FINANCIAL SERVICES PROVISION AND PREVENTION OF FINANCIAL EXCLUSION

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Directorate-General for Employment, Social Affairs and Equal Opportunities

Inclusion, Social Policy Aspects of Migration, Streamlining of Social Policies

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1 What is financial exclusion?

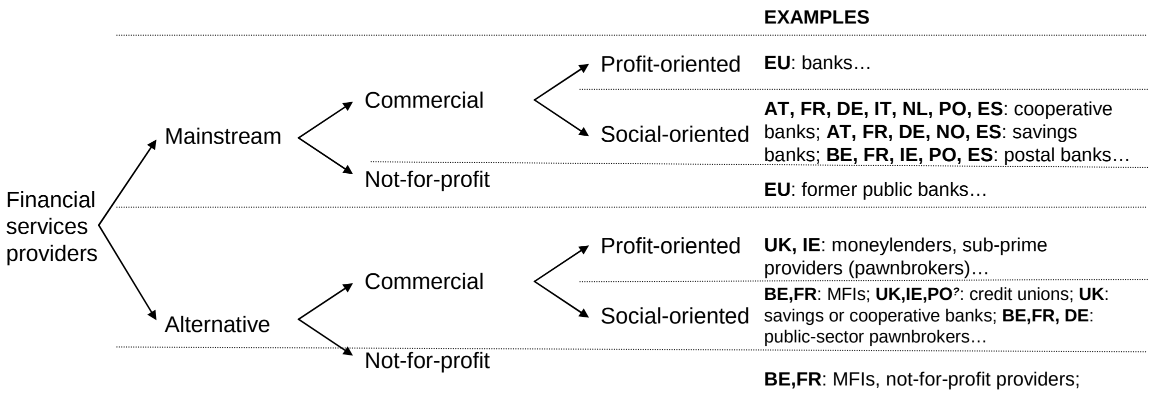
Financial exclusion refers to a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong.

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

Financial products will be considered "appropriate" when their provision, structure and costs do not lead the customer to encounter access and/or use difficulties.

"Mainstream providers" may be considered as non stigmatizing providers regarding to the national reference. Related to the market structure of each country, a particular type of providers may appear as mainstream in one and as "alternative" in another one.

"Alternative" may refer to organisations paying special attention to marginal segments, often operating as not-for-profit organisations (such as "alternative commercial social-oriented" structures) and acting in compliance with rules and regulations or other providers which exploit the marginal market segments and often act on the borderline of legality ("alternative commercial profit-oriented" entities).



2 Levels of financial exclusion

There are considerable variations in levels of financial exclusion even across the EU 15 countries. In general, levels are lowest in the countries such as Netherlands, Denmark, Sweden and Luxembourg where the standard of living is universally high. They are highest in countries like Latvia, Lithuania and Poland that have transition economies and low levels of gross domestic profit.

3 Who is most likely to be financially excluded?

Financial exclusion affects some groups of people more than others and, on the whole, similar types of people are disproportionately affected regardless of the prevailing level of exclusion in their country. These are people living on low incomes; and consequently those who are unemployed, lone parents caring for children full-time and people who are unable to work through sickness or disability. In new member states, retired people also have high levels of financial exclusion.

There is evidence that financial exclusion is linked to people's knowledge of and exposure to financial services and that this remains statistically significant and has a large effect even when other factors such as income and work status are controlled. There is a link with age, with younger (EU 15) and older people (EU 10) being most likely to be excluded.

There is also evidence that financial exclusion is concentrated in certain communities. So living in a deprived area increases the likelihood of being financially excluded and so, too, does living in a rural area in new member states. This almost certainly reflects the scarcity of financial service provision in such communities. Finally, previous research has also shown that migrants and people who are over-indebted are also likely to be excluded.

4 The causes and consequences of financial exclusion

The financial exclusion causes and consequences topics have been analysed through four themes: its very causes, its links with social exclusion and overindebtedness and finally its overall consequences.

Concerning the causes of financial exclusion, there are three groups of them: societal, supply and demand. Some societal causes such as the demographic change combined to the technological gap have been frequently mentioned as increasing financial exclusion. However, it is on supply and demand reasons that we can better identify what could be done to avoid such exclusion. Risk assessment, geographical access as well as product design and delivery are causes of financial exclusion that merit more attention in the public debate. In particular, risk assessment is essential to achieve an appropriate meeting of credit supply and demand: what kind of criteria is used for risk and creditworthiness assessment (legal, non-discriminatory, updated, transparent and adequate?).

