

# socialplatform

## Social Platform position paper on financial inclusion

### Introduction

Despite the growing importance of financial services in everyday life, a significant number of citizens/residents and those awaiting the outcome of their asylum and/or migration applications are still without a bank account. According to the European Commission, 30 million people in Europe do not have access to basic financial services<sup>1</sup>. It is also recognized that financial exclusion creates social exclusion. The ongoing financial crisis amplifies the need to act.

We welcome the Commission's initiative to propose a directive on basic payment accounts. We have been calling for it since 2009. However, **we recommend the Commission considers this measure only a starting point and engages in adopting a broader approach to promote financial inclusion. It should cover access to credit, savings and insurance, as well as the growing problem of over-indebtedness**, which has increased as a consequence of the financial and economic crisis and is also due to unfair credit and lending practices<sup>2</sup>.

#### Access to basic bank accounts:

Without a bank account it is virtually impossible to access employment in most member states, or to be paid, as one of the pre-conditions for signing an employment contract for the future employee is having a bank account number. It is furthermore impossible to buy a house, pay daily invoices, receive social protection benefits and borrow. Bill payments can be more time-consuming and costly without a payment account, and increasingly services charges apply when payments are made directly to financial institutions which increases utility costs. Moreover, without access to a basic payment account, a great deal of important financial services remains inaccessible. People without access to various means of payment are unable to take advantage of the lower prices of goods and services that internet sales can offer. Not having access to a bank account impacts directly on how included a person is in society. Remittance payments are an important source of income for countries outside of the EU. Many migrant women and men send money to family members who have remained in their countries of origin and for which access to a bank account is vital in order to avoid reliance on unscrupulous intermediaries and/or other forms of corruption.

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<sup>1</sup> Flash Eurobarometer 282, *Consumers' Views on Switching Providers*

<sup>2</sup> European Commission, *Financial services provision and prevention of financial exclusion*, March 2008

## Access to insurance products and services:

Studies<sup>3</sup> and surveys carried out by our members<sup>4</sup> testify that cases of discrimination mainly on the grounds of age, disability and sex (including underlying health conditions and/or life expectancy) are still widespread across Europe.

The practice from some insurance companies in some member states to deny, on account of the client's age and / or his / her disability (and in many cases this is not related to the health conditions of the person) access to some essential insurance products (such as buying travel insurance to travel to other member states<sup>5</sup>, complementary health insurance, life insurance, pensions) is a direct form of discrimination on the grounds of age and / or disability. Additionally, disproportionate and unjustified increases in premiums for people above a certain age and / or with a disability and reduced coverage are examples of indirect discriminatory conditions which have a negative impact on older people and persons with disabilities' access to basic services, quality of life, dignity and well-being.

This situation is also an infringement of the free movement of persons in the EU, as all citizens should have the same opportunities to travel, live and work in the EU in conformity with the internal market rules.

This issue is strictly linked with the individualisation of the health care risk. Some member states<sup>6</sup> are transferring part of their services or responsibilities to the private for profit sector, as a way to finance their health care systems. Therefore having complementary health insurance is becoming an essential component to receive more than very rudimentary medical care and have access to affordable hospitalisation and medical care. Some of these schemes either apply age limits or are too expensive which in practice means denying people the right to benefit from quality health care, which is a fundamental service of general interest. Given the ageing of our population, this means that a growing proportion of our population and in particular women as their life expectancy continues to be higher than men's will be ineligible for any but the most perfunctory level of healthcare. This practice stems from the fact that many insurers target solely the most creditworthy segments of the population, in a purely commercial logic: this allows them to offer favourable rates, but exclude the less creditworthy groups.

Examples from certain member states where the same low fee is applied to all age groups<sup>7</sup> and irrespective of disability, show that alternative approaches to risk

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<sup>3</sup> See for example Civic Consulting, *Study on the use of age, disability, sex, religion or belief, racial or ethnic origin and sexual orientation in financial services, in particular in the insurance and banking sectors*, 2010; Center for financial inclusion at ACCION INTERNATIONAL, *A New Financial Access Frontier: People with Disabilities*, 2010

<sup>4</sup> See for example the joint report from Ilga-Europe and Transgender Europe "[Report on gender discrimination in employment and access to goods and services](#)"; AGE Platform Europe, [Background document](#) for Hearing "Unblocking the Anti-Discrimination Directive" on age discrimination in access to financial services

<sup>5</sup> For example, concerning people with disabilities, you have cases where costs are covered only if the person travels without a personal assistance or only in business or economy class.

<sup>6</sup> For example Poland and the Netherlands (see AGE presentation to Insurance Dialogue Group – 9th March 2011).

