of consumers demanding payment services. The opening of a payment account in another Member State today is often refused by providers on the mere basis that the consumer is not a resident of the

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[36] *Report on the Results of the Survey - WP1 - Better Access to Financial Services for People Experiencing Poverty and Social Exclusion*, Financial Inclusion Observatory, p. 8, http://www.fininc.eu/knowledge-and-data/knowledge-and-data,en,32.html.

[37] Burchardt and Hills, 1998a; Kempson and Whyley, 1999a, 1999b after *In or out? Financial exclusion: a literature and research review*, FSA, Consumer Research, 3.7.2000, p. 12.

[38] http://www.acb.com.cy/codes/bankingconduct2009_gr.pdf

Member State concerned. Furthermore, as European payment users and consumers become increasingly mobile, and work, travel, study and retire in different Member States of the Single Market, there is a growing need for them to be able to open a payment account on a cross-border basis. Although there has been a spectacular growth of online banking services at national level, this growth has not been replicated at a cross-border level. In theory, distance is not a relevant parameter for the provision of online banking services but in practice residency obligations blocks the development of this market. Not having this possibility creates a gap for a fully integrated payments market in which citizens should be able to make all payment transactions from one single payment account which is not necessarily in the country of residence.

In an enquiry undertaken by the Commission[39] vis-à-vis the national banking associations in Austria, Belgium, France, Luxembourg, the Netherlands and the United Kingdom, it was confirmed that there were no legal restrictions limiting the provision of payment accounts to residents only. Some banking associations, e.g. in the UK, acknowledged that whilst some financial institutions provide basic accounts to customers without a need for residence, a significant number of their members refuse to open payment accounts to non-residents due to fraud and money laundering concerns. In fact, the AML requirement in such cases is still often used as a polite excuse to turn down a potential non-resident client. However, the main concern has to do with the fear of providers that they would face significant difficulties to recover debt if clients' assets were held outside their jurisdiction, if their clients were to overrun their accounts into overdraft. This fear is further substantiated by a lack of access to the potential customers' credit histories.

4.1.2.4. Asymmetries of information

This driver concerns predominantly the group of low-income (marginal) consumers but there is also asymmetry of information concerning 'mobile' consumers due to the difficulties with access to their personal data and credit histories.

This bias vis-à-vis low-income consumer subsists in many European jurisdictions where the vast majority of banks (unless prompted by the intervention of the public authorities, like in the UK) have shown little marketing interest for this segment of the population[40]. Whilst some banks[41] have come to realise that this segment in the long run might be a profitable one, there is no active competition among banks across the EU to attract that clientele, contrary to the efforts made vis-à-vis e.g. the teenagers, who are seen as the customer base of tomorrow. In most cases, banks tend to cater for their mainstream clientele (mass market approach for staple services), devise products accordingly and do not seem to be ready to adopt long term investment strategies vis-à-vis low-income consumers. If there is an asymmetry of

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39 In this context, the Commission Services corresponded with national banking associations in Austria, Belgium, France, Luxembourg, Netherlands and United Kingdom.

40 "Database technology has had an enormous effect on marketers' ability to ignore the poor. Data enables companies from all sectors to identify their best and worst customers easily and then exploit the old '80/20 rule' – 80 % of a company's profits comes from 20 % of its biggest spending customers. The result is that many companies have become ruthless about who they deal with and, in some cases, actively rid themselves of unprofitable customers. Banks are the worst culprits. A survey by the Chartered Institute of Banking recently found that 56 % of UK banks admit to having strategies for 'firing' unprofitable customers". Marketing Magazine – James Curtis, 26.10.2000.

41 After two years, 40 % of Banco Santander UK's low-income clientele upgraded to a classic current account with a broader service offer, which is more attractive both for customers and their bank. The Banker, June 2010.

information in this area, it is likely to remain, as no copycat strategies have emerged to address the low income segment market, contrary to what happened over the last 20 years for the segment of 'high-net-worth individuals'. Furthermore, this is unlikely to be remedied by banks' actions in the area of 'corporate social responsibility'. These generally represent a small share of the banks' activities, ranging from charitable activities to a recent approach of the micro-finance market often outside the boundaries of the EU, rather than permeate the whole banking activity.

4.1.2.5. Geographical accessibility

The lack of physical presence of a bank branch close to the consumer can also constitute a barrier for those living in more remote or rural areas. This has been recognised by a few Member States which consider the provision of the country-wide banking network as a service of general economic interest. Those Member States aim at ensuring adequate physical access to cash and payment services for citizens living in remote areas, in which payment services providers have reduced their physical presence (see Annex 8). The United Kingdom, Ireland and Sweden consider "country-wide access to over-the-counter cash and payment services through post office counters" to be a service of general economic interest[42]. Germany and Austria assign to a certain group of credit institutions, namely savings banks, the task of providing a comprehensive financial infrastructure.[43] The issue of geographical availability of a banking network is however outside the scope of this Impact Assessment.

4.1.3. Drivers per different group of consumers

The table below aims at summing up the influence of drivers on the main two target groups: named for the reason of simplicity as 'marginal' consumers, and 'mobile' consumers. The table does not include drivers, which are out of scope of this initiative.

The demand side drivers apply predominantly to 'marginal' consumers who would not apply for a bank account for reasons listed in Section 4.1.1. 'Mobile' consumers are in general less likely to be affected by the demand side factors, like psychological, cultural or educational reasons; this group is active and is not deterred from applying for a bank account but faces problems lying on the supply side, i.e. refusal of the bank to open a bank account.

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42 http://ec.europa.eu/competition/publications/cpn/2003_1_14.pdf

43 http://ec.europa.eu/competition/state_aid/studies_reports/archive/report_bank_en.html

Table 3: Problem drivers for different groups of consumers

	Drivers	Marginal consumers	Mobile consumers
Supply	Limited or no availability of products designed for consumers perceived as commercially unattractive	✓✓✓	✓
	Price conditions – high price levels	✓✓✓	0
	Commercial policy – profitability	✓✓✓	✓
	Commercial policy – risk	✓✓	✓✓✓
	Commercial policy – residency	0	✓✓✓
	Commercial policy – asymmetry of information	✓✓	✓
Demand	Psychological and behavioural factors	✓✓✓	0
	Low financial literacy	✓✓✓	0

✓✓✓ (strong driver), ✓✓ (moderate driver), ✓ (weak driver), 0 – neutral

4.2. The magnitude of the problem

The few studies and polls available on this subject tend to indicate that about 7 % of EU consumers, meaning 30 million adult citizens in the EU do not have a bank account. However, there are hardly any data concerning those people who do not have a bank account because they have been refused access to one: banks in general do not keep data concerning those applications which they have turned down.

To ascertain among the 30 million unbanked persons, that part of the population that is likely to have been refused access to a bank account, extrapolations have been carried out on the basis of the data available for France (methodology is explained in Annex 5). On the basis of that data we have estimated that around 30 % of the unbanked population in EU25 have been denied a bank account (5.7 million). We have applied a different methodology for Bulgaria and Romania – estimating that 717 000 adults in those Member States can have problems with access to a bank account (Annex 5). It has been estimated that in total 6.4 million consumers face problems when they want to open a bank account.

This figure does not take into account the mobile population which may face difficulties in opening a bank account on a cross-border basis, i.e. in another Member State than that of their residence. More than a question of number, the issue at stake here is a symptomatic one: the problem that the mobile citizens encounter affects the image of the Single Market. It is hard for EU citizens to understand that they are granted a freedom to move within the EU and accept that they may face problems in a number of Member States to open a bank account. Whilst difficulties in opening a bank account in another EU Member State will not per se constitute an insurmountable obstacle for a student firmly intending to carry out his or her PhD in another Member State, it nevertheless represents a 'friction' that cannot be justified on grounds of necessity and proportionality. It is however difficult to quantify the problem since banks do not keep records of the rejected applications made on a cross-border basis.

The evidence available is purely anecdotal and based on the complaints which the Commission receives from citizens on a regular basis. These complaints concern a large number of different Member States[44] where payment service providers have refused to open a payment account on the grounds of nationality or place of residence. Questions to the Commission's Citizen Signpost Service (CSS) focussing on situations with a cross-border dimension corroborate these findings[45].

Anecdotal evidence based on citizen complaints sent to the European Commission and inquiries with the Citizen's Signpost Service:

– A Belgian resident's request to open an online bank account has been refused by several Dutch banks on the basis of him not having a residence in the Netherlands.

– A German pensioner living in Spain tried to open a bank account with a German bank for receiving her pension but was told she needed a permanent residence in Germany to do so.

– A Belgian resident owning a flat in London wanted to open a bank account with a UK bank to handle her rent income but was refused on grounds of not being a UK resident.

– A request to open a bank account by a Romanian citizen studying in France was rejected by a French bank on the basis of the student's nationality.

– An EU citizen working in Luxembourg on a temporary basis was required to submit a proof of residence in Luxembourg for opening of a bank account.

– An Irish citizen moved to the UK for the purpose of study and has tried to open a current account. Banks in the UK stipulated that he needs to be living in the UK for three years in order to be able to receive the terms and conditions offered to the UK citizens.

– A German student who arrived in France and was looking for accommodation was demanded to make a deposit at a French bank but the French bank demanded a French residence card to open an account.

– A Hungarian resident started working for a UK company from his home in Hungary and has been requested to open a bank account in the UK for the salary to be paid into it. He has been refused by UK banks on the grounds that he does not live in the UK and is not a UK resident. The company has refused to pay the salary into an account in Hungary.

In quantitative terms, complaints in terms of numbers (a few tens per year) are definitely dwarfed by the sheer magnitude of people moving around in the EU: if one is only looking at students, nearly 200 000 students every year nowadays study in another Member State than that of their residence thanks to the Erasmus system. Even if complaints are few, they are symptomatic of a lasting problem and on grounds of principle, the current situation cannot be considered satisfactory.

Furthermore, a recent large scale Eurobarometer survey[46] indicates that the unemployed and the young (aged 15–24), i.e. people usually with low income, are most likely to envisage working outside their Member State. This level of mobility, as well as the fact that consumers searching for a job in another country and the young may appear to banks as commercially

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44 Over the past three years, the Commission Services have received complaints concerning PSPs in Austria, Belgium, Czech Republic, France, Germany, Italy, Ireland, Luxembourg, Netherlands, Poland, Portugal, Slovakia, Spain and United Kingdom.

