Policy level response to financial exclusion in developed economies: lessons for developing countries

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Introduction

There is both widespread and mounting concern about access to banking services across most developed nations – in Europe and North America as well as Australasia. This has been stimulated mainly by debates around social inclusion and the profitability (and hence social responsibility) of banks and fuelled by a near universal contraction in the number of bank branches. Perversely, it is a problem that emerges only when the majority of people have a bank account. In such circumstances, lacking a transaction account is costly and reinforces social exclusion.

Although levels of banking exclusion vary across the developed world, it is the same groups of people who are affected: people who either live on low incomes or have a history of bad debt. There is no single cause and although refusal by banks to open accounts is a problem it is by no means the main cause in many countries. Instead a range of factors act to deter or prevent some people from opening and using a bank account for their day-to-day money management. These include identity requirements, terms and conditions, charges, physical access problems and psychological barriers.

Solutions to combat banking exclusion are just as widespread. The most common response has been the introduction of voluntary charters or codes of practice, developed by the banks themselves, through their trade associations. Some countries have enacted legislation defining the right of access to basic banking services.

This study was commissioned by the Department for International Development to provide a brief overview of the policy-level response to financial exclusion in a number of developed economies and to draw from this lessons that could be applied in those countries that have less developed banking systems.

The study has drawn on detailed case studies of Australia, Belgium, Canada, France, Great Britain and the United States including

- A brief overview of the banking sector (including regulatory mechanisms and levels of concentration of the banking sector);
- An overview of the main characteristics of banking exclusion (levels of exclusion, characteristics of the unbanked and their geographical concentration);
- Details of policy responses to banking exclusion that have been implemented by regulatory authorities, government departments and the banks themselves and the impact that these have had on service provision and widened access.

In addition, information was collected on policy responses in a range of other developed countries, including Germany, New Zealand, Portugal and Sweden, as well as South Africa, which has an active programme to bring disadvantaged groups into banking.

The first part of this report comprises an overview of the situation across these countries, beginning with an account of the extent and nature of banking exclusion, followed by an analysis of its causes and concluding with an account of the various policy responses to tackle the problem. Part 2 includes the detailed country reports of the six countries studied in depth.

The extent and nature of banking exclusion

The number of people with bank accounts has risen steeply over the past 30 years, so that basic transactional banking services are widely regarded as being essential to managing personal and household finances. This means that the minority of people left behind face considerable cost and inconvenience by managing their money entirely in cash (Barr, 2004; Caskey, 1997; Caskey et al, 2006; Ekos, 1998; Kempson and Whyley, 1998; Kempson et al, 2000; Konsumentverket, 2000; Morris and Phillips, 1999; Ramsay, 2001).

In the industrialised countries studied, between one per cent and 17 per cent of adults lack a bank account of any kind. The exact proportion varies between countries, reflecting the level of inequality that exists, the make-up of the banking sector and variations in requirements to have wages and/or social security benefits and pensions paid directly into an account. The extent to which individual countries have had political initiatives to combat financial exclusion also plays a part.

Countries with low levels of income inequality (measured by Gini coefficients for equivalent disposable income[1]) tend to have lower levels of financial exclusion, while the highest levels of exclusion are to be found in the least equal ones. In Sweden, for example, just under two per cent of adults did not have an account in 2000 and in Germany the figure was about three per cent (CSR Europe, 2001). Further up the scale of inequality, three to four per cent of adults in Canada and five per cent of adults in Belgium lacked an account as did seven per cent in the UK and nine per cent in the US (Buckland et al, 2005; CSR Europe, 2001; Department of Finance, Canada, 1998; Ekos, 1998; Eurobarometer, 2000; Family Resources Survey 2004/05; Federal Reserve, 2004). Countries with the highest levels of inequality, also have the highest levels of banking exclusion. In Portugal, for example, about 17 per cent of the adult population had no account of any kind in 2000 (Eurobarometer, 2000). Typically around half of those without an account have never had one (CSR Europe, 2001; Kempson and Whyley, 1998).