<sup>7</sup> Our member AGE Platform Europe collected cases of good practices of no age limits in travel insurance (Aktia – Finland, Marks and Spencer Money – UK) and in complementary health insurance schemes (Zaverovalnica Vzajemna – Slovenia, Caser Salud Integral – Spain, Patent Choice "Access Hospital Treatment Plan Single" – UK). Read more in AGE background document.

National law: on 7 November the Swedish Parliament will decide on the legislation against Age discrimination: it covers goods, services, health care etc. Six of the eight parties in the Swedish Parliament have had no objections against the wording.

management are possible and at the same time affordable for the insurer. A large number of people who are excluded from access to financial services because of age or disabilities constitute both one of the most important frontiers of financial inclusion and a significant business opportunity for providers, due also to the ageing of the population.

#### Access to credit (mortgages and loans):

Difficulties in having access to credit have increased due to the financial and economic crisis. The situation described for insurance services is very similar to access to credit and loans. Insurance and mortgages are much linked, also because insurance is a pre-condition to having access to credit.

People with disabilities, older people, individuals with a serious illness, intersex and transgender people, women who tend to have lower incomes compared to men, poor people and / or people with bad credit history, who have difficulties in getting credit insurance or life insurance<sup>8</sup>, are denied access to mortgages and loans. This results in denying them the possibility to purchase a house or make necessary adaptations to their existing one<sup>9</sup>.

Furthermore, women have and continue to experience more difficulty than men in accessing credit to develop businesses, hence the stagnant low level of women's entrepreneurship in the EU.

Examples from countries like Sweden and Malta<sup>10</sup> show that it is possible to remove discriminatory practices and grant credit based solely on the credit-worthiness of the individual consumer.

The problem these days is a too stringent interpretation of who is credit-worthy: many people that could afford a credit are excluded or have to provide additional guarantees

#### Over-indebtedness:

In 2007, even before the start of the financial and economic crisis, household debt in the EU had increased on average by almost 19%<sup>11</sup>. In more recent years, many EU residents are struggling to make payments related to their debts, whether it concerns mortgages or consumer credit or paying their bills, especially for utilities and rent. In 2010, 27% reported feeling at risk of being over-indebted<sup>12</sup>, and 11.6% to be in arrears with payments related to such debts or bills, up from 9.9% in 2007<sup>13</sup>.

Women and men who have no access to a bank account are more exposed to 'loan sharks' making them more at risk of threats and violent-related acts by those who take advantage of their vulnerable situation.

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<sup>8</sup> It amounts to sex discrimination when trans people are systematically excluded from insurance products on grounds of a mental health diagnosis that is mandatory to change name and gender.

<sup>9</sup> This is particularly important to guarantee the right to independence of older people and persons with disabilities.

<sup>10</sup> See AGE presentation to Insurance Dialogue Group – 9th March 2011

<sup>11</sup> Julia Gummy, *Explaining over indebtedness in the European Union*, The research Group, July 2007

<sup>12</sup> Eurobarometer 74.1

<sup>13</sup> SILC data from Eurostat's online database

There are different causes for over-indebtedness: change in life (e.g. illness, unemployment, divorce), gradual over-commitment (individual behavior that can be influenced and encouraged structurally), reaching a reasonable standard of living<sup>14</sup>. Over-indebtedness can also be caused by other reasons such as low income, bad financial education; repossessions are also becoming the main source of over-indebtedness in countries like Spain and the UK.

However, it is important to recognize the diversity of the problem: not all debts are the same, not all debtors are the same and not all creditors are the same<sup>15</sup>.

#### General recommendations to ensure financial inclusion:

- **Press the Council to adopt the proposal for a directive<sup>16</sup> to abolish discrimination** and barriers on the grounds of disability, sexual orientation, age, religion or belief, in access to goods and services; we also encourage the Commission to propose measures to remove discrimination and barriers on the grounds of social origin or gender identity and expression on the basis of art. 21 of the Charter of Fundamental Rights of the EU. If properly implemented, these instruments would allow for more autonomy for these groups to have access to financial services, without facing discrimination which is still common at least for some groups, and would provide users with tools to defend their rights.
- **Develop partnerships among financial institutions, including “alternative providers”, public authorities, civil society organisations and consumer associations, to set up measures and pathways to prevent and tackle financial exclusion and over-indebtedness**, paying particular attention to vulnerable users (such as people with low income, older people, the homeless, migrants including undocumented ones, persons with disabilities, transgender people etc.).
- **Mainstream the protection of vulnerable people against financial exclusion**, through consumer protection (education, information) and by collecting information, monitoring and regulating potential dangerous practices in the internal market such as advertising.
- **Acknowledge, encourage and strengthen the commitment and expertise of “alternative providers”, such as social economy or non-profit initiatives (e.g. credit unions, ethical banks, cooperative banks)** that have been developed in a number of member states. They should also be part of a structural dialogue with public authorities, financial institutions, NGOs and consumer organisations to bring their knowledge of the needs of groups facing financial exclusion or difficulties in accessing financial services,

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<sup>14</sup> Structural and individual causes of over-indebtedness appear to be mutually reinforcing. For instance, the consequences of changes in life (illness, unemployment etc.) are supposed to be softened by social security and social protection. If this does not happen timely or appropriately, this might leave people falling into further financial and / or social exclusion (source: Eurodiaconia, Policy Paper, Household over-indebtedness in the EU).