45 Of all questions received by the CSS in relation to financial services (497) during a 14-month period in 2006 and 2007, 142, i.e. 28.6 %, of all enquiries concerned the opening of bank accounts. Questions on bank accounts were the leading category of all seven financial services concerned.

46 Eurobarometer 337, 2010, pp. 8, 9, 11, 17 and 29.

unattractive customers is an issue of concern, given the aforementioned obstacles to the opening of a bank account by non-residents.

4.3. Consequences

4.3.1. Consequences for consumers

Limited choice of goods and services

More and more goods and services are offered online. In such cases, lack of access to electronic means of payment by some consumers means they are prevented from fully benefiting from the opportunities created by the internal market. Unbanked consumers are essentially faced with less choice in goods and services and often higher prices. Online shopping for instance, either domestic or cross-border, cannot be accessed without a means of electronic payments. It has to be also acknowledged that there are also other barriers to access to online goods and services e.g. lack of access to the internet. Problems with limited goods and services are encountered both by 'marginal' and 'mobile' consumers, when the latter move temporary to highly banked Member State where domestic bank account is required by service providers. Consumers who do not have access to a bank account may have problems accessing other mainstream financial services. A simple bank account can become the gateway to other financial products. Without a bank account consumers cannot benefit from the Single European Payment Area nor from the internal market for financial services.

Higher costs

Occasional use of banking services is more expensive than being a regular bank customer. When a customer receives a payment, such as a cheque, and does not have access to a bank account, a consumer may need to pay a fee or use an intermediary to cash the cheque. A similar problem arises where a consumer wishes to make a payment, and does not have a bank account. Households often need to pay at least three utility bills per month (e.g. energy, gas, telecom), not to mention other occasions when they need to pay for goods and services or send money. Likewise, without electronic means of payment, consumers cannot take advantage of discounts often provided for electronic payments of utility bills or for online purchases (for more information see Annex 16).

Financial exclusion, social exclusion and poverty trap

Consumers who do not have access to a bank account are also very likely to be disadvantaged or even face problems in everyday life. The use of cash is decreasing: employers increasingly pay wages electronically, renting property becomes more and more difficult without a bank account, utility providers increasingly require bank accounts, and even at many universities students need a bank account in order to pay for students’ accommodation. This is certainly the case in countries with high bank penetration, in which cash is less frequently used. This applies both to marginal (commercially unattractive consumers) and mobile consumers.

The situation can vary from one Member State to another and some groups and societies may still prefer to operate in cash. However, even in the case of those countries with a less wide spread banking system, the pace of development in the banking sector indicates that consumers in those Member States are likely to face problems in the coming years.

Lack of access or difficulties accessing or using financial services and products which enable people to lead a normal social life has been called 'financial exclusion' by many researchers[47]. Financial exclusion may lead to social exclusion – defined as a lack of participation in the society by the LSE Centre for Analysis of Social Exclusion. On the other hand, social exclusion may be a cause of financial exclusion, when for example those living on a low income, the unemployed, immigrants or the homeless cannot open a bank account, either because of the price of the latter or because of the eligibility criteria set by the bank. The relationship between financial exclusion and social exclusion has been the subject of many studies.[48]

There are also strong links between financial exclusion and over-indebtedness. Financial exclusion and over-indebtedness are both causes and consequences of poverty and social exclusion. People without access to electronic payments bear higher costs for many goods and services through a limited choice and bear higher costs when paying bills and occasionally using banking services.

Not being able to demonstrate any banking history prevents many individuals from accessing prime lending markets which feature lower rates of interest than sub-prime lending. Sub-prime markets are characterised by offering credit to those with lower credit scores but at higher interest rates. Higher charges incurred by consumers without access to prime financial markets add to costs of living and make it more difficult to escape the poverty trap. A study on poverty led by the UK Family Welfare Association, *How poor households pay more for essential goods and services*, has estimated the cost to poor families stemming from operating in cash and not being able to make electronic payments to be EUR 163 per annum. Total costs borne by poor families for operating in cash, not being able to make electronic payments, not being able to access mainstream affordable credit, incurring higher maintenance insurance costs and incurring higher utilities charges have been estimated to be EUR 1 126 per annum.

Barrier to free movement of persons

The exercise of the right of free movement of persons within the EU should not be jeopardised by difficulties such as those relating to the opening of a bank account. As confirmed by the expert group[49], cross-border bank opening is growing although it primarily concerns specific categories: non residents living near a border, non resident property owners (secondary residence or investment), foreign students, expatriates, temporary workers (tourism, agriculture, and construction), etc. These individuals need a bank account for everyday operations: paying for accommodation, receiving pensions or salaries, paying bills, etc. Indeed, the Single European Payment Area (SEPA) aims at ensuring that one bank account will be enough to carry out all national and cross-border transactions. However, SEPA concerns only payments in euro within the EEA and is not completed yet. Secondly, it only applies to electronic transactions. Therefore when consumers move temporarily to

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47 For the purpose of this IA, "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". *Financial Services Provision and Prevention of Financial Exclusion*, DG Employment, European Commission, 2008.

48 Anderloni, 2003; Anderloni and Carluccio, 2006; Kempson and Whyley, 1999, Kempson and Whyley 1999; Kempson et al, 2000; McKay and Collard, 2006 after DG Employment study *Financial Services Provision and Prevention of Financial Exclusion.*

49 http://ec.europa.eu/internal_market/finservices-retail/docs/baeg/report_en.pdf

another Member State, if the latter does not belong to the euro area, it may be still more beneficial for them to open a bank account in that Member State, if only by avoiding systematic conversion charges from euro to the domestic currency at stake and vice versa. After all, consumers should have the choice and possibility to open bank accounts in the host Member States.

4.3.2. Consequences for industry

More and more providers offer their goods and services online. Thus retailers, especially in the area of e-commerce may bear the consequences of lost opportunities. The opportunities offered by the European Digital Single Market[50] will be unavailable for consumers without access to such means of payment, and hence industry will be deprived from part of a potential market. In these specific circumstances, supply and demand will not meet.

For utility service providers, having to deal with consumers without a bank account is also more costly. Furthermore, it prevents from proposing direct debits as a means of payment, which enables the securing of their cash flows[51], thereby facilitating their treasury management.

4.3.3. Consequences for national public administrations

As studies show, there is a correlation between the income level and the unbanked status as explained in Section 4.1.1.: those on low income – there are 84 million people at risk of poverty in the EU, the disabled, the unemployed and single parents are more likely to be unbanked. These groups are also most likely to receive social benefits. There is also a correlation between the unbanked status and age, with oldest people (mostly in EU12), being unbanked. The latter group also receives state benefits, namely pensions. We can therefore estimate that a substantial proportion of unbanked consumers receive social assistance.

It can be therefore said, that where Member States do not pay social security benefits or pensions electronically, they incur higher costs. On the basis of available information, we assume that 98 % of Member States administration has the possibility to make and receive electronic payments[52]. In the current context of severe budgetary constraints in a number of Member States, it is worth exploring additional savings from the reduced transaction costs of making payments through bank accounts as opposed to traditional physical processing. Furthermore, the aim of the Digital Agenda and of E-Government of fully digitalising the relationship between citizens and public authorities may not be reached if recipients of social benefits are unable to open a bank account.

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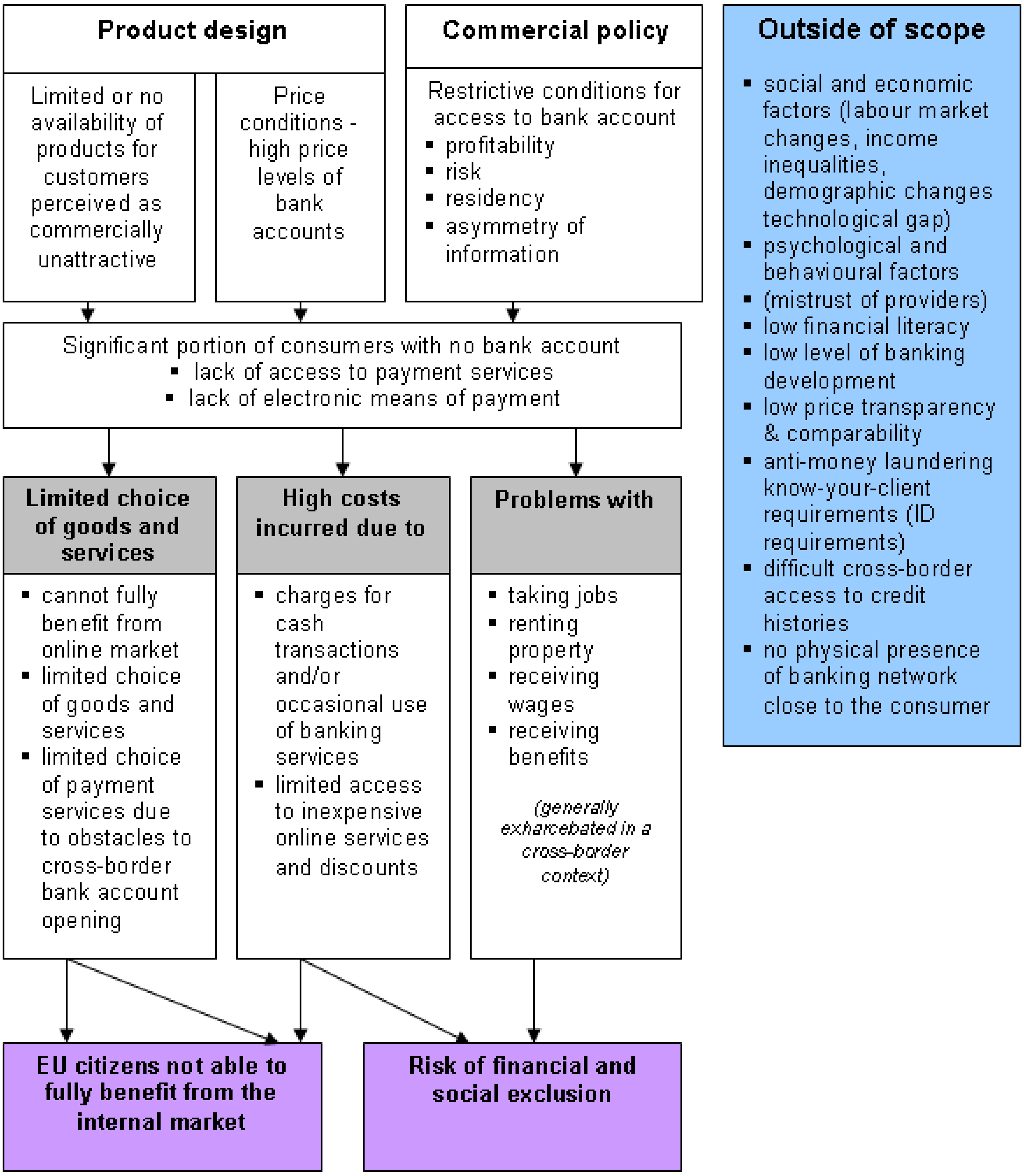
50 http://ec.europa.eu/information_society/digital-agenda/index_en.htm

51 At least in theory, as there may be circumstances where low income consumers might rather prefer to opt for credit transfers or other means of payment allowing to keep a tight control on their finance.