Account-holding tends to be higher in countries like Germany and France where local savings banks and/or the post office are important players in the provision of banking services. Similarly, very few adults lack an account in countries such as Australia where payment of social security benefits and pensions has been made directly into bank accounts for a number of years.

The figures quoted above relate to the ownership of a bank account of any kind. More detailed investigations in Britain have found that as many people only have access to very limited banking services (a simple savings account with no cash machine card or bill-payment facilities) as lack an account of any kind and that as many people have an account that they hardly use as lack one altogether (Kempson et al, 2000). Likewise there is concern in other countries that there may be a group of people who are 'under-banked' – that is people who have an account but make little use of it. Such concerns have been expressed in Australia, for example, where many people in receipt of welfare payments have the money paid into a simple pass-book account.

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[1] Income after taxes and taking account of the size of the household

There is also a growing awareness that people are becoming excluded from banking services because they lack access to banking facilities that are widespread in the rest of society. In France the key problem is not having access to cheques, which are by far the most common form of payment. In Sweden, where internet banking is very well developed, people without access to a computer face growing difficulties and costs in making payment transfers.

Who are the banking excluded?

Regardless of the level of exclusion, it is quite clear that some groups of people are at much greater risk than others. Especially vulnerable are people living on low incomes, especially if they are not in employment and living on social security payments from the state. Typically those on the lowest incomes are twice as likely to be without a bank account as the average (ACEF-Centre, 1996; Barr, 2004; Buckland et al, 2005; Bucks et al, 2006; Caskey et a,l 2006; Collard et al, 1996; Daniel and Simon, 2001; Ekos, 1998; Hogarth and Donnell, 1999; Institut fur Finanzdienstleistungen, 2000; Kempson and Whyley, 1998; Kempson and Whyley, 2001; Kempson et al, 2000; Morris and Phillips, 1999; Test Achats, 2001).

People from low-income indigenous and ethnic minority communities have very low levels of engagement with banking (Barr, 2004; Buckland et al, 2003; Bucks et al, 2006; Caskey et al 2006; Hogarth and Donnell, 1999; Kempson and Whyley, 1998; Kempson et al, 2000; Westbury, 2002).

Also at risk of exclusion are people with a history of bad debt, who often have their accounts closed if they fail to reduce their overdraft and then find it difficult to open another one. Indeed this is one of the major causes of exclusion in countries such as Sweden and Germany, where there is near universal access to banking (Gallou and Le Queau, 1999; Institut fur Finanzdienstleitungen, 2000; Kempson and Whyley 1998; Kempson 2000; Konsumentverket 2000).

Age and geographical location have also been identified as important factors in identifying those at risk of banking exclusion. The very young and very old are more likely to be unbanked than the general population, as are people living in rural communities (Connolly and Hajaj, 2001; Kempson and Whyley 2001; Kempson and Whyley, 1998;)

Alternative providers

Experience shows that where there are considerable numbers of un- or under-banked people, cheque cashers and remittance agents tend to fill the void. Concern is mounting in Australia, Britain, the United States and Canada, about the very high charges paid by un-banked consumers who use such fringe banking services (Argent, 2002, Barr, 2004; Buckland et al, 2005; Caskey et al, 2006, Ekos, 1998; Kempson and Whyley, 1998; Morris and Phillips, 1999; Ramsay, 2001; Westbury, 2002).

The causes of banking exclusion

There seem to be six explanations for financial exclusion, although the precise balance between these may vary somewhat from country to country. Obstacles such as identity requirements, the terms and conditions of bank accounts, levels of bank charges, physical access problems brought about by bank branch closures and psychological and cultural barriers are all important. The way government social security benefits and pensions are paid also plays a part in exclusion as does refusal by banks.

Refusal by banks

In every country covered by this review, a minority of people who lack an account have been refused one by the banks. These are mainly people who have a history of bad debt, although this is by no means always the case. Research in Belgium (Bayot, 2002; Test Achats, 2001), the UK (Collard et al, 2001; Kempson and Whyley, 1998; Kempson et al, 2000) the US (Belsy and Calder, 2004; Caskey, 1997; Caskey et al, 2006; Kempson et al, 2000; Robbins and Contreras, 2006) and Canada (Department of Finance, Canada, 1998) have all shown that people with low incomes are also either refused an account outright or advised to go to another bank. This particularly affects people who are dependent on social security payments for their income.