Financial exclusion is tightly linked to social exclusion. Indeed, the access and use to basic financial needs such as a bank account and simple transactions are decisive to the integration of people in the current European society. Policy makers should consider financial exclusion issues in all course of action regarding social exclusion or poverty.

The same certainty goes for the links between financial exclusion and overindebtedness. Indeed, that the most important link is that overindebtedness could be understood as a result of access and use difficulties. Similarly, it has been shown that access difficulties to bank accounts, means of payments or credit, can lead to use difficulties and vice versa. Nevertheless, it has to be clear that overindebtedness is not always a result of access and use difficulties simultaneously: it could be a result of only one of them.

Finally, the main policy recommendation regarding social, socio-economical and financial consequences of financial exclusion is to fill in the gap regarding information available on the subject in most of the European member states. Research on the impact of financial exclusion on people facing it is essential to better understand the financial inclusion issue and its place and necessity within the wider frame of the social inclusion policy of a country. All stakeholders (researchers, NGOs, financial institutions and policy makers) should therefore aim to carry out or/and finance further research on the subject.

5 Conclusion and recommendations

5.1 National debate on financial exclusion

Extent of the debate

In half of the countries studied, (UK, IE, FR, BE, AT, IT and DE) a national debate on financial exclusion has been led by various players (national governments, consumer organisations, academics...), leading to the implementation of various measures by the government.

In the other half of the countries studied, there is only limited debate about financial exclusion or none at all. In three of them, this situation can be explained by either high (ES) or very high (NL & NO) level of financial inclusion.

The four new member states covered (BG, LT, PL and SK) all reported the lack of any national debate on financial exclusion. These countries currently evolve from a situation where a large number of people are not being served by financial service providers, minimising the adverse consequences of not being served, to a higher financialised society, where the need to tackle the problem of financial exclusion will become more and more acute.

Policy recommendations

In order to promote a fruitful debate on financial inclusion, governments have a crucial role to play to ensure contact, dialogues and negotiations between key stakeholders. This can be carried out within specific committees or work groups where the various players are represented. Moreover, independent assessments of the situation financed by the governments are an essential tool to feed and stimulate the debate on the issue.

5.2 Policy responses to transaction banking services, credit and savings access and use difficulties

5.2.1 Policy responses to difficulties regarding transaction banking services

		Transaction bank account													
Response	Actors / measures	**AT**	**BE**	**BG**	**DE**	**ES**	**FR**	**IT**	**NL**	**NO**	**PL**	**SK**	**UK**	**LT**	**IE**
Level	*of Financial Exclusion (Eurobarometer 60.2 and 2003.5)*	*20*	*5*		*7*	*42*	*4*	*26*	*2*		*58*	*48*	*15*	*65*	*41*
Market	Mainstream commercial profit-oriented providers		■		■			■	■				■		
	(Mainstream and Alternative) Commercial social-oriented providers	■	■		■	■	■	■			■		■		■
	Alternative commercial social-oriented and not-for-profit providers				■				■				■		■
	Voluntary charters and codes of practice		■		■		■	■	■				■		
Government	Facilitator - Assessment of policy measures		■		■				■		■		■		
	Facilitator - Contributing directly to the provision of financial services								■				■		
	Facilitator - Promoting and supporting market initiatives		■		■		■						■		
	Facilitator - Tackling the reluctance to use financial services								■				■		■
	Legislator - Compensatory financing system		■												
	Legislator - Monitoring body and settlement procedure		■							■					
	Legislator - Right to an account and definition		■				■			■					

People face access and use of transaction banking services difficulties when banks refuse to open full transaction bank accounts for certain groups of people, or when the accessibility, product design, service deliver and price associated with transaction bank accounts deter people to access and/or use those services.

Existing policy responses

To address both problems of access and use, **financial services providers adopted a wide range of responses** in the fourteen countries studied.

Mainstream commercial profit-oriented providers have developed simple, low cost transaction bank accounts to meet the needs of people on low and unstable income (BE, DE, IT & UK) or implemented partnerships to assist other types of providers to set up their own banking services (BE, UK & NL).