52 On the basis of responses to Commission's questionnaire on migration of the public administration into SEPA.

Graph 3: Problem tree



4.4. Dynamic baseline scenario

A number of factors need to be taken into account in a dynamic baseline scenario, relating respectively to the specific situation of Bulgaria and Romania, the evolution of the present economic situation and possible change in bank's behaviour, as well as to the influence of other related Commission initiatives (for more details, see Annex 17).

Bulgaria and Romania – where almost half of the population is without a bank account due for part to an under-developed banking infrastructure and consequent lack of geographical access – would be expected to improve over time in line with their expected economic growth and the development of their financial sector. A development of the banking network similar to Portugal's over the next 15 to 20 years would lead to a doubling of the current density of the network of bank branches per 100 000 persons, bring Romania and Bulgaria to the level of Hungary. This would undoubtedly lead to a sizeable reduction of the population without a bank account. One could however expect a smaller but still significant part of the population would remain without a bank account.

The question may also arise as to whether the present economic situation would not spur banks to intensify their efforts to exploit all profit opportunities, including the low income consumer segment which segment is likely to grow to the detriment of the mainstream middle income consumer market of most banks. Whilst banks may be ready to accommodate the difficulties faced by their current clientele, in order to preserve it while awaiting an economic upturn, there is no certainty that these banks will adopt opportunistic strategies and broaden their offer of services by including simpler and basic services that would be affordable to a broader customer range. They might as well opt for a more conservative strategy, consisting in trying to maximise their relationship with their existing clientele base.

The self-regulatory initiative on transparency and comparability of bank fees launched by the banking industry should allow consumers to make informed decisions. Combined with the possibilities offered by bank account switching at national level, bank account holders might benefit from a higher level of competition. A limitation of this initiative is that it is conducted at national and not pan-European level: domestic structural market conditions will remain unchanged. Furthermore, the price elasticity of demand for this type of service is unclear.

Whilst actions at EU or Member States level regarding financial education might over time raise levels of awareness among that part of the 30 million EU adults who do not have a bank account about the advantages of holding one and therefore lead to a higher proportion of the banked population, these actions alone will not per se solve the core of the problem at stake, a view shared by many consumer organisations.

5. CASE FOR EU ACTION

According to the principle of subsidiarity, action at Community level should be taken only when the aims envisaged cannot be sufficiently achieved by the Member States alone and can therefore, by reason of the scale or effects of the proposed action, be better achieved by the EU. The issue being addressed concerns access to basic payment services. Given the nature of the objectives pursued under this initiative, EU action can be justified, for a number of reasons.

The problems identified lead to consumer detriment through limited choice of goods and services, incurred high costs, difficulty in taking jobs and receiving incomes. At the moment, the majority of Member States have not addressed the issue, while those in which access to a basic payment account is regulated do not provide for access to consumers from other Member States. This absence of action at national level in most Member States undermines the functioning of the internal market as it does not lead to inclusion: some strands of society are prevented from reaping the benefits of the single market, whatever their place of residence. It also creates unnecessary burdens in cases of cross-border mobility, particularly of workers, trainees, and students. And this is happening at times when currently unemployed (and possibly unbanked) persons may find it necessary to move across borders in search of employment. The exercise by these groups of their rights of free movement under the Treaty is to some extent undermined by the inability to have a bank account in their host state. The present situation is conducive to financial and social exclusion for a significant number of

Europeans, both domestically and cross-border and even in Member States with high banking penetration.

This overall situation is unlikely to change in any material way, especially given the effects of the global financial turmoil on cost-cutting and national market retrenching, with financial services providers likely to be more interested in protecting themselves from perceived risks than developing alternative products for unbanked people with no immediate profit. Furthermore, as described in Section 3.2 and Annex 6, action from Member States alone has been patchy and insufficient from an EU perspective, thus maintaining obstacles to the optimal functioning of the internal market. Such lack of uniformity and potentially discriminatory practices could also lead to numerous consumer complaints. Should Member States move towards ensuring a right of access to payment accounts under their jurisdiction, there is no guarantee that they would grant a cross-border right of access. At the same time, the increasing use of the Internet by providers will make the overlap of domestic and cross-border issues become more and more prominent as far as basic banking services are concerned.

An EU-wide guaranteed access to payment accounts would constitute a first step for consumers in accessing financial services and availing of the benefits offered by the EU integrated financial markets. It would also make it possible for them to benefit from the Single Euro Payments Area as well as to benefit from the rights and protection introduced by the Payment Services Directive. Payment of benefits by public administrations would be easier and more effective as the use of other means than credit transfers for this purpose will decrease.

Ensuring that basic payment accounts are available for consumers will lead to a long-term win-win situation both domestically and on a cross-border basis. Factors that prevent access to payment accounts and therefore full participation of EU citizens and residents in the internal market can be addressed by appropriate EU policy initiatives. In the years preceding the crisis, the financial services agenda was strongly focused on the freedom of provision of services, increasing consumer choice and profitability of financial products, and a possible impact on people experiencing poverty or on low income has been overlooked. This development would need to be re-balanced through more inclusiveness in the internal market, which can only happen through an EU-wide approach. It therefore follows that EU action is justified to achieve the objectives of this initiative.

Should the instrument chosen be a legislative instrument, the legal basis is likely to be Article 114 TFEU.

Article 114 TFEU allows for the adoption of "measures for the approximation of the provisions laid down by law, regulation or administrative action in Member States which have as their object the establishment and functioning of the internal market". In doing this, in accordance with Article 169 TFEU, the Commission will take as a basis a high level of consumer protection.

A non-legislative action in the form of a Recommendation would be based on Article 292 TFUE.

In any case, action at the EU level must also respect the principle of proportionality. This criterion is duly considered when assessing the effectiveness and efficiency of the policy options examined later. The retained option is among the least burdensome for stakeholders.

In the same spirit, the choice of the instrument is crucial in finding an appropriate balance between EU level action and national action. Self-regulation, exchange of best practices, a recommendation, directive, framework regulation or regulation, would all have different impacts on the proportionality of the measures chosen, taking into account the objectives pursued and the mechanisms already in place in a few Member States. A detailed discussion is contained in Section 8.6.

6. OBJECTIVES

General:

– To promote full participation of all EU citizens in the internal market.

– To promote financial inclusion and social inclusion.

Specific:

– To improve access to payment accounts and electronic means of payment throughout the EU.

Operational objectives:

1. To ensure that a suitable product is offered for consumers perceived as non-profitable (commercially unattractive).

2. To ensure inclusive conditions for bank accounts opening for consumers having problems meeting banks' conditions for access (e.g. concerning income, economic situation, credit history or residency status).

6.1. Coherence of objectives with other Commission policies

Financial education – Evidence shows that the lack of knowledge of financial services constitutes a very important factor determining financial exclusion. The Commission issued a Communication on Financial Education, COM(2007)2008 of 17 December 2007, and is currently reviewing and evaluating reactions to it.

SEPA and Payment Services Directive – Access to a payment account is necessary for EU citizens to benefit from the Single Euro Payments Area (SEPA), which abolishes the existing distinctions between national and cross-border payments. The objective of SEPA cannot be reached if citizens cannot open payment accounts. Information requirements and the rights and obligations linked to the provision and use of a payment account and payment services have already been harmonised at EU level by the Payment Services Directive (PSD). The PSD does not, however, ensure access to payment services.

Consumer credit – Rules concerning provision of unsecured credit to consumers have been harmonised at EU level through the Consumer Credit Directive (CCD)[53]. The above mentioned directive applies also to overdraft facilities and overrunning, which are quite often

[53] Directive 2008/48/EC.

offered together with a bank account[54]. The CCD ensures transparency of costs, terms and conditions as well as comparability of offers concerning credit.

Transparency of bank fees – The Commission intends to explore the issue of transparency, comprehensibility and comparability of bank fees. The banking industry has been invited to commit to a self-regulatory initiative aimed at ensuring transparency and comparability of bank fees enabling consumers to take informed decisions. This could have implications on the current initiative by ensuring transparency and comparability of fees for a basic payment account.

7. POLICY OPTIONS – DESCRIPTION OF POLICY OPTIONS

7.1. Products and services (linked to operational objective 1)

1: No policy change	No intervention at EU level either by public authorities or by private entities (self-regulation).
2: Ensure that basic payment services are offered by payment services providers (PSPs)	Under this option, a list of payment services to be offered with a basic payment account would be defined at EU level, as the following: (i) opening, managing and closing of the account; (ii) receiving, placing, transferring and withdrawing funds, both physically and electronically; (iii) statement of the account.
3: Ensure that basic payment services and a payment card are offered by payment services providers (PSPs)	Under this option, a list of payment services to be offered with a basic payment account would be defined at EU level, as the following: (i) all the facilities under Option 2; (ii) payment card – enabling the carrying out of electronic payments.
4: Ensure that basic payment services, a payment card and an overdraft (credit line) are offered by payment services providers	Under this option a list of payment services to be offered with a basic payment account would be defined at EU level, as the following: (i) all the facilities under Option 3(ii) overdraft facility.

7.2. Price of a basic payment account (linked to operational objective 1)

1: No intervention at EU level	No intervention at EU level either by public authorities or by private entities (self-regulation). It would be left for market forces to determine the price of a basic bank account.
2: Ensure that where a basic payment account is not free of charge, the price is reasonable	This option would aim to ensure that basic payment accounts are reasonably priced.
3: Free of charge provision of a basic bank account	Under this option a basic bank account would be provided free of charge.

7.3. Conditions of access to a basic payment account (linked to operational objective 2)

1: No policy change	No intervention at EU level either by public authorities or by private entities (self-regulation). It would be left for financial services providers to decide on the eligibility conditions customers would need to meet in order to open a basic bank account.
2 : Access for households	Under this option, access will be granted to partially or fully unbanked households. (access to a basic joint account)

[54] See footnote 49, Article 3(d) & (e).