Mystery shopping undertaken for the Task Force on the Future of the Canadian Services Sector showed that refusals continued to be a problem even after a voluntary agreement had been reached with the banks that should have solved the problem (Department of Finance, Canada, 1998). A similar situation was found in France, despite a new law strengthening the right of access to a bank account. Indeed people on low incomes faced difficulties opening an account even when they were assisted by charitable or consumer organisations (Bloch, 2000).

There is also evidence showing that people who have been refused seldom appeal against the decision, even when they have the legal right to do so (Bloch, 2000).

Identity requirements

In countries without a compulsory identity card, many people on low incomes and homeless people and refugees, in particular, find it very difficult to supply the types of proof of identity required by banks to open an account (Caskey et al, 2006; Collard et al, 2001; Connolly and Hajaj, 2001; Department of Finance, Canada, 1998; Kempson et al, 2000; Robbins and Contreras, 2006). This has been exacerbated by steps taken by governments and the banking industry to combat money laundering and terrorism. Banks now routinely require both proof of home address and photographic identification before they open a bank account, with passports and driving licences being the most widely accepted. People without either of these often face real difficulties finding alternatives that banks are confident will be acceptable to regulators. The UK Financial Services Authority has recently fined two of the main high street banks for failing to make adequate identity checks.

Terms and conditions

A range of different types of terms and conditions deter or prevent people with low incomes from opening an account. The nature of these barriers differs between countries although there are clearly similarities between them.

In France, Canada, the USA and Australia, attention has been drawn to the minimum balances that are required for an account to be opened. In many cases, these opening balances are beyond the budgets of people on low incomes (Caskey, 1997; Caskey et al, 2006; CLCV, 1999; Department of Finance, Canada, 1998; Kempson et al, 2000).

A second area where obstacles occur is the conditions relating to the use of the accounts. In Belgium, for example, accounts have been closed by banks because customers either use them too little or withdraw the money in the account too soon after it has been deposited (Collard et al, 1996). In other countries, banks impose charges if a minimum balance is not maintained (see below). While in Britain one of the major causes of bank exclusion has been the fact that conventional current accounts have no safeguards against unintentional overdrawing. People on low incomes frequently find that their account can become overdrawn by a small sum of money for a few days simply because cheques take too long to clear or electronic transfers out of the account do not take place on the expected day. This results in unauthorised overdrafts, bounced cheques and failed direct debits. As a consequence customers face high charges that may be up to half a week's income for a single person living on government social security payments. Many of the people who had closed bank accounts said that this was the main reason why they had done so (Collard et al, 2001; Kempson and Whyley, 1998; Kempson et al, 2000). Similar problems occur in the United States (Kempson et al, 2000) and Australia (Connolly and Hajaj, 2001; Hajaj, 2002).

Thirdly, people on low incomes, or with a history of bad debt, are offered accounts that either have very limited facilities or have facilities that are inappropriate to the needs of someone living on a low income. In France for example, prior to the Government Decree of 2001 (discussed in the section on *Policy responses to banking exclusion,* below) people under 'banking interdiction' because they had a history of bad debt had a right to an account that could receive deposits but no more. In some cases, they could not even gain access to a cash machine card (Gallou and Le Queau, 1999). Mystery shopping by the Confederation de la Consommation du Logement et du Cadre de Vie showed that people with low incomes were often refused a cash machine card outright, or they were offered one for which a fee was charged or which could only be used at a limited number of cash machines (CLCV, 1999).

Finally, in Canada, there is a particular problem with 'holds on funds', where people with only small balances on their account have government cheques that they have deposited put on hold for a week or more before the funds are released to their account (Department of Finance, Canada, 1998; Ekos, 1998; Ramsay, 2000).

Bank charges
Just like terms and condition, levels of bank charges deter customers with low incomes from using transaction accounts. This is a significant problem in almost all the countries studied, with the exception of Britain, where transactional banking is free as long as the account has sufficient funds to cover the transactions made.