Commercial social-oriented providers, including savings banks, post offices and other mutual co-operative providers, are or have been even more active than private banks in developing such new products and alternative financials services (co-operative and savings banks in DE, post offices in IE, IT and UK), and sometimes are/used to be the sole providers in their country (savings banks in ES & AT, postal bank in FR, BE & PL).

Among alternative commercial social-oriented and not-for-profit providers, transaction banking services provision has hardly been proposed, except from some credit union initiatives (in the UK where back office is ran by the co-operative bank and in PL). This is probably due to strict regulation requirements applied to such services provision as well as informational technology and back office solutions needed which are not adapted to most of the not-for profit structures.

Aside from financial provider's initiatives, the banking sector has developed **voluntary charters and codes of practices to make provision for "basic" bank accounts** in six out of the fourteen countries studied.

The impact of such self-regulation is mixed: effectiveness and compliance problems of voluntary charters are currently questioned (IT & DE) or have paved the way to the introduction of a regulatory system (FR & BE), while other experiences are rather more positive and ensure high levels of transaction banking inclusion (UK& NL).

Governments also play an important role in promoting or regulating transaction bank account provision by the market.

In several countries (FR, DE, BE, NL, IT & UK), pressure from government and public opinion have successfully encouraged the banking sector to adopt voluntary codes of conducts regarding basic bank account provision.

Considering that access to transaction bank accounts is essential, governments have also intervened (in FR, BE & NO) to state a legal requirement that every citizen or resident should have access to transaction banking services and to define "guaranteed" transaction banking and payment services to be provided by the banking sector, as well as pricing criteria and other requirements. Direct legislation is also sometimes used by government to regulate the level of banking charges for specific transaction services like bounced cheques (FR).

Finally, governments sometimes contribute directly to transaction banking services through municipality banks (NL), via partnerships between commercial banks and postal banks (BE) or post offices (UK) for the provision of basic services.

Policy recommendations

When implementing the provision of **basic transaction bank account services or alternative payment mechanism to people who are not entitled** to a chequebook or a credit card by the self-regulation of the banking sector or through legislation, the following key components of success have to be considered:

<u>In general</u>

1. Identification of the obstacles both in terms of access and use by key stakeholders
2. Identification of best possible solution taking into account local conditions (legislation vs. self-regulation) in order to avoid one-size-fits-all approach.

<u>To address access difficulties:</u>

3. Statement of the right of all citizens to a transaction bank account, and definition of the conditions under which all providers are required/engaged to ensure the provision of, at least, a defined minimum or basic package of transaction bank services to an individual.
4. Creation of an external supervisory agency in charge of monitoring the implementation of the service provision on a regularly basis;
5. Implementation of an effective complaint procedure, specifically designed to be accessible and appropriate for people at-risk of financial exclusion;
6. Implementation of effective advertising of the service provided towards both targeted to individuals and governmental as well as non governmental organisations dealing with people at-risk of financial and social exclusion

<u>To address use difficulties:</u>

7. Clear definition of the range of services to be provided and at which price, with specific attention paid to targeted customers profile when considering service delivery and product design (e.g. internet or electronic banking)
8. Education campaigns to showcase banking services advantages and how to use them.

5.2.2 Policy responses to difficulties regarding credit

		Credit													
Response	Actors / measures	**AT**	**BE**	**BG**	**DE**	**ES**	**FR**	**IT**	**NL**	**NO**	**PL**	**SK**	**UK**	**LT**	**IE**
Level	*of Financial Exclusion (Eurobarometer 60.2 and 2003.5)*	*36*	*37*		*46*	*46*	*14*	*56*	*21*		*73*	*81*	*30*	*86*	*51*
Market	Mainstream commercial profit-oriented providers						X				X		X		
	(Mainstream and Alternative) Commercial social-oriented providers		X		X	X	X		X				X		
	Alternative commercial social-oriented and not-for-profit providers		X				X						X	X	X
	Alternative commercial profit-oriented providers												X		
Government	Facilitator - Assessment of policy measures		X		X				X				X		
	Facilitator - Contributing directly to the provision of financial services		X				X		X				X		
	Facilitator - Promoting and supporting market initiatives		X				X						X		
	Facilitator - Tackling the reluctance to use financial services								X				X		X
	Legislator - Credit reporting	X	X	X	X	X	X	X	X	X	X	X	X	X	X
	Legislator - Duty on lenders to check ability to repay		X							X					
	Legislator - Duty on lenders to contribute to a Compensation Fund		X												
	Legislator - Interest rate ceilings	X	X		X		X	X	X		X	X			

People face access and/or use of credit difficulties when banks refuse to grant them a reasonable credit demand (borrowing is both feasible and financially responsible – not all credit demand are...) or when they are offered inappropriate loans regarding their situation and needs (terms, conditions and charges associated with credit contract can lead them to financial difficulties).