3: Right to a basic payment account for all unbanked customers	Under this option, the Commission could introduce the right to a basic payment account for all unbanked EU residents or citizens (whether or not they have already attempted to open a bank account). No other conditions of granting access could be used apart from those provided in the legislation (e.g. anti-money laundering requirements) or public order and security aspects.
3.1: Access only for residents	Unbanked consumers would have a right to open a basic bank account only in the Member State of their residency.
3.2: Access for residents and non-residents	Unbanked consumers would have a right to open a basic bank account in any Member State, even in one in which s/he is not a resident.
4: Right to a basic payment account for every EU citizen and resident	Under this option, every EU citizen or resident (regardless of whether he or she has already an account) would have a right to a basic payment account. No other conditions of granting access could be used apart from those provided in the legislation (e.g. anti-money laundering) or public order and security.
4.1*: Access only for residents*	EU citizens and residents would have a right to open a basic bank account only in the Member States of their residency.
4.2*: Access for residents and non-residents*	EU citizens and residents would have a right to open a basic bank account in any Member State, even in one in which he is not resident.

8. ASSESSMENT OF IMPACTS AND COMPARISON OF POLICY OPTIONS

This section provides an analysis of the impacts and comparison of options for three different areas: 8.1 products and services, 8.2 price and 8.3 conditions of access. A quantification of costs and benefits for the preferred options is given in Section 8.4. The schema used for assessment and comparison purposes is the following: ✓✓✓ (strong positive contribution), ✓✓ (moderate positive contribution), ✓ (weak positive contribution), ××× (strong negative contribution), ×× (moderate negative contribution), × (weak negative contribution), 0 (neutral contribution).

It is noted that an extended version of Section 8 (Assessment of Impacts) exists in Annex 12, which provides a detailed analysis of the impact of each of the options on different stakeholder categories (consumers, providers, Member States). An estimation of the impact of the preferred set of options in quantified terms is provided in Section 8.4 and in Annex 13.

8.1. Products and services

8.1.1. Option 1: No policy change

Under the baseline scenario, the status quo would be maintained and the problem of limited or no availability of products targeting the excluded consumers would remain unaddressed. Some banks may voluntarily design new products for excluded consumers. However, it is unlikely that in the short term, banks in 18 Member States (where it was found that such products were not available) would target excluded consumers by offering simple bank accounts that would suit their needs. As a result, the objective of improving access to payment accounts and electronic means of payment would not be met. Consumers without a bank account would not be able to fully benefit from the internal market with their choice of goods and services being limited. They would still face financial exclusion which could lead to social exclusion.

No access to a payment account means higher costs for consumers due to high charges for occasional use of banking services, charges for money transmission, cashing cheques, loss of discounts for electronic payments or online discounts. We have assessed the annual opportunity cost of not having access to a payment account to range form EUR 185 to

EUR 365 per consumer (see Annex 13). The financial impact on payment account providers is expected to be neutral since they would not need to introduce new products.

8.1.2. Option 2: Ensure that basic payment services are offered by payment services providers (PSPs)[55]

Providers would offer a basic payment account specially designed to meet the characteristics of commercially unattractive consumers, which would allow them to: (i) deposit and withdraw cash; (ii) receive salaries, benefits, pensions and other credit transfers directly, (iii) pay bills or taxes electronically, pay for goods and services electronically (either by credit transfers, standing orders or direct debits); (iv) but not obtain a payment card or (v) credit in the form of an overdraft.

This option would improve the availability of payment accounts throughout the EU and therefore would have a moderately positive impact on consumers (✓✓). The impact on providers largely depends on the chosen assumptions (notably with regard to the pricing of such an account) and could accordingly range from weakly positive to weakly negative (✓-✗). Member States are expected to experience a weakly positive impact (✓). For a more detailed analysis of impacts, see Annex 12.

8.1.3. Option 3: Ensure that basic payment services and a payment card are offered by payment services providers

Providers would offer a basic payment account specially designed to meet the characteristics of commercially unattractive consumers, which would allow them to (i) perform all functions specified under Option 2 and (ii) use a payment card[56] allowing for electronic payments.

This option, like Option 2, would facilitate the achievement of the objective of ensuring that a product designed for consumers perceived as commercially unattractive is offered throughout the EU. In addition to the benefits described under Option 2, consumers would get quicker access to funds and be able to buy goods and services on the internet. Most online purchases and bookings are possible only with a card, and more and more providers are offering payment with a debit card in addition to a credit card. As a result, consumers would benefit from an increased choice of goods and services, and savings due to various discounts for electronic payments and access to online services. Being able to buy goods and services without having to leave home should improve the standard of living of people with disabilities, or older people. This would further enhance their participation in the internal market and improve their position in the society. Like Option 2, the benefit could be even larger than currently envisaged as the low income segment is likely to grow to the detriment of the mainstream middle income consumer market.

The overall impact on consumers is expected to be strongly positive (✓✓✓). The overall impact on providers is expected to range from moderately negative to weakly positive (✗✗-✓). The impact on Member State administrations is expected to be neutral or moderately positive (0-✓). A detailed analysis of impacts can be found in Annex 12.

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55 See Glossary. We are using the term Payment Services Providers in order not to restrict provision of a basic payment account to banks.

56 Payment card with real time authorisation not allowing payment transactions which exceed the current balance of the account.

8.1.4. Option 4: Ensure that basic payment services, a payment card and an overdraft (credit line) are offered by payment services providers

Providers would offer a basic payment account, which would allow consumers to (i) perform all functions specified under Option 3, and (ii) get into a negative balance (overdraft).

While this option would look positive at first sight, it would in reality not achieve the objective of ensuring that a product designed for consumers perceived as commercially unattractive is offered throughout the EU. In order to grant a credit line, banks would need to carry a risk assessment. Therefore, this product would not meet the needs of consumers with bad credit histories, indebted, unemployed or on low income. Similarly in the case of non-residents, the lack of access to credit histories would prevent banks from offering them such a product.

The overall impact on providers is expected to range from strongly negative to weakly positive (✘✘✘-✓). The overall impact on consumers is expected to be weakly negative (✘). The overall impact on Member States is expected to range from neutral to weakly negative (0-✘). A detailed analysis of impacts can be found in Annex 12.

To conclude, this option would not meet the objective of ensuring that unbanked consumers have access to a suitable product.

Comparison of options

The 'Do nothing' scenario (Option 1) has no impact on achieving the objectives outlined in the table below. Options 2 and 3 were both found to be particularly effective and efficient in achieving the objectives pursued under this initiative. Option 3 however was found to be the most effective concerning achieving the objective of promoting full participation of EU citizens in the Internal Market. Option 3 would ensure that PSPs in EU Member States offer a product designed so as to take into account consumers perceived as commercially unattractive. A basic payment account together with a payment card would allow consumers to benefit from a wider choice of goods and services, lower costs of living (online discounts, access to cheaper goods and services) and would contribute to financial and social inclusion. Option 4 was found to be ineffective since the need for a creditworthiness assessment for the purpose of granting a credit line in the form of overdraft would constitute an obstacle for non-residents and vulnerable consumers.

In terms of efficiency both Options 2 and 3 scored equally well. They both would have a positive impact on consumers and mixed impact on Payment Services Providers. In conclusion, Option 3 is the preferred option since it better promotes full participation of EU citizens in the Internal Market.

Table 4: Type and design of a product (a bank account) – Comparison of options

Options	Effectiveness in achieving the objectives below			Efficiency in achieving all objectives
	Operational objective	Specific objective	General objective	
	Ensure availability of a product designed for commercially unattractive consumers	Improve access to payment accounts	Promote full participation of all EU citizens in the Internal market	
1: Do nothing	0	0	0	0
2: Ensure that basic payment services are offered by payment services providers	✓✓✓	✓✓✓	✓✓	✓-✓✓
3: Ensure that basic payment services and a payment card are offered by payment services providers	✓✓✓	✓✓✓	✓✓✓	✓✓
4: Ensure that basic payment services, a payment card and an overdraft (credit line) are offered	×	×	×	×

The 'Do nothing' scenario has no impact on stakeholders. Options 2 and 3 were found to have a positive impact on consumers and society. They have been found to have a mixed impact on PSP, due to costs of setting up and operation of new products. It is uncertain whether these costs could be offset by revenues and improved image of corporate social responsibility. Although Member States' administrations may incur marginal compliance costs[57] due to the need to implement and ensure enforcement of rules (if a legislative approach is chosen), the overall impact should nevertheless be neutral to weakly positive. Member States would benefit from the reduction of transaction costs for social benefits and, in the long-run, from a more inclusive society. If the banking industry were to commit to offer special products for consumers perceived as commercially unattractive or non-profitable, the overall impact on the administration would be very positive. Option 4 was found to be the least effective, both for consumers, PSP and Member States.

Table 5: Type and design of a product (a bank account) – Impact on main stakeholders

	Consumers and society	Payment Services Providers	Member States
1: Do nothing	0	0	0
2: Ensure that basic payment services are offered by payment services providers	✓✓	×-✓	✓
3: Ensure that basic payment services and a payment card are offered by payment services providers	✓✓✓	××-✓	0-✓
4: Ensure that basic payment services, a payment card and an overdraft (credit line) are offered	×	×××-✓	0-×

57 Compliance costs will be marginal since the supervisory architecture for banking and payment services providers is very well established.

8.2. Price conditions

Before defining the policy options, it is important to point out that these would set out broad principles rather than detailed measures. The more detailed measures would need to be defined at a later stage, either at the national level or through Commission delegated and/or implementing acts. Quantified impacts of all preferred options are provided in Section 8.4 and in Annex 13. The impacts of the Commission delegated/implementing acts will be analysed in accordance to established rules.

8.2.1. Option 1: No intervention at EU level

Doing nothing would not be effective in ensuring that a suitable product, i.e. a reasonable priced basic payment account is offered. The pricing conditions[58] would be determined by market forces. The maintenance of the status quo would fail to improve the level of consumers holding a bank account, and would thus be ineffective in reducing financial and social exclusion.

Doing nothing would mean maintaining the present status quo which negatively impacts many consumers who would be prevented from opening bank accounts because of inadequate pricing conditions. Concerning providers, the impact is expected to be neutral as they would not need to effect any changes to their product pricing. Member State administrations would not incur any costs in relation to implementation, supervision, or enforcement, but would continue to experience the negative financial and social impacts caused by exclusion due to price conditions and would not be able to benefit from reduced costs in paying welfare benefits.