As noted above, the costs of inadvertently over-drawing, bounced cheques and failed direct debits are a major deterrent to people on low incomes using a bank account to manage their day-to-day finances (Collard et al, 2001; Connolly and Hajaj, 2001; Hajaj, 2002; Kempson and Whyley, 1998; Kempson et al, 2000).

There is, however, a range of other charges that have a disproportionate effect on people with low incomes. These include:

- Fees for failing to maintain a minimum balance in an account;
- Higher fees for over-the-counter transactions, which tend to be used most by people on low incomes;
- Monthly lump sum fees, which discriminate against those who make few transactions;
- High fees if the number of free transactions is exceeded.

(Caskey; 2006; Connolly and Hajaj, 2001; Ekos, 1998; Department of Finance, Canada, 1999; Hajaj, 2002; Ramsay, 2000; Robbins and Contreras, 2006).

As discussed below initiatives to combat financial exclusion in Australia, Belgium, Canada and the USA have focused on providing low cost bank accounts.

Physical access problems caused by bank branch closures
Increased competition and the economics of international banking have led to programmes of bank branch closures across most developed countries. Technological developments (cash machines and telephone and internet banking in particular) have accelerated this trend. Moreover, it is clear that these closures tend to hit poor urban neighbourhoods and small rural communities quite disproportionately (Bloch, 2000; Buckland et al, 2005; Caskey et al, 2006; Connolly and Hajaj, 2001; Department of Finance, Canada, 1998; Kempson et al, 2000).

There is evidence that lack of physical access to a bank branch greatly increases the psychological barriers from banking (Kempson and Whyley, 1999). Interestingly though research conducted both in the USA and the UK shows that being unable to access a bank branch is not one of the main reasons given by people who are unbanked for lacking an account (Caskey 1997; Caskey et al, 2006; Collard et al, 2001; Kempson and Whyley, 1998; Kempson and Whyley 1999; Power Financial Corporation, 2003).

Psychological and cultural barriers
Research has shown that many people on low incomes feel quite disengaged from banking. The types of barriers noted above fuel their belief that banks are not really interested in the needs of people like them and that the services offered are not appropriate to their needs (Buckland et al, 2005; Caskey, 1997; Collard et al, 1996; Collard et al, 2001; Ekos, 1998; Kempson et al 2000; Robbins and Contreras, 2006).

As a consequence, in many countries (and especially those with higher levels of banking exclusion) self-exclusion by people on low incomes is far more important than direct exclusion by banks refusing to open accounts.

Psychological and cultural barriers impede the use of banking services in the indigenous populations in Australia and Canada (Westbury, 2002; Buckland et al, 2003). In Britain the Pakistani and Bangladeshi communities face religious barriers to banking, because transaction accounts that can be overdrawn (even if inadvertently) are haram (forbidden) under Islamic law (Collard et al, 2001; Kempson and Whyley, 1998; Office of Fair Trading 1999b).

Social security payments
In some countries – Sweden, Germany and Australia, for example – all government social security payments have been paid directly into a bank account for some time. It is, therefore, hardly surprising to find that these countries tend to have the lowest proportions of people without a bank account.

In others – such as the UK, USA and Canada – payments have not been made in this way until very recently. In fact, research in the UK showed that being in receipt of social security was strongly associated with people being unbanked. Indeed statistical modelling showed that it has an effect net of household income, family circumstances and other factors known to influence the likelihood of having an account (Kempson and Whyley, 1998; Kempson and Whyley, 1999). Concerns about financial exclusion, coupled with a desire to reduce the costs of social security administration have encouraged the UK government, US federal and state governments and Canadian provincial governments to move towards making electronic transfer the normal method of payment for all social security benefits.