Different types of **market responses to address problems of access and use regarding credit** have been identified in the fourteen countries studied.

The large majority of responses developed by financial services providers are implemented in partnership with another type of financial provider or a public partner providing funding, or both.

Mainstream commercial lenders generally find it unprofitable and risky for their reputation to provide small loans to people on low incomes or at-risk of exclusion because their standardised risk analysis is not appropriate to deal with this kind of customers. On the contrary, not-for-profit lenders have developed their risk analysis including budget schemes and creditworthiness measurements based on this kind of customers.

Some of the mainstream commercial lenders have therefore chosen to enter partnerships with not-for-profit lenders (UK) and the state as third partner providing a loan guarantee fund (FR).

Commercial social-oriented banks (savings banks in ES, building societies in UK, postal bank in BE and co-operative banks in FR) have also developed partnerships with other not-for-profit lenders, involving a Region (BE) or the State (FR) as third partner providing a loan guarantee fund.

Finally, alternative commercial social-oriented and not-for-profit providers have implemented consumer credit (not-for-profit organisations in BE, FR and in the UK) or savings and credit schemes (credit unions in UK) targeting people financially excluded, in partnership with the state that provides public funding or a guarantee fund provision.

Aside from partnerships, commercial social-oriented providers or not-for-profit providers have also individually developed responses to address problems of access or use regarding credit: co-operative banks have established special branches serving credit in local areas (ES) or are targeting people with financial difficulties (ES & FR), and some credit unions' current initiatives in countries where their movement is important (IE) or growing (PL) have been identified as having the potential to contribute to financial inclusion.

Governments play a crucial role to address problems of access and use regarding credit.

Two very different government approaches have been identified in terms of government policy responses within the fourteen countries studied.

In order to prevent use difficulties and ensure appropriate credit provision, some countries studied (FR & BE) have developed very strict and preventive legal frameworks (maximum interest rates, compulsory credit reporting), leading to a strongly regulated mainstream market where over-indebtedness and offer of inappropriate credit products offer are reduced - but still not all reasonable demand is served.

On the other hand, some countries (UK & IE) have favoured governments' actions as a facilitator encouraging self-regulation of the credit market through various incentives, leading to the development of a very diversified market (from mainstream to sub-sub prime) applying risk-reflective pricing, allowing a very wide access to credit products - among which some are provided at very inappropriate terms and conditions or regardless of the borrower's financial situation - and generating use difficulties and a higher risk of over-indebtedness.

The following regulatory measures to prevent use difficulties have been identified in countries studied: interest rate ceiling (AU, BE, FR, IT, DE, NL, PL & SK), compulsory reporting of negative and positive information (BE, FR, NO & NL), duty on lenders to check the credit register (NL & BE) or/and to check ability to repay before granting credit (NO & BE) sanctioned by the termination of credit contract if inadequate checks are made or if the kind or amount of credit is inappropriate (BE) and duty on lenders to contribute to a compensation fund (BE).

Finally, governments sometimes contribute directly to credit provision through public sector pawnbrokers lending with considerably lower interest rates than those charged by pawnbrokers in other countries (BE, FR & DE) or through loan provision by municipal banks (NL).

Policy recommendations

To address access difficulties, more prevalent in countries with a strong preventing approach, (market regulated, providers registered,...) the following government responses (acting as a facilitator) can be implemented:

1. Promoting (via incentives or tax relief) Corporate Social Responsibility within mainstream providers, to reduce the loss of profitability implied by the "at-risk of exclusion" population and therefore increase the offer dedicated to this public;
2. Promoting and encouraging the development of commercial social-oriented providers, which in many cases, develop appropriate response, such as cooperative and savings banks and / or Credit Union;
3. Promoting, developing and supporting consumer credit pilot projects within partnerships (public, private and NGO) to identify best practices and lessons learnt. Nevertheless, the transferability from a small to bigger scale does not seem so easy.