8.2.2. Option 2: Ensure that where a basic payment account is not free of charge, the price is reasonable

PSPs incur significant fixed costs when providing current accounts as well as variable costs. Face to face transactions are more costly to provide than their internet or telephone equivalents so banks usually lose money on them overall. Traditionally, PSPs have operated in such a way that some services to an account holder are financed through other potentially profitable revenues from the customer. In addition, PSPs do not disclose the relationship between the costs of operating a bank account and charges levied on consumers. According to a UK study[59], current accounts are priced in a way that does not reflect the underlying costs of any one account, although total costs are recovered.

Another study[60] has found that some banks' pricing policies do not suit well the needs or profiles of users, e.g. where a bank prices up a basic account by offering e.g. a higher number of credit transfers than actually needed by the basic profile users.

This shows the importance of ensuring that basic payment accounts are reasonably priced[61]. The aim is to arrive at a price for a basic payment account that would be affordable for basic

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58 By price we mean total charges applied to a consumer: annual charges, account charges (opening, closing, insufficient funds, OTC withdrawals and deposits, credit transfers, direct debits, internet and phone banking) and payment card charges.

59 *Competition in UK Banking: A Report to the Chancellor of the Exchequer*, Cruickshank, Don, HM Treasury, 2000, http://www.hm-treasury.gov.uk/fin_bank_reviewfinal.htm.

60 Van Dijk Management Consultants study, p. 29.

profile users, including those on low incomes. In some countries, the basic bank account is provided free of charge; e.g. in UK, France. However, since PSPs are commercial entities, it may not be economically valid for all of them to provide a basic payment account free of charge.

The present initiative would aim at establishing the principle that a price of a basic payment account should be reasonable for consumers. This would be effective in ensuring affordable basic payment accounts (✓✓). The concept of a reasonable price and the methodology/criteria to be used for assessment of the reasonableness of prices would be developed at national level as this notion of reasonable price is likely to differ from one Member State to another, due to differences in in account pricing strategies, GDP and consumer income levels. However, if Member States request a common European definition of the 'reasonable' price and criteria for its establishment (e.g. relation to lowest income deciles), these could be developed through Commission delegated/implementing acts. To that aim the new European banking supervisory authority (EBA) could be asked to provide advice on how to develop a methodology to define a 'reasonable' price. The challenge of agreeing a common definition/methodology of the 'reasonable' price will be evaluated in the context of the Impact Assessment accompanying that delegated act.

Where the concept of a reasonable price and criteria for its assessment are developed, either at national (or EU level), Member States would need to monitor the pricing of basic payment accounts in relation to e.g. national consumer prices and income (or other established criteria) in order to verify whether or not the price is reasonable and the account affordable. Pro memoriam, the costs of price monitoring and costs of adoption of national measures are assessed in Annex 13. In the case where prices would not be 'reasonable', Member States could provide for an adjustment of PSPs' pricing for low-income consumers. If, as a result of a Member State intervention, PSPs were to lower their prices and suffer losses, to avoid such a situation, they will either develop a cross-subsidization strategies or call for compensation (funded by the industry or the state, according to the Treaty provisions). The latter approach might be the preferred path of small and medium-sized PSPs, if they were to disproportionately shoulder most of the cost, which might be the case for cooperative banks and savings banks.. It is however very likely that take-up of consumers would be proportional to the size of the infrastructure and economic importance of the provider. Consumers would naturally tend to choose the nearest provider, meaning the provider with the widest infrastructure in their particular market. Belgian legislation has foreseen the creation of a compensation fund to be availed of in the event that the number of basic bank accounts is disproportionate to the economic importance of the individual provider. To date, no bank has applied to avail of such compensation.

This option is expected to have a positive impact on consumers (✓✓). The overall impact on providers is uncertain and mainly depends on how this 'reasonable price' is established in each Member State and whether a basic payment account will be loss making (see Annex 13). It could range from negative (when an individual PSP would have to bear losses) to neutral (when losses will be compensated) or slightly positive (when prices are above costs and providers make profit) (××-0-✓). The impact on Member State administrations may range from being slightly negative to neutral or positive, depending on their choice on whether or

[61] By price we mean the total sum of charges applied to a consumer: annual charges, account charges (opening, closing, insufficient funds, over-the-counter withdrawals and deposits, credit transfers, direct debits, use of internet and phone banking) and payment card charges.

not to grant compensation to the PSP industry and the expected benefits (×-0-✓). For a more detailed analysis of impacts, see Annex 12.

8.2.3. Option 3: Free of charge provision of a basic payment account

This option would be very effective (✓✓✓) in ensuring reasonable priced basic payment accounts. All eligible consumers would be granted such an account free of charge. As a result, many of the existing consumers who have no bank account would be likely to obtain one. This would result in substantial benefits for these consumers, such as improving their financial and social conditions.

According to the UK study an account needs to have a positive balance of about EUR 1 100 per annum to be profitable if no account fee is levied[62]. The level of the positive balance would differ from country to country due to differences in the GDP level. Nonetheless, it is very unlikely that basic payment accounts would have a substantial positive balance. Thus, the costs of a free basic payment account would need to be borne either by individual PSPs, the PSP industry, Member States or other consumers. Providers, in the absence of the compensation mechanism, would most probably attempt to pass the cost of providing free basic accounts to other consumers through cross-subsidisation. This could for instance lead to an increase of charges for other products and services, and e.g. an increase in a few basis points in interest rates for credit might thereby affect demand. In the latter respect, one might however expect that this negative effect on demand would be offset by a greater participation in the economy of that part of the population that is currently unbanked.

Overall impact on providers would range from very negative to neutral (×××-0). Cumulative impact on consumers could range from slightly positive to very positive (✓-✓✓✓) The impact on Member State administrations would range from negative to neutral or slightly positive (××-0-✓), depending on whether or not they would provide compensation for the loss making product, and on whether or not the amount of compensation would exceed the expected savings from lower remittance costs and benefits from more inclusive society (for quantifications see Annex 13). For a more detailed analysis of impacts, see Annex 12.

Comparison of options

The objectives outlined in the table below cannot be achieved under the 'Do nothing' scenario (Option 1). Options 2 and 3 were both found to be particularly effective in achieving the objectives pursued under this initiative. Option 3 however was found the most effective: by offering the account for free it makes it most affordable, thereby maximising the potential number of consumers that would request and obtain it. These effects constitute the strongest contributors to the general objectives relating to market participation and financial and social inclusion. In terms of efficiency (cost-effectiveness) of the options, however, it was found that Option 2 was more efficient than Option 3. The inefficiency of Option 3 is due to the more negative impacts on one group of stakeholders (the one bearing costs of free bank accounts), explained further below. In conclusion, Option 2 is the preferred option thanks to its combined score of effectiveness and efficiency in achieving the objectives.

[62] *Competition in UK Banking: A Report to the Chancellor of the Exchequer*, Cruickshank, Don, HM Treasury, 2000.

Table 6: Product price – Comparison of options

Options	Effectiveness in achieving the operational objective below	Efficiency in achieving the operational objective below
	Inclusive conditions for consumers perceived as commercially unattractive	
1: Do nothing	0	0
2: Ensure reasonably pricing of a basic payment account	✓✓	×-0-✓
3: Free of charge basic bank account	✓✓✓	×

The 'Do nothing' scenario was found to have little or no negative impact on stakeholders. Option 2 was found to have a positive impact on consumers. Impact on Member State administrations would be uncertain and range from positive to negative; on the one hand, the positive impact could be experienced mainly due to greater inclusion and a reduction in transaction costs; on the other hand, Member States might need to bear the costs for partly or fully compensating losses of PSPs. Likewise, impact on providers was found to be range from negative to neutral and depend on how the reasonable price would be established and whether PSPs would need to bear costs of basic payment accounts. Option 3 could have more negative impact on one group of stakeholders since somebody will have to bear the costs of a basic payment account: either other consumers (cross-subsidisation or marginal increase in taxes) or providers or Member States. Since it is uncertain which stakeholder will bear the costs (it would be decided at the national level) the range of possible impacts is given.

Table7: Product price – Impact on main stakeholders

	Consumers	Account providers	Member States
1: Do nothing	0	0	0
2: Ensure reasonable pricing of a basic payment account	✓✓	××-0-✓	✓-0-×
3: Free of charge	✓-✓✓✓	×××-0	✓-0-××

8.3. Conditions for access to minimum basic payment services

It is pointed out from the outset that the issue of determining which payment services provider(s) will be assigned as the one(s) from which consumers can access a basic account (i.e. all providers, some providers or categories of providers, a single provider) is left to the discretion of the Member States.

8.3.1. Option 1: Do nothing

Doing nothing would be largely ineffective in achieving the objective of ensuring inclusive conditions for opening bank accounts for consumers perceived as commercially unattractive or non-profitable. It is not expected that any unilateral action taken by providers in the Member States (or by Member State administrations) would improve accessibility for these consumers to such a substantial extent so as to eliminate or minimise the problem. The current level of financial and social exclusion, as well as the inability of many EU citizens to fully benefit from the opportunities created by the internal market, would largely persist.

The overall financial impact is expected to be neutral; providers would neither incur costs (such as those relating to changing standard operating procedures), nor would they derive any benefits (such as any that may result from greater market size, cross-selling, etc). Many consumers would continue facing restrictions in accessing a bank account. Member State administrations will not realise the opportunity of reducing remittance costs and promoting wider consumer participation that could lead to considerable financial and social benefits, particularly for the unbanked.

8.3.2. Option 2: Access for unbanked households

Under this option, any household of which all the members are unbanked in the Member State where it seeks access to an account, will have access to a basic bank account that will be held jointly by the members of that household. For the definition of a household, the definition of 'family member' in Directive 2004/38/EC could be used as is or with adjustments[63].

It is expected that this option will be marginally effective (0-✓) in achieving the objective. Firstly, if even one household member has an individual account, the household is excluded from accessing a basic account, thus leaving the rest of the members unbanked. There is no guarantee that the banked member will want to allow the unbanked members to use his individual account (concerns about trust, control, etc). Even if he was to allow them, this would still be far from rendering the unbanked members into banked; they would still be officially unbanked (no formal/direct access), completely dependent on the banked member for everything: withdrawing money, making credit transfers, etc.

Secondly, where a household is unbanked and obtains a basic account, this account, if it is to be any effective, will be a joint account: it would allow each member to effect transactions via the same account (withdrawals, payments) without needing to seek the others' consent each time, and would involve joint and several liability. This can be quite problematic for many, especially where anything less than full trust and confidence is the case.