Policy responses to banking exclusion

Although financial exclusion has only received widespread attention in recent years, in some countries people have had a legal right to a deposit account for some considerable time. In Sweden, for example, banks are not allowed to refuse to open a savings or deposit account under section 2 of the Banking Business Act of 1987. In France, article 58 of the Banking Act of 24th January 1984 first recognised the principle of the right to a bank account. The USA federal government introduced the Community Reinvestment Act in 1997, partly in response to a concern about bank branch closures in low-income neighbourhoods. Under this legislation, which has been modified several times subsequently, federal bank regulatory agencies rate banks on their efforts and effectiveness at serving low-income communities. The main criterion is mortgage loans but regulators also consider the extent to which banks make retail banking services available in low- and moderate-income communities. The regulatory agencies can take a bank's rating into account when considering its request for a regulatory ruling, such as permission to merge with another bank. There is no direct sanction for banks that receive unsatisfactory ratings, but since the late 1980s the vast majority of banks have made efforts to ensure that they receive a "satisfactory" or "outstanding" CRA rating (Caskey et al, 2006; Kempson et al, 2000).

This early legislation was, however, only designed to ensure access to a deposit account. It did not go further and spell out the nature of the banking services that should be offered. Developments in this area have only really occurred over the latter half of the 1990s and have generally resulted from a wider concern about social exclusion. The majority of initiatives have been in place for fewer than five years and many have been introduced in the past year. It is, therefore, too early to say to what extent they will overcome banking exclusion or whether a voluntary charter is adequate or needs legislation to ensure that banks comply. Such evidence as we have gives grounds for cautious optimism but shows that the situation needs careful monitoring to ensure that the gains are maintained.

Voluntary charters and codes of practice

Voluntary charters and codes of practice, developed by the banks themselves through their trade associations to make provision for 'life-line' or 'basic' bank accounts, are the most common response to financial exclusion. In many cases, these developments have been prompted and encouraged by governments concerned to increase social inclusion.

The earliest of these voluntary charters was introduced in France in 1992. Developed by the French Banker's Association it committed banks to opening an affordable account with facilities such as a cash card, free access to a cash machine network, bank statements and a negotiable number of cheques.

In Belgium, a voluntary code of practice was introduced in July 1997 by the Belgian Bankers Association (ABB/BVV) following a report commissioned by the Ministry for Economic Affairs. This code provides for basic banking services for people on modest incomes who lack a bank account. At a minimum this 'call deposit account' offers three basic types of transaction: money transfers, deposits and withdrawals and bank statements – although individual banks may opt to offer other services if they wish. Up to three transactions a month can be made at a cost of less than 10 Euros per year. Some banks permit withdrawals using a cash card at a cash machine. All transactions are real-time and any taking the account into overdraft are stopped.

In Germany, despite a number of attempts to introduce a legal entitlement to a current account that did not carry an overdraft facility, a voluntary code was introduced by the German Bankers Association in 1996. This makes provision for an 'Everyman' current account, offering basic banking transactions but without an overdraft facility. Individual banks have different interpretations of the 'Everyman' account. The extent to which this voluntary code has reduced banking exclusion is disputed. On the one hand, figures submitted by the banking industry to the Bundestag show that between June 1996 and June 2000 more than 800,000 'Everyman' accounts had been opened – an increase of 350 per cent. Consumer representatives, however, question these figures. In particular, they claim that the majority of people opening these accounts are young people and not those on low incomes (Institut fur Finanzdienstleistungen, 2000).

Access to basic banking in the UK and Australia has been achieved through voluntary arrangements with banks, but has not involved formal charters. In both countries, there is a more general Banking Code, which includes a commitment to telling people about basic bank accounts, but does not set down the features such accounts should offer.