<sup>15</sup> EUROFOUND, *Managing household debts: social service provision in the EU*, 2010

<sup>16</sup> European Commission, *Proposal for a Council directive on implementing the principle of equal treatment between persons irrespective of religion or belief, disability, age or sexual orientation*, COM (2006) 428, 2 July 2008

as well as their experience concerning the support services or tailored products to ensure financial inclusion of some groups.

- In case of new ICT products and services provided by banks, insurances and credit agencies, put in place measures to bridge the technological gap and to address the difficulties that some groups may face in accessing ICT (e.g. people with low incomes or who currently have no access to / use of a computer or internet). In the EU, many services and payment methods are becoming available only through electronic means and this can constitute direct discrimination, as it excludes some groups of the population. Furthermore, ensure universal access to other basic services, such as the internet (i.e. ensure e-accessibility, web-accessibility and affordability).

### Recommendations to EU institutions to ensure a basic payment account for all

- **Propose a directive at EU level with explicit acknowledgement that access to a basic bank account is a service of general interest and a right for all.** It should build on the objectives of quality, safety, affordability, equal treatment and the promotion of universal access and of users' rights, as recognised in Protocol 26 on Services of General Interest of the Lisbon Treaty.
- **Ensure that access to basic bank accounts is free of charge and covers a number of relevant services** including: payment card, free or affordable bank statements, withdrawals and transaction cheques, direct debit or standing orders, no overdraft possibility, and making remittances.
- **Oblige all providers to offer basic bank accounts to all people resident in Europe, including those awaiting the outcome of their asylum and/or migration application and drop the requirement of having a national residency address set out by many banks.**
- **Introduce mandatory numerical identifiers (IBAN & BIC/SWIFT) for bank accounts ensuring a trans person's access to a bank account also without an officially recognized change in name/ gender.**
- **Require member states to put in place measures to take into account the needs of users with no fixed address, including homeless people, and of vulnerable groups with particular attention to accessibility requirements.**
- **Appoint a competent authority in all member states to assist people in the case of a refusal from the bank and to impose sanctions on financial institutions.**

For more information, please read Social Platform's [response](#) to the consultation on bank accounts (June 2012).

## Recommendations to EU institutions to ensure access to fair insurance products and services for all

- Set requirements for member states to impose on insurance companies the obligation to make transparent and comparable the databases they use to calculate and update the risk and prime of insurance, to update them regularly and to give consumers comprehensive information on the criteria and method of calculation used. The aim is to avoid discrimination and unjustified discrepancies on the grounds of age, disability and sex and increase the potential market for insurers. Indeed, mental health diagnosis or disability does not always imply a health condition while growing life expectancy means more men and particularly women live longer and healthier lives and thus the market should adapt to this change. Monitor the implementation of the application of the European Court of Justice ruling on the Test-Achat case with regards to sex discrimination in insurance contracts.<sup>17</sup>
- In line with the UN Convention for the Rights of persons with disabilities (art. 5), encourage member states to develop legal frameworks that respect the right of people with disabilities to make financial decisions, including granting persons with disabilities legal capacity to enter into formal financial arrangements<sup>18</sup>.
- Develop and sustain the dialogue between insurers, banks and users' organisations, such as the Insurance Dialogue Group established by the EC, to discuss barriers to access to insurance and work towards new approaches to insurance, including through developing universal products such as an intra-EU travel insurance product without age limits and regardless of disabilities.

## Recommendations to EU institutions to ensure access to credit for all people that need it

We support the EESC opinion<sup>19</sup> that it is essential to create a single, transparent, complete regulatory framework for access to credit.

- Set up a freely "accessible public positive credit history register": EU Member states all have different systems of credit history registers but some offer more advantages than others. In many cases, these registers are out of the control of public authorities and are not transparent at all. Consumers have no access to the information these registers hold. A public positive credit history register could provide banks with quality information about consumer's credit worthiness and help consumers keep track of their financial situation in a transparent way. This is already the case in Belgium<sup>20</sup>.