The first major shortcoming of this option could be remedied by changing the option to "access for households with at least one unbanked member". This however is not too dissimilar to the granting of access to individuals rather than households; the benefit in terms of having to open less basic accounts is marginal, particularly nowadays where in our societies, households or families are less stable than some 30 years ago.

It is expected that this option will have a weak positive impact on consumers (✓), while providers are expected to experience a weak negative impact (✗). Member State administrations are expected to experience a neutral impact (0). For an extended analysis of these impacts see Annex 12.

8.3.3. Option 3: A requirement that all unbanked consumers are granted access

Under this option, a consumer in a Member State would be considered 'unbanked' if he does not have a bank account in that Member State where he is seeking access to a basic payment account; whether or not he has a bank account in another Member State is irrelevant. An unbanked consumer would be entitled to access a basic payment account. An underside of this is the possible stigma that a product available only to the unbanked could carry. This option would also require a means for determining the applicant's unbanked status. This could be achieved through the establishment of national registries of bank account holders (potentially expensive) or through reliance on self-declaration (already applied in Belgium).

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[63] See Articles 2 & 3. Family members are the spouses or registered partners, the spouses' direct descendants under the age of 21, the dependant direct relatives in the ascending line of the spouses, and certain other family members.

8.3.3.1. Option 3.1: Access only for unbanked residents in their home Member State

The effectiveness of this option in achieving the objective of ensuring inclusive conditions for opening bank accounts for consumers perceived as commercially unattractive is moderate (✓). This is mainly due to the two conditions: residency, and unbanked status. While this option would facilitate access for all consumers in each Member State that are residents of that state and can demonstrate that they are unbanked, it would fail to facilitate access for consumers who want to open a payment account in another Member State. Specific classes of consumers that are most likely to be excluded from the accessibility benefits of this option are students, trainees, and temporary workers in a host Member State.

The overall impact of this option on consumers is expected to be weakly positive to positive (✓-✓✓). The overall impact on providers is likely to range between neutral to weakly negative (0-✗). Concerning Member States, the impact is expected to be weakly positive to neutral (✓-0). For an extended analysis of these impacts see Annex 12.

8.3.3.2. Option 3.2: Access for unbanked residents and non-residents

This option is expected to be effective (✓✓) in achieving the objective pursued. This is because, unlike the previous option, this option would lift the restrictive condition relating to residency. This means that more consumers that are perceived as commercially unattractive and non profitable would be able to obtain access to an account. In concrete terms, the additional benefit goes to unbanked consumers in one Member State that are not residents of that Member State. Such consumers are usually, but not exclusively, temporary workers, students, and trainees. This option thus facilitates cross border mobility; individuals taking advantage of the opportunities offered by the internal market would not be burdened by difficulties in accessing a bank account in the host state.

The overall impact on consumers is thus expected to range from positive to strongly positive (✓✓-✓✓✓). The overall impact on providers is expected to range from neutral to weakly negative (0-✗). The costs and benefits for Member State administrations will be about the same as under the previous option, leading to the same overall impact (weakly positive to neutral, ✓-0). For an extended analysis of these impacts see Annex 12.

8.3.4. Option 4: Access for every EU consumer

Under this option, every European consumer would have a virtually unconditional right of access to a basic payment account, regardless of whether or not he is unbanked. Provided consumers fulfil requirements stemming from the legislation (e.g. anti-money laundering), no other conditions would be imposed. This would lead to the creation of a universal service. Compared to Option 2, this option removes the stigma associated with making the product only available to unbanked consumers. Additionally, it is more inclusive, since is makes basic accounts available to everyone; this means that a small number of consumers who may be perceived as unattractive or non-profitable and who do already have an account but may have valid reasons to want to obtain a basic account, will be able to do so.

On the other hand, this option goes beyond what is necessary to achieve the objective; it provides access to all consumers, meaning also those that are not perceived as unattractive or non-profitable. From this latter class of consumers, some could open (or switch to) basic rather ordinary bank accounts, causing detriment to the providers. This option, as with Option 2, is divided into two sub-options that are analysed and assessed below.

8.3.4.1. Option 4.1: Access only for residents in their home Member State

Under this option, the only condition imposed on accessing a basic payment account would be the requirement of residency; that is to say, a consumer could obtain a basic bank account in a particular Member State only if he were to be a resident of that Member State. This option is assessed as partially effective in ensuring inclusive conditions for opening bank accounts for consumers perceived as commercially unattractive or non–profitable (✓).

On the one hand, it facilitates access for every resident in a given Member State, whether unbanked or not (thereby being more inclusive than Option 2.1[64]). On the other hand however, it blocks access to consumers who, while also being perceived as commercially unattractive or non-profitable, are not residents of that particular Member State. This is particularly prejudicial to the functioning of the internal market which is underpinned by the principle of free movement; individuals who exercise their right of free movement are likely to be burdened by problems in their host state due to lack of a residence permit. In addition, as said under Section 8.3.4, this level of access goes beyond what is necessary to achieve the stated objective.

The overall impact on consumers is expected to be positive (✓✓). The overall impact on providers is expected to be weakly negative (×), while Member States are expected to experience a weakly positive impact (✓).

8.3.4.2. Option 4.2: Access for residents and non-residents

Under this option, all European consumers would have access to a basic payment account in any Member State regardless of their residency or unbanked status. This effectively means that no conditions would be attached to opening such an account (apart fulfilling legal requirements). It is expected that this option would be effective (✓✓) in ensuring inclusive conditions for opening bank accounts for consumers perceived as commercially unattractive or non–profitable. This is because any such consumer seeking access to a bank account would be unconditionally granted such access. At the same time, it can be argued that this level of access goes beyond what is necessary to achieve the stated objective. This is because it facilitates access not only for the specific category of consumers stated in the objective, but for all consumers.

In practice, this option would facilitate cross-border mobility because it would allow all those who exercise their right of free movement not to be burdened by problems with opening a bank account in their host state on the reason that they are either not unbanked or non-residents. Workers, trainees, students, and others in need of access to a bank account in a host Member State would be particularly advantaged.

It follows that the impact on consumers would be positive to very positive (✓✓-✓✓✓).The impact on providers is expected to be slightly more negative than in the previous option (weakly negative to negative: ×-××). The impact on Member State administrations is expected to be roughly similar to the previous option (weakly positive ✓), see Annex 12.

[64] At the same time it is plausible to assume that banked residents who are perceived as commercially unattractive and non-profitable and who would benefit from this access to a basic account are quite limited in number. This means that the greater accessibility that Option 3.1 allows probably improves access for the commercially unattractive to a very limited extent.

Comparison of options

Option 1 (Do nothing) is not effective as it preserves the status quo and its associated problems, and it is not expected that any disparate actions by providers or Member States are likely to effectively achieve the objective. Option 2 was found to be marginally effective. The assessment of Options 3 and 4 has found that they are effective to a greater or lesser extent in achieving the objective of ensuring inclusive conditions for opening bank accounts for consumers perceived as commercially unattractive or non-profitable. Options 3.2 and 4.2 however were found to be the most effective. The latter however was also found to go beyond what is necessary to achieve the objective, by ensuring inclusive conditions not only for the commercially unattractive or non-profitable, but for all European consumers. In terms of efficiency, it was found that Option 4.2 scored best. In conclusion, the preferred option is the latter as it is effective in achieving the objective without going beyond it, while at the same time being the most efficient. It is important to underscore the fact that this option will not in any way limit the ability of Member State authorities to fully and effectively apply anti-money laundering rules. Access under this option is conditioned on being unbanked as well as complying with legal rules relating to public/national security, public order, etc (such as the anti-money laundering rules).

Table 8: Conditions for access – Comparison of options

Options	Effectiveness in achieving the operational objective below	Efficiency in achieving the operational objective below
	Inclusive conditions for consumers perceived as commercially unattractive	
1. Do nothing	0	0
2. Access for households	0-✓	0
3.1 Access only for unbanked residents	✓	✓-✓✓
3.2 Access for all unbanked	✓✓	✓✓-✓✓✓
4.1 Access for all residents	✓	✓✓
4.2 Access for all residents and non-residents	✓✓	✓✓

The 'Do nothing' scenario preserves the status quo and has no impact on stakeholders. Options 2, 3 and 4 all demonstrated positive impacts on consumers and generally moderate positive impacts on Member States, while they are expected to have negative impacts on providers, albeit to a different extent. Option 3.2 was found to have a strong positive impact on consumers, same as Option 4.2, but fared better in respect to providers (mainly because Option 3.2 did not burden providers with the costs of account switching).

Table 9: Conditions for access – Impact on main stakeholders

Options	Consumers and society	Account providers	Member States
1. Do nothing	0	0	0
2. Access for households	✓	×	0
3.1 Access only for unbanked residents	✓-✓✓	0-×	0-✓
3.2 Access for all unbanked	✓✓-✓✓✓	0-×	0-✓
4.1 Access for all residents	✓✓	×	✓
4.2 Access for all residents and non-residents	✓✓-✓✓✓	×-××	✓

8.4. Maximum benefit to be obtained

To summarise the previous section, the package of retained options would consist of:

– Ensuring that a basic payment account including the following functionalities is offered by payment services providers throughout the EU: (i) opening, managing and closing of the account, (ii) receiving, placing, transferring and withdrawing funds, both physically and electronically, (iii) a payment card.

– Ensuring that a basic payment account is offered at a reasonable price.

– Ensuring that every EU citizen and resident has or could have access to a bank account throughout the EU, by granting a right to a basic payment account to those consumers who do not have a bank account (are 'unbanked') in the Member State where they are seeking to open the basic payment account.

Section 7 on the assessment of impacts has identified a number of possible impacts that the selected options are likely to have on consumers, payment services providers, Member States, and utility companies. In an attempt to best quantify the impacts, we have designed two sets of scenarios. Set A relates to the number of unbanked consumers obtaining a basic payment account, while Set B relates to the level at which the 'reasonable price' may be set. The reason for this is the impacts on stakeholders are mainly driven by the level at which values are set for account uptake and reasonable price.

Scenario set A: Account uptake

1) Pessimistic: 2 million unbanked consumers open a basic payment account.

2) Expected: 6.4 million unbanked consumers open a basic payment account.

3) Optimistic: 10 million unbanked consumers open a basic payment account.

Scenario set B: Reasonable price

1) The reasonable price is established above cost (at EUR 55) with a net profit for providers of EUR 3 per consumer per annum.