To address use difficulties, more prevalent in countries with a less regulated market, the following measures ensure an appropriate credit provision by the market and can be implemented within a regulatory framework:

4. Ceiling on interest rate: ceiling has to be carefully considered in order not to be set too low, and should apply to the total cost of credit (APR). To ensure no displacement of the costs, the total charges related to default also have to be limited;
5. Credit reporting: implement a national register of both negative information (payment default and bankruptcies judgements) and positive information (record of credit commitments held by the population) as well as duty for creditors to report information. Credit reporting increases the quality of the information included in credit risk analysis. Nevertheless, a particular attention has to be paid on the negative effect a negative registration may play in general financial provisions (access to banking services,...).
6. Duty for lenders to consult credit reporting as well as any other relevant information in order to check a borrower's ability to pay before granting credit coupled with legislation that enables credit agreement to be considered by the courts and terminated if inadequate checks are made;
7. Duty on lenders to contribute to compensation fund proportionally to arrears for credit contracts they have registered. This fund could then be used to repay fees and expenses for debts mediators who could not be paid by debtors.

In general:

8. Develop new criteria and credit risk analysis to face the demand of excluded people. If such new processes are implemented in systematized way, the mainstream actors will be able to play a significant role (via CSR, competition on the market, marketing policies,...), but when a individual approach will be necessary to achieve this objective, commercial social-oriented providers and not-for-profit organisations may still play a significant role. This is indeed crucial since the people and the events that increase this population are more and more numerous in our societies and the mainstream providers' current risk analysis is not adapted.

9. Nevertheless, for most excluded people, the mission to maintain an appropriate offer is a political concern, because it may be very difficult to develop any commercial product. Public authorities should therefore ensure that such an offer exists by promoting and entering partnerships involving the different ranges of credit providers active on the country market (commercial mainstream providers, commercial social-oriented banks, credit unions and not-for-profit providers).

5.2.3 Policy responses to difficulties regarding savings

		Savings													
Response	Actors / measures	AT	BE	BG	DE	ES	FR	IT	NL	NO	PL	SK	UK	LT	IE
Level	*of Financial Exclusion (Eurobarometer 60.2 and 2003.5)*	*11*	*13*		*21*	*25*	*39*	*50*	*28*		*60*	*40*	*22*	*61*	*21*
Market	Mainstream commercial profit-oriented providers												■		
	(Mainstream and Alternative) Commercial social-oriented providers				■		■						■		
	Alternative commercial social-oriented and not-for-profit providers												■		■
Government	Facilitator - Contributing directly to the provision of financial services												■		
	Facilitator - Tackling the reluctance to use financial services								■		■		■		■
	Legislator - Positive incentives		■		■	■	■						■		

As previously mentioned, access to a simple savings account globally does not seem to be a big problem. Some social issues have been identified related to use of savings account, but lack of deposit seems to be more a consequence than a cause of social exclusion.

In the countries studied, most policies implemented by both the market and governments aim to provide incentives for people to save.

Matched savings schemes have been implemented by mainstream commercial providers and the government (UK) as well as special savings accounts designed for a specific purpose have also been developed (Christmas savings in the UK, micro-savings account for over-indebted people in DE).

Co-operative, savings and postal banks are also very active in providing savings facilities for people who are likely to be financially excluded as well as credit unions, providing both savings and credit schemes and most of the time linking credit to savings. Finally, positive tax relief on savings interests are also implemented by governments (BE & DE).

5.3 Overall recommendations to promote financial inclusion

Building on the Commission's strategy for retail financial services outlined in the Green Paper on retail financial services in the single market[1], the Commission services have identified the issue of financial inclusion as an area where work should be undertaken in order

1 Commission of the European communities, green paper on retail financial services in the single market, Brussels, 30.4.2007, com(2007) 226 final.

to improve the competitiveness and efficiency of the European retail financial services market[2].