In Britain, the incoming Labour government set up a series of policy action teams in 1998 to investigate different aspects of social exclusion. One of these related specifically to financial services, which investigated the extent and causes of banking exclusion as well as the possible solutions. The report of this policy action team puts forward a blue-print for a 'basic bank account'. This is an account offering a full range of banking facilities but differing from conventional current accounts in two key respects. It cannot be overdrawn and so all transactions are real time and it has a cash card for withdrawing money from cash machines but no cheque book. Ideally, it would also have a linked bill-payment account, into which agreed regular amounts could be paid from the current account and set towards a range of household bills (HM Treasury, 1999). The design of this account was based on the needs identified in detailed research with people on low incomes (Kempson and Whyley, 1999). The report of the policy action team also set a time limit of a year within which all banks would be expected to make such accounts available. This was reinforced both by a government-commission on competition in the UK banking industry (Cruickshank, 2000) and the Treasury (Britain's finance ministry) which set a deadline by which these accounts should be available. All banks complied with this deadline. To tackle the issue of access, the Treasury also required the largest banks to make their basic bank accounts usable through local post offices and sixteen now do so. Anyone holding a basic bank account with one of these banks can use their post office for basic transactional banking services. These developments are reflected in the Banking Code, which requires banks to tell customers about their basic bank account if it is suitable for their needs. The Banking Code Standards Board, the body responsible to monitoring compliance, has undertaken four investigations between 2002 and November 2005 into the extent to which banks promote basic bank accounts to their customers (see Banking Code Standards Board, 2005). These show a gradual improvement in compliance. In early 2005, the UK Government agreed with the main clearing banks a shared goal of halving the number of households lacking a bank account. In April 2005, it also set up a Financial Inclusion Taskforce, one of whose aims is to monitor the extent to which this goal is achieved.

Following the Prices and Surveillance Authority's 1995 banking inquiry Australian banks provided the Treasurer with undertakings to provide basic accounts. Unfortunately they did not honour this commitment when the government changed after the 1996 election and the matter was not pursued by the incoming government (Connolly and Hajaj 2001). Competition and the growing emphasis on corporate social responsibility have, however, led a number of banks to look at ways of providing low-cost banking services to people on low incomes, although this has been constrained by competition law.

In 2002, the Australian Bankers' Association made an application to the Australian Competition and Consumer Commission on behalf of ten member retail banks (Australian Competition and Consumer Commission, 2002). This proposed a generic basic account with the following minimum features: no account keeping fees; no minimum balance to open the account; no minimum monthly balance requirements; unlimited deposits free of charge; and six non-deposit transactions (including three over-the-counter cash withdrawals) free of charge each month. Consumer groups submitted evidence against the proposal as some banks already offered basic accounts with better features than those being proposed and they feared that these features would be scaled back. The ACCC accepted these arguments and therefore rejected the proposal as anti-competitive. They invited the ABA to propose an improved generic account, but members have decided not to pursue this but to continue to develop their own accounts. Despite this set-back all four major banks now offer basic bank accounts, some of which go way beyond the original generic account proposals.

Despite these encouraging voluntary developments, there is evidence that basic accounts are not always promoted to people who might benefit from them most (Confederation de la Consommation, du Logement et du Cadre de Vie, 1999; Banking Code Standards

Board, 2002, 2003, 2004 , 2005; Financial Services Consumer Panel, 2002; National Association of Citizens Advice Bureaux, 2002; Test Achats, 2001). As a result, in Britain, the Code provisions relating to basic bank accounts were strengthened in the 2005 edition, with further tightening to the Guidance to Code subscribers expected in 2006. An alternative response, favoured by France and Belgium, has been to look to the law to enforce previously voluntary charters (see below).

Legislation

Three of the countries studied in detail have introduced legislation that both gives a universal right to a bank account and, more importantly spells out the precise nature of the banking services that must be provided.

In France, the law on exclusion (98-657) of 29 July 1998 reiterated the right to an account first set out in the 1984 law, and strengthened it with a right to basic banking services. It also simplified the process of exercising the right to an account. This means that any person with French nationality has the right to open an account at any private or public bank and, if refused, they can apply to the Banque de France for it to designate a bank that should open an account. The 1998 law also made provision for a decree defining the basic banking services to which such people should have a right, as well as the tariff conditions for those services. This decree was issued on 17 January 2001 and sets out a right to a simple transactional account with a cash card for use at cash machines but no overdraft facility. Although similar in most respects to developments in other countries the type of account described in this decree was met with some dismay by consumer organisations.