2) The reasonable price is established below cost, with a net loss for providers of EUR 39 per consumer per annum (assuming the price would be capped at the level of EUR 13 as seen in Belgium).

3) A basic payment account is offered free of charge, assuming a net loss for providers of EUR 52 per consumer per annum.

It is noted that EU-wide the average full cost to providers per bank account has been calculated to be approximately EUR 52 per annum[65].

[65] See Annex 13, Section 2: Based on calculations in two studies (CSES & Van Dijk), the average EU price is approximately EUR 55. Using other data (notably OECD) and own calculations, we arrive at an EU average (full) cost for a basic bank account of EUR 52 (the issue of marginal or variable costing is also touched upon in Annex 13, Section 2).

Table 10: Scenario A1 – 2 million unbanked consumers open a basic payment account

Loss/profit/savings	Providers (million EUR)	Consumer savings (million EUR)	Member States (million EUR)
Scenario B1 (price EUR 55)	~5 profit	360-620	~9 savings
Scenario B2 (price EUR 13)	~80 loss*	*444-704*	*
Scenario B3 (price EUR 0)	-100 loss*	*470-730*	*

Table 11: Scenario A2 – 6.4 million unbanked consumers open a basic payment account

Loss/profit/savings	Providers (million EUR)	Consumer savings (million EUR)	Member States (million EUR)
Scenario B1 (price EUR 55)	~12 profit	1 152-1 984	~25 savings
Scenario B2 (price EUR 13)	~250 loss*	*1 420-2 252*	*
Scenario B3 (price EUR 0)	~340 loss*	*1 504-2 336*	*

Table 12: Scenario A3 – 10 million unbanked consumers open a basic payment account

Loss/profit/savings	Providers (million EUR)	Consumers (million EUR)	Member States (million EUR)
Scenario B1 (price EUR 55)	~20 profit	1 800-3 100	~40 savings
Scenario B2 (price EUR 13)	~400 loss*	*2 220-3 520*	*
Scenario B3 (price EUR 0)	~500 loss*	*2 350-3 650*	*

* The three tables above demonstrate substantial losses for providers, but part or all of these losses could be compensated by Member States, effecting a transfer in burden. Consumer benefits in italics do not account for the possibility of some or all providers' losses being passed onto consumers via taxation or cross-subsidisation. For this, one simply needs to subtract from the consumer benefits above some or all of the providers losses that are expected to be eventually shouldered by the consumer. See Annex 13 for a detailed analysis.

Concerning utility providers, it is expected that the switch of many consumers from cash to electronic means of payments will decrease the formers' costs, but these savings will be substantially reduced by discounts offered to customers opting for e-payments. It is estimated that utility providers could realise net savings of approximately EUR 3-25 million, depending mainly on the level of account uptake.

Maximum benefit in the long run (Bulgaria and Romania): The combined set of options will allow unbanked individuals in EU2 that desire but cannot obtain an account to obtain one in the short run. Most of the unbanked however are unlikely to be interested in having a bank account in the short run as these societies for a large part still operate in cash, but they are likely to gain interest in the medium/long run. As both countries progressively develop (i.e. in real GDP PPP), the banking network will organically grow to meet the rising demand in bank accounts. Eventually, in the medium to long run, the ratio of unbanked to total population will not be materially different from any of the other Member States.

Conclusion

The above data (and its more comprehensive version in Annex 13) demonstrate that where the price is set above cost (scenario B1), all stakeholders experience positive financial impacts, especially the consumers. These impacts become stronger as account uptake increases (scenarios A1-A3).

When price is set below cost (scenario B2 & B3), general consumers experience strong positive impacts, albeit less strong than with pricing above cost. This may appear counter intuitive, but it is not. At pricing below cost, a small group of consumers highly benefits, but the average consumer probably shoulders a large part of the bill for this either via banks' cross-subsidisation, or via the tax money that governments use to compensate providers' losses.

Concerning providers, they experience large losses due to pricing below cost and from foregone revenue from ad hoc check cashing, credit transfers, and closing of EUR 55 accounts by customers moving to the new below-cost accounts. This large negative impact can transform to a small negative or neutral impact depending on the extent, if any, of cross-subsidisation or Member State financial support.

Concerning Member State administrations, it is expected that they will experience a moderate positive impact, provided that price is set above cost. If administrations assume costs for partly or fully covering losses from pricing of accounts below cost, then the net impact is expected to range from neutral/moderately negative to strongly negative.

An extended, comprehensive analysis of costs and benefits is found in Annex 13.

8.5. Other impacts

The recommended option introducing universal access to a basic payment account does not have any perceived impact on European community resources.

As regards the environment, only positive impacts are expected. An increase in the number of electronic transactions for payment of bills as opposed to traditional paper-based instruments should reduce paper consumption. However, since this would apply only to between 2 and 10 million consumers (expected take-up: 6.4 million consumers), the impact is likely to be marginal.

Impact on third countries would concern those third country consumers with a residency permit in one of the EU Member States. Those consumers would find it easier to open basic bank accounts across the EU.

There is not likely to be any material impact on competitiveness. First, it is possible that providers will not be obliged to offer basic payment accounts below cost. If they are so obliged, it is also possible that the price will be marginally lower than the cost, minimising losses. Second, any damage from selling at a loss or from foregone revenue could be made good in whole or in part by Member State financial support.

In the case where the losses are large and are not compensated to any significant extent by Member States, providers can face a bill of anything between EUR 80–500 million (the expected scenario's estimation is EUR 250 million). This can simply lead to an erosion of the bottom line of the industry in the EU (reduced profitability). It is also possible that providers try to pass at least a part of this loss onto consumers by cross-subsidisation, which could theoretically raise borrowing costs and impact consumption and investment. Even in this unlikely combination where (1) price is significantly below costs, (2) losses are large and (3) state support is zero or immaterial, the resulting amount of about EUR 250 million cannot have any material impact on competitiveness, whether it erodes profitability, or is passed onto consumers, or a combination of both. To put the figure of EUR 250 million into perspective, it should be mentioned that the average profitability of the banking industry in the EU is about EUR 205 billion[66], which makes the former figure approximately 0.1 % of total profitability.

Administrative burden is expected to be limited since this initiative would not introduce any material information requirements. A more comprehensive analysis of this initiative's administrative burden implications can be found in Annex 15. As it has already been mentioned, Member State administrations can possibly also face, apart from costs relating to information provision requirements, costs relating to implementation, supervision, monitoring, enforcement, and even setting-up and financing a providers' compensation mechanism. A discussion on costs to Member States can be found in Annex 13, Section 3. The Payment Services Directive provisions on information provision will continue to apply to all types of payment accounts. In addition, the provision of information at the point of sale is part of business as usual and covered by charges for the maintenance of payment accounts (impact of price conditions is discussed in Sections 8.2 and 8.4). A more comprehensive analysis of this initiative's administrative burden implications can be found in Annex 15.

8.6. Instruments

8.6.1. Instrument directed towards payment services providers

8.6.1.1. Self-regulation by the banking industry

Under this option payment services providers would be encouraged to develop self-regulatory charters targeting population groups that are considered as not profitable (i.e. currently unbanked) or perceived as commercially unattractive (i.e. residents of other Member States), perhaps in the context of a corporate social responsibility (CSR) initiative.

Due to its voluntary character, this instrument could entail the risks that not all PSPs would adhere to it, and therefore the goal of ensuring access to a basic payment account would most likely not be ensured. There could also be a potential distortion of competition if not all providers sign up to the charter. The non-binding nature of self-regulation bears the risk that in practice there would be no real mechanisms to sanction non-compliant banks.[67] [68] Even if applied, self-regulation could give rise to different standards of access to a basic payment account within the EU, and would most likely not solve the issue of cross-border access to basic payment services.

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[66] Calculated based on data from the European Banking Federation's Facts & Figures 2009. See http://www.ebf-fbe.eu/uploads/Facts%20&%20Figures%202010.pdf.

[67] For example, according to a joint response sent by Réseau Financement Actif to the 2009 consultation, none of the present voluntary codes in the different Member States are related to a precise definition of the provision of a bank account. On the other hand, the Dutch agreement between the government and the industry has a binding obligation to guarantee access, and there it is working out well. See http://circa.europa.eu/Public/irc/markt/markt_consultations/library?l=/financial_services/financial_inclusion/society_organisations/eu_rfa_enpdf/_EN_1.0_&a=d.

[68] To illustrate, the UK consumer organisation Which? response to the 2009 public consultation on ensuring access to a basic bank account pointed out that voluntary codes are only effective when certain criteria are met, such as strong independent governance, clear objectives including consumer focus, robust standards, transparency, external consultation, adequate funding for effective monitoring, supervision and reporting, promotion of a scheme, high take up in the sector, robust sanctions, adequate redress. Failure to meet these criteria renders most voluntary codes ineffective and runs the risk of exacerbating the problem instead of resolving it, see http://circa.europa.eu/Public/irc/markt/markt_consultations/library?l=/financial_services/financial_inclusion/consumers/uk_which_enpdf/_EN_1.0_&a=d.

Experience shows that self-regulation has not always succeeded (see Annex 6). In several Member States, legislation has been introduced after voluntary codes have not proven to be effective (e.g. France, Belgium, and recent attempts to introduce legislation in the UK).[69] In addition, encouraging self-regulation might face challenges in the Member States that have already adopted legislation in this field. Self-regulation is the least burdensome instrument for stakeholders, but it is unlikely to achieve the objectives set due to the absence of incentives on the part of service providers.[70] Also, self-regulation is unlikely to address the problem of abusive eligibility criteria (i.e. providers are likely to continue imposing restrictive criteria according to what they understand as their obligations stemming from legislation on anti-money laundering and terrorist financing), and the aim of not taking the financial status of the consumer into consideration is very unlikely to be achieved.[71]

Table 10: Effectiveness of voluntary codes in Member States

Germany	The German 'Girokonto für Jedermann' leaves service providers the discretion as to the eligibility criteria. Also in Germany, the Ministry of Finance concluded in a 2008 report that the situation for persons without basic accounts has not significantly improved over time, and that a continued reluctance by the banking sector to honour its voluntary self-commitment may result in the creation of legal measures.
UK	In the UK, although the Banking Code stipulates that if a customer's needs are suited to a basic bank account and if the individual bank operates the product, the customer would be offered one, consumer organisations suggest that the basic bank account is not always offered. Nonetheless, the number of the unbanked population was reduced by 50 % between 2002/2003 and 2007/2008.
Italy	The Italian Patti Chiari Charter is a range of stand-alone commitments provided by banks from which banks can select the ones they wish to implement, includes also the provision of basic service – with no cheque book and no overdraft facility. DG EMPL and CSES studies found that overall there does not seem to be evidence of promotion of basic banking, and the high level of transaction banking exclusion compared to the other of the EU15 suggests ineffectiveness.
Slovenia	No information available as to the effectiveness of the voluntary charter.