To achieve this objective, on top of promoting and supporting appropriate market responses to tackle financial exclusion (through partnerships, actions as facilitator, etc.), we recommend the combined implementation of the following government policies:

1. To develop and to use indicators to measure financial exclusion and assess policy responses
2. To ensure confidence between market actors and remove obstacles reinforcing financial exclusion
3. To develop tools to ensure transparency about CSR initiatives and to cancel out negative consequences of competition for financial services providers developing appropriate responses aiming at financial inclusion (Compensatory system and services of general interest)

5.3.1 Development and use of indicators

The adequacy and efficiency of a certain type of policy response depends highly on national particularities, market structure, cultural background and extent of financial exclusion. It is therefore essential to analyse the possible responses to be implemented in the light of the country context and to have clear indicators of the extent of the financial exclusion problem. Moreover, governments should be able to assess the efficiency measures implemented and their impact on financial exclusion.

In many of the countries studied, measures and data collection have been implemented at national or local level. Surveys are sometimes even numerous, but often oriented more on "use intensity" than about a precise measure of "exclusion". Lack of common definitions of some indicators reduces the capacity to compare situations, and it is therefore very difficult to identify best practices. It is currently impossible to compare objective statistics of the pros and cons between the UK-IE and the FR-BE-NL models to identified potential lessons learned.

Among the possible variables to measure and assess financial exclusion, at least the following indicators should be collected at national and international level:

For transaction bank account:

1. Number and list of the legal and administrative requirements to access a bank current account;
2. Percentage or number of individuals over 18 who are not fulfilling the (legal/administrative) requirements to open bank current account;
3. Percentage or number of individuals over 18 with at least a current bank account.

Those indicators help to distinguish the exclusion related to the legal framework from the one related to bank behaviours, in order for governments to target adequately their policies.

For credit:

2 Commission of the European communities, commission staff working document, initiatives in the area of retail financial services, accompanying document to the communication from the commission to the European parliament, the council, the European economic and social committee and the committee of the regions, a single market for 21st century Europe, Brussels, 20.11.2007, sec(2007) 1520.

4. Percentage or number of individuals over 18 who are not fulfilling the (legal/administrative) requirements to access commercial credit (group A);
5. Percentage or number of individuals over 18 with at least one commercial credit;
6. Percentage or number of individuals over 18 belonging to group A that would like a commercial credit but did not manage to have one (=subjective feeling of credit exclusion)
7. Percentage or number of individuals over 18 belonging to group A that has applied for credit and been turned down;
8. Percentage or number of individuals over 18 belonging to group A that do not need to borrow at all;
9. Percentage or number of individuals over 18 belonging to group A that will not be able to repay debt or for which banks/providers would refuse to give credit;
10. Percentage or number of individuals over 18 belonging to group A that used to have credit but were withdrawn the facility.

For savings:
Access or use difficulties regarding savings products are quite difficult to deduce from administrative data. Nevertheless, they are much easier to measure via surveys, because consumers' answers are quite consistent.

The above-mentioned indicators do not bring information on the adequacy of the credit access or denial decision. This may be approached by a market analysis: market share of the different types of providers (commercial mainstream, other commercial (sub-prime), mainstream commercial social-oriented, not-for-profit...), percentage of long-term default per credit per type of providers,...

The data collected within the EU-SILC 2008 module on over-indebtedness and financial exclusion and the EU-SILC (the annual questionnaire) will cover a large and original range of information and will have to be considered as the main source of information related to this matter in Europe, which hopefully will allow for fruitful benchmarking.

To maximise all survey results and improve future rounds of data collection, it is recommended to ensure a deep analysis and assessment of the results, with an evaluation of each question as well as suggestions of rewriting, if necessary. Moreover, there should be a broad dissemination of results and their analysis (through research centres, NGOs, the administration,...) in order for the civil to be re-appropriate the data.

We recommend to organise a task force which would include stakeholder representatives (NGO institutions and EU networks, research institutes,...) to implement an assessment process which may lead to improvements of the EU-SILC Eurostat survey and push forward the idea to implement, on a regular basis, this particular module.

5.3.2 Ensuring confidence between market actors and removing obstacles reinforcing financial exclusion

Aside from ensuring access and use of appropriate financial services, government policies to ensure confidence between market actors and fair attitudes will also contribute to ensure financial inclusion.