In Belgium, a basic banking bill was introduced on 18th July, 2001 and became enacted on 24th March 2003 with implementation from 1st October, 2003. This law applies to all banks and aims to enforce the principles of the charter by the imposition of sanctions if these principles are not applied. It does, however, go beyond the provisions in the earlier charter, setting out further minimum standards for basic bank accounts, including a ceiling on charges and a minimum number of free face-to-face transactions. It requires banks to contribute to a compensation fund, which is managed by the National Bank of Belgium, to compensate financial institutions that open more than their 'share' of basic accounts. In addition, statistics on the number of basic bank accounts opened must be communicated to the National Bank of Belgium.

Developments in the United States have been more fragmented – reflecting the banking system itself. There have been a number of proposals that banks should be required to offer low-cost checking accounts (with very low minimum balance requirements and low fees) for people on low incomes. Although a small number of states have passed such laws; the Federal Government has not.

In many ways, the policy response in Canada combines the best of developments in other countries. The federal government set up a task force on the future of the Canadian financial services sector, which published its report in 1998. In 1999, the government responded with a report (Department of Finance, Canada, 1999) setting out 57 reform measures, which were then included in legislation put before Parliament. Bill C-8 was enacted in June, 2001 and includes new rules designed to tackle banking exclusion. These include rules requiring all banks to provide accounts without minimum opening balances to all Canadians, regardless of employment or credit history, with minimum identification requirements. Significantly, though, the Act also includes rules allowing the Government to make regulations regarding the provision of low-cost accounts. The banks were given an opportunity to address this issue voluntarily before regulations were introduced. Eight banks signed a Memorandum of Understanding with the Government pledging to offer low-cost accounts to their customers in 2001 and have recently renewed their public commitment. Like the UK Banking Code Standards Board, the Financial Consumer Agency of Canada (FCAC) monitors whether financial institutions adhere to their public commitments. They report annually to Parliament (See http://www.fcac-acfc.gc.ca/eng/consumers/codes/accounts.asp)

Lessons that can be learnt from these experiences

When the vast majority of people are making full use of banking provision, reliance on cash transactions becomes both difficult and expensive. This is a major problem for the people who are excluded in highly banked nations. Furthermore, one of the consequences of not providing adequate access to banking services for everyone includes the proliferation of high cost alternative providers, such as cheque cashing services and remittance agents. It is therefore important to look at ways of encouraging universal access to banking.

Levels of banking inclusion inevitably rise in response to both increasing prosperity and declining income inequalities. There are, however, a number of barriers that can stand in the way of achieving banking for all. As discussed above, these include: features of bank accounts (including terms and conditions and charges); the way that applicants are screened and vetted; physical access problems and cultural and psychological barriers. It is possible to identify ways in which these barriers can be minimised. This would include ensuring the availability of simple accounts that are both appropriate and affordable for people on low incomes; maximising the advantages of technology to provide appropriate access; encouraging take-up of the banking services available, and involving not-for-profit organisations such as post offices.

There is a need for low-cost no-frills accounts

The increase in the breadth and complexity of banking services has undoubtedly contributed to banking exclusion in highly-banked countries. Simple products, on the other hand, help ensure access to people on low incomes whose needs tend to be more basic. All the countries studied in depth for this report have needed to reinvent simple bank accounts to achieve banking inclusion. Such accounts, typically, do not have an overdraft facility and have addressed both terms and conditions and charging structures that act as barriers to use by people on low incomes.

Applicants need a good credit score to open a current account with an overdraft facility, whereas a simple account with no overdraft facility can be offered regardless of an applicant's income or previous credit history. In any case, all the evidence suggests that people on low-incomes would prefer to have an account that cannot be overdrawn inadvertently as this gives them greater control over their finances.

People on low incomes can be prevented from opening an account by conditions such as requiring a minimum balance to open an account and/or a minimum number of transactions to keep it open. Simple ‘no frills’ accounts can overcome these problems.

Moreover, charging structures often impact hardest on people who have low incomes and/or only need to make a small number of transactions. This would include fees for failing to maintain a minimum balance and monthly lump sum fees regardless of levels of use. Simple accounts typically relate charges solely to levels of use.