With this in mind, this option seems to be a sub-optimal tool as it does not appear effective in achieving the set objectives because it is not likely to ensure an adequate offer of payment accounts to all citizens of the EU. In addition, it is not proportional as it is not coherent with the satisfactory achievement of the objective and its effective enforcement.

8.6.2. Instruments directed towards Member States

8.6.2.1. Exchange of best practices

EU could create a group of experts and/or informal networks of Member States for the sharing of best practices, including an online database containing national initiatives.

The effectiveness of this option appears to be limited because there is currently a wide diversity of approaches in Member States and there appears to be no clear-cut solution as to which approach works best. Discussions with consumer bodies at the national level suggest

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69 In the UK, although the Banking Code stipulates that if a customer's needs are suited to a basic bank account and if the individual bank operates the product, the customer would be offered one, consumer organisations suggest that the basic bank account is not always offered. Also in Germany, the Ministry of Finance concluded in a 2008 report that the situation for persons without basic accounts has not significantly improved over time, and that a continued reluctance by the banking sector to honour its voluntary self-commitment may result in the creation of legal measures.

70 Only a few respondents to the 2009 public consultation (apart form the industry) considered self-regulation to be a suitable way forward to ensure access to a basic bank account. For a full summary, see http://ec.europa.eu/internal_market/finservices-retail/docs/inclusion/consultation_summary_en.pdf.

71 Summary of responses to the 2010 public consultation on access to a basic payment account (not yet published).

that it would be questionable whether these networks could bring substantial pressure to bear and encourage governments to align their national initiatives with best practice.[72] It could lead to a patchwork of solutions and different levels of accessibility which would be in contradiction with the aim of ensuring access.[73] It is therefore likely that only a small proportion of the potential benefits would be achieved. The EU budget, on the other hand, would bear the direct costs for setting up the group/online database. It is unlikely that banks would change their practices significantly and therefore the potential benefits would not be fully realised for consumers.[74]

This option does not appear to be effective or proportional in satisfactorily achieving the set objectives as it is not likely to ensure an adequate offer of basic payment accounts to all EU citizens regardless of their place of residence. The cost of setting up the platform for an exchange of best practices would not be commensurate with the results of a potential exchange of best practices.

8.6.2.2. Recommendation

A recommendation to Member States could address the issue of ensuring an adequate offer of payment accounts, leaving the Member States free to act in a variety of ways. A recommendation is likely to have some effect in ensuring an adequate offer of payment accounts at a reasonable price, particularly in Member States with developed financial systems. On the other hand, for the benefits to be realised, a recommendation has to be followed in each Member State. To mitigate the inherent non-binding character of a recommendation, which per se cannot guarantee that action will be taken by all Member States, a recommendation should foresee a close monitoring role for the Commission.

The Member States most likely to comply with a recommendation would be those that already have mechanisms in place, potentially leaving the situation unchanged in those countries that have a less developed framework in terms of access to a basic payment account.[75] At the same time, this option received support from the industry stakeholders, and also three Member States.[76]

A recommendation would have the advantage of sending a quick and clear message as to which Member States actions are necessary and expected to be taken to address the current market deficiency. It would also act as a catalyst for the development of consistent principles to be applied throughout the European Union. It would give Member States a clear orientation enabling them thereafter to more easily implement binding requirements, if need be. In this context, a recommendation may be both a proportionate and effective instrument.

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72 CSES study, 2010, p. 72.

73 Summary of responses to the 2010 public consultation on access to a basic payment account (not yet published).

74 Only a few respondents to the 2009 public consultation (apart from the industry) favoured this option.

75 Adoption of a recommendation by the Commission received broader support among the respondents to the 2009 public consultation than encouraging the adoption of voluntary charters or exchange of best practices, and several considered that a more binding instrument would be needed if there is failure at Member State level to address the problem. For example, consumer stakeholders believed that soft law can be sufficient only as long as the national political determination is real.

76 Summary of responses to 2010 public consultation (not yet published).

8.6.2.3. Directive

EU could adopt a directive on ensuring access to a basic payment account which would have to be transposed by all Members States, leaving the choice of method to the latter.

The advantage of a directive compared to a recommendation would be its increased effectiveness due to its legally binding nature. It is therefore likely to have a stronger effect than non-binding instruments in ensuring an adequate offer of payment accounts. A directive is relevant both for all Member States whatever the level of development of their financial systems. A directive could be an appropriate instrument as there is currently a variety of solutions applicable in the different Member States as well as differences in the development of banking systems and price levels.With a directive, the risk of distortion of competition would be minimal since Member States would be asked to designate one or several service providers which would need to meet the requests of opening basic payment accounts, and foresee their compensation if necessary.

To the extent that it would be based on high level principles, a directive could leave to each Member State the necessary discretion to decide how the objective should be achieved under their jurisdiction. Member States would decide which providers would offer basic bank accounts, set price-levels, decide on sharing/compensation of potential losses for providers. A directive would be in line with the proportionality principle to the extent that Community action would leave as much scope for national decision as possible and would respect well-established national arrangements and legal systems.

Respondents to the 2009 and 2010 public consultations have called for flexibility to be left to Member States in addressing the issue because of differing legal, economic and social situations in the different Member States. A directive is one of the instruments that could accommodate this request. A directive could be adopted on the basis of Article 114 TFEU.

8.6.2.4. A framework regulation

EU could adopt a framework regulation establishing a right to a basic payment account.

Regulations are normally used in order to achieve as complete a harmonisation as possible, ensuring that rules are applied at the same time and in the same way across the EU. A framework regulation differs from a classic regulation in the sense that by defining a number of high level principles, it leaves the Member States wide discretion as to how to put these principles into effect. Due to its directly applicable character which guarantees its uniform application throughout the EU, a framework regulation could be an effective instrument, justified on the grounds of subsidiarity as necessary to ensure the smooth functioning of the internal market. Similarly to a directive, the risk of distortions in competition would be minimal since Member States would be asked to designate one or several service providers which would need to meet the requests of opening basic payment accounts, and foresee their compensation if necessary.

A framework regulation would respect the proportionality principle <u>if</u> it would not go further than necessary in achieving its objectives and leave the Member States with enough margin of manoeuvre to put the principles set at the Community level into effect.

At the same time, stakeholders have expressed the need for some flexibility in addressing the problem. Public authorities have clarified that in any case, some flexibility for adaptations and implementation would be needed at national level. The industry representatives believe that should a binding instrument be introduced, measures should be very general and allow Member States to maintain national specificities, habits and markets. Consumer representatives as well were in favour of a framework which would allow taking into account of national differences.[77]

If a framework regulation were to be chosen, it should be drafted in such a way as to introduce high-level principles. Such drafting would allow for the maintenance of a satisfactory existing solution and would allow for the differences in the development of banking systems and price levels between Member States. However, it might be difficult to justify for subsidiarity and proportionality reasons. A framework regulation could be adopted on the basis of Article 114 TFEU.

8.6.2.5. A regulation

The EU could adopt a regulation establishing a right to a basic payment account. A regulation is the most appropriate instrument to create a set of directly applicable rules, without the need for implementing legislation. A regulation is also particularly appropriate in the absence of pre-existing national rules as it would create a new directly applicable EU rule.

It would be difficult to justify the choice of a classic regulation for subsidiarity and proportionality reasons since the level of detail of regulation that it would propose might go too far and not leave sufficient margin of manoeuvre for taking into account the different situations in the Member States.

Similarly to a directive and a framework regulation, the risk of distortions in competition would be minimal since Member States would be asked to designate one or several service providers which would need to meet the requests of opening basic payment accounts, and foresee their compensation if necessary.

A regulation could be adopted on the basis of Article 114 TFEU.

8.7. Conclusion

The analysis has led to the conclusion that the most efficient/preferred option would consist in a progressive approach, whereby the European Commission, by way of a recommendation, would set a series of principles and actions that Member States are expected to follow or develop, so as to ensure access to a basic payment account for those consumers who do not have a bank account in the country in which they seek to open one.. The initiative would ensure that all EU citizens and residents can access a bank account. The initiative would focus on:

– ensuring availability of a simple product – a basic payment account - in all Member States;

– removing restrictive conditions that could prevent certain groups of consumers from accessing it by granting a right to a basic payment account to the unbanked consumers;

[77] See footnote 72.

– defining the services to be offered via a basic payment account;

– ensuring that a basic payment account is offered at a reasonable price.

Member States would be asked to ensure that at least one payment provider offers a basic payment account. In the case where payment service providers would not offer basic payment accounts voluntarily, Member States could appoint an individual provider (like in Austria, where a special bank has been set up to offer 'social' type of payment services) or ensure that the request for the opening of a basic payment account are distributed among various providers (like in France) or oblige all providers to offer a basic payment account (like in Belgium where all banks have to offer a basic payment account).

This combination of policy options would promote (i) full participation of all EU consumers, particularly those on low incomes, financially excluded or vulnerable, in the Internal Market, and (ii) financial and social inclusion more generally. It would also improve customer cross-border mobility, particularly of workers, trainees and students. For the other policy options, it could not be ensured that the objectives would be achieved in a timely and effective way. Other policy instruments such as self-regulation or exchange of best practices are likely to be inefficient in the areas being targeted. A regulation would go too far and not address sufficiently the different situations in the Member States. A directive would allow achieving the expected results. However, at this juncture, a more graduate approach is recommended.

Finally, the preferred policy options are better achieved at EU level in order to guarantee that every European citizen and resident has adequate access to a basic payment account.

8.8. Evaluation and monitoring

The proposed recommendation would foresee an annual evaluation of the effectiveness of the mechanism regarding access to basic payment accounts, on the basis of information provided by Member States on the number of basic payment accounts opened, the number of refusals and terminations of opened basic payment accounts, the prices of basic payment accounts and the magnitude of the remaining unbanked population.

The recommendation would also foresee a periodic review of its application by Member States. In particular, the Commission services would monitor, 12 months after the publication of the Recommendation, the measures taken by Member States. If necessary, the Commission could propose legislation in order to ensure that the objectives of the Recommendation are fully met.