To ensure such confidence between financial services market actors, the following objectives should be addressed through governmental policies:

1. Ensuring banking institution financial capability
2. Ensuring consumer protection and therefore increasing trust in the market (improvement of general relationships between banks and customers, implementation of independent mediation for disputes settling, protection for investments products ,...)
3. Ensuring transparency and information about products and costs and generating effective competition among providers
4. Dealing with over-indebtedness and implementing curative measures
5. Promoting financial education, training, financial literacy and advice (supporting market or not-for-profit organisation initiatives – see www.fes.twoday.net

Governments should also identify and remove obstacles reinforcing financial exclusion generated by the application of legislation aiming to other purposes than financial inclusion.

Once identified in collaboration with organisations dealing with people at-risk of financial exclusion, it is up to the governments' appreciation to decide how to best address financial exclusion problems, while still meeting the purposes of the legislation generating it (i.e. Money laundering policy).

Moreover, other obstacles than the ones identified in the countries studied (proof of customer identity, risk of seizures and disproportionate impact of taxes for those on low incomes) can arise in the future due to the implementation or application of a new legislation. We therefore recommend the legislator to be careful when adopting new legislation in general and to proceed to a "financial inclusion" compliance test of the new rules and procedures to be adopted.

5.3.3 Ensuring transparency about Corporate Social Responsibility policies and cancelling out their negative consequences of in terms of competition

We have seen above a diversity of initiatives taken by financial institutions alone or the financial sector as a whole to combat financial exclusion.

Public authorities can also play a crucial role to encourage the development of such initiatives. First of all, national and international authorities can encourage the debate on CSR practices and appropriate financial products to reach the financially excluded among financial services providers and promote the adoption of tools like self-regulation. Specific information should be provided to the relevant stakeholders on the various impacts of CSR practices.

Secondly, authorities can ensure transparency by implementing indicators that can lead to the evaluation of the CSR practices in the different financial services sectors. This system would be a way to encourage pro-active financial institutions.

In order to do so, the inspiration based on the American experiences, such as the CRA (Community Reinvestment Act) is, without any doubt, a direction worth exploring. As a result the banking institutions in the United States are assessed according to their involvement in community reinvestment. Community banks play the role of an intermediary between the big banking networks and the clients with modest revenues.

This allows providing the latter with quality access to financial services. It also favours discovering new profitable markets which have been ignored up till now, improving the knowledge about the clients' needs and about evaluating the real level of risk associated with them, as well as performing evaluations of the banks, which should make the data relative to their banking practices publicly known.

The development of such tool in Europe should follow the following four stages:

1. determining appropriate quantitative and qualitative indicators to assess the services offered
2. periodical supply of information by all operators
3. audit of the information by an independent organisation according to clearly defined procedures
4. periodical assessment of the sector's action and each operator separately

Such a development seems to fall in line with the wish expressed by the European Parliament to prepare a list of criteria for enterprises to comply with if they claim to be responsible, and to shift emphasis from 'processes' to 'outcome', leading to a measurable and transparent contribution from the business in the fight against social exclusion (European Parliament, 2007).

Moreover, this system would also be a way to encourage pro-active financial institutions.

Finally, governments can implement <u>a compensatory financing system</u> to ensure that financial institutions doing Social Corporate Responsibility to combat financial exclusion are not disadvantaged compared to the others institutions who do not get involved.

In such a system, CSR policies could be remunerated depending on the assessment of the way each financial institution has assumed its social responsibility (assessments being carried out through the use of indicators described above).

Such compensation system can be implemented by governments in the context of services of general economic interest, on which public authorities are allowed to impose specific public-service obligations (Article 86 of the EC Treaty, formerly Article 90).

Considering that access to a certain type of financial services (transaction banking) at affordable prices for everyone is of general economic interest, some banks may be commissioned by governments to provide 'general interest economic services' and thus a compensation could be paid to them to remunerate this service.

Positive decisions have been adopted by the Commission in the past relating to compensations aimed at encouraging banking inclusion for people from an extremely modest background and thereby fighting banking exclusion. These decisions concerned the United

Kingdom in particular. Services of general economic interest to ensure geographic accessibility to banking counters in rural areas, for example, were also accepted, in particular for postal banks in the United Kingdom.

In doing so, enhanced social responsibility assumed by certain operators would be economically cancelled out, which would avoid distorting competition among operators and would be an opportunity for development for those who made this choice.