Developments in technology offer solutions and risks

Technological advances have made it much cheaper for banks to conduct business electronically. In many highly-banked countries, however, this has tended to reinforce banking exclusion as poor peoples needs have not been considered and they have been left reliant on traditional banking facilities, such as pass books and face-to-face transactions in branches, which are costly to provide and therefore, in decline.

Solutions to banking exclusion have involved using developments in technology to contain costs and allow wider geographical access while ensuring that people on low-incomes retain the financial control which underlies their preference for traditional banking services.

Arguably one of the most important developments is real-time banking. Real-time banking can be used to prevent unauthorised (and often unintended) over-drawing and allows customers to be in full control of their account. With this facility credit checks become less important, and even young people can have access to electronic payment methods, so building confidence in the system at an early age. It also replaces costly paper-based transactions with ones using plastic cards and electronic funds transfer. Some, but not all, highly banked countries have created a banking infrastructure that utilises real-time banking for all accounts. Countries that developed real-time accounts only for people on low-incomes have created a system that has restricted access. In Britain, for example, basic bank accounts have Solo or Electron cards, which can be used at all ATMs, but not at all retail units as some lack the equipment needed to check accounts on-line in real-time. As the number of people with these accounts increases, so too do signs outside petrol stations and small retailers saying that they do not accept payment by Solo or Electron cards.

At the same time, it is important that technological developments do not create new forms of exclusion. There is a real danger of this happening in countries (such as Sweden) where internet banking is fast becoming the norm.

There is a need to encourage the use of banks

Access to appropriate and affordable banking is only part of the problem. In some apparently very highly-banked countries, a number of people with a bank account are nonetheless making very little use of the services on offer; they are described as being under-banked. These people share many of the characteristics as those who are unbanked in other countries.

Low utilisation of banking facilities can result from policies aimed at improving the percentage of people with an account without addressing the underlying reasons for them being unbanked. For example, a number of countries took the decision that wages and/or all state benefits and pensions would be paid into a bank account before addressing the need for accounts that were appropriate to the needs of people on low-incomes. Whilst this can have the desired effect of encouraging people to open an account, they often withdraw all their income as soon as it is received and continue to operate a cash budget.

Even where appropriate accounts are on offer, if banks are seen as being predominantly for the better-off, people on low-incomes will be reluctant to use them. Experience shows that there is a need to promote the use of banking services as well as increase access to them.

Not-for-profit organisations can have an important role to play

Levels of banking exclusion tend to be lower where not-for-profit organisations, such as post offices, play a role in delivering banking services. This is partly because, compared with banks, they have a much larger network of outlets and partly because poor people see them as more user-friendly. This could involve the post office offering banking services itself (as in France) or acting as a local agent for the banks (as in the UK).

It is, however, important that such not-for-profit organisations are fully integrated into the systems for electronic transfer of funds used by banks. Without this, people using the banking services they offer will still remain on the margins of the banking system

Achieving universal access to banking

In an ideal world, competitive pressures would ensure that the banking needs of all people are met. Experience shows, however, that some intervention may be needed to ensure that appropriate provision is made for people on low incomes. Among the six countries we have studied in detail this has been achieved in a range of ways.

Least successful is legislation conferring the right to a bank account, without ensuring that appropriate accounts are available. Instead, most countries have relied on pressure being applied to banks to recognise their corporate social responsibility and provide access to transactional banking to all through the development of appropriate products. This has seen achieved in a number of ways – through ‘voluntary agreement’, as in Britain; through legislation as in Belgium, where a voluntary charter did not work; and, in Canada, a mix of the two, with legislation underpinning a voluntary agreement.

It is difficult to say which of these three approaches is the most appropriate as, in large part, it depends on the culture and legal system of the country concerned. In Britain, self-regulation through voluntary codes of practice is commonplace; in Belgium or France it is not. Moreover, experience suggests that careful monitoring of compliance is more important than whether self-regulation or legislation has been used. Least successful is relying on consumers themselves to seek redress. There needs to be an independent body monitoring the extent to which banks have genuinely removed barriers to access and both developed an appropriate account and promoted it to the people who might benefit.

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