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<sup>17</sup> Test-Achats case (C-236/09) concerning sex discrimination in insurance premiums.

<sup>18</sup> See the impact of the CRPD that is changing the practice of Italian insurance companies to deny access to insurance products to people with disabilities (source: [superando.it](http://superando.it))

<sup>19</sup> EESC, Opinion 633/2010, *Assessing consumer and household credit: abusive practices*, 28-29 April 2010

<sup>20</sup> See COFACE response to the consultation of the European Commission on the Report of the Expert Group on Credit Histories (EGCH)

### On credit insurance:

- Lay down a legislative framework concerning credit insurance in order to:
  - ensure freedom of contract for an individual who decides to take out a loan: he / she must be free to choose his / her credit insurance and not be obliged to accept the one proposed by the bank / financial institution (this is already the case in France);
  - ensure that consumers have access to clear and comparable information to be able to choose from what is on offer. Consumer reviews on credit products can also be a useful tool for consumers to choose a product adapted to their needs.

### On mortgages and loans:

- Develop a legislative framework to promote accessible borrowing that guarantees access to credit for all (without discriminating for instance against older people, people with health problems, people with disabilities etc.) at an affordable rate of interest: this can be done by partly socialising the risk, so as to reduce the cost of insurance premium risks, and by ensuring that a responsible assessment of the capacity of the user to afford repayments is carried out by providers.
- Set the obligation for banks and credit agencies to provide meaningful and accessible information to users, to provide reasons for refusal to be given in writing within an acceptable time.
- Develop services to accompany access to credit, in order to follow the users, and in particular the most vulnerable, in making sure that they get adequate information to be able to make the right choices, and personal advice to ensure that they can pay their mortgage. Initiatives provided by social economy institutions have to be supported<sup>21</sup>.
- Encourage member states to set up a social public insurance for lending bodies, which would insure them against the default of clients representing a high individual default risk.
- Encourage the development of responsible credit products in the private, public, cooperative and for profit system, that meet the needs of individuals previously excluded from the traditional financial system.
- Closely monitor the application of the implementation of Directive 2010/41/EU<sup>22</sup> in particular ensure that Article 5 on Positive actions, which aims to promote entrepreneurship initiatives among women, includes access to credit.

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<sup>21</sup> See for example the types of cheap credits provided by some social housing associations to for refurbishment of vulnerable people homes, for adapting housing to ageing, to buy a house provided by the Fonds du Logement Wallon des familles nombreuses de Wallonie in Belgium; or low cost ownership products provided for instance by the National Housing Federation in the UK (both are members of our member CECODHAS).

<sup>22</sup> Directive 2010/41/EU on the application of the principle of equal treatment between men and women engaged in an activity in a self-employed capacity and repealing Council Directive 86/613/EEC

- Have systems to prevent eviction (cheaper than rehousing them afterwards) and disallow repossessions/evictions during winter months without suitable alternative housing.
- Encourage banks to use part of their real estate portfolio (from repossessions) to be used for social purposes, for instance housing the homeless.

### Recommendations to EU institutions to tackle over-indebtedness

- Lay down minimum requirements such as the obligation for providers to check borrower's credit worthiness, to provide clear information about the total net cost of the loan, to establish ethical standards defined by providers in cooperation with public authorities, NGOs and consumer organisations.
- Regulate debt collection and enforce the Consumer Credit Directive to prevent misleading and aggressive advertisement and abusive practices from debt-collectors and usurious interest rates<sup>23</sup>.
- Regulate revolving credit<sup>24</sup> and defend vulnerable users from aggressive and misleading advertising concerning revolving credit; regulate credit cards, by looking at the issues of limits for credit on cards and multiple cards.
- Develop guidelines to encourage member states to provide financial education, on matters such as financial management, interest rates, and the consequences of debts, and to integrate these skills in schools curricula.
- Set the framework for member states to set up over-indebtedness committees and to develop independent advice on borrowing and money management, separate from a bank's interest to sell financial products: this service could be offered by public authorities, NGOs or consumer associations; banks and financial institutions should contribute to a debt-counselling or debt-relief fund.

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*Social Platform is the largest civil society alliance fighting for social justice and participatory democracy in Europe. Consisting of 45 pan-European networks of NGOs, Social Platform campaigns to ensure that EU policies are developed in partnership with the people they affect, respecting fundamental rights, promoting solidarity and improving lives.*

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<sup>23</sup> From the [analysis](#) carried out by DG Health and Consumer in 2010, it comes out that 70% of websites offering consumer credit do not comply with the Consumer Credit Directive.

<sup>24</sup> From a survey carried out by the Banque de France it emerges that revolving credit is linked with 76,9% of the cases it dealt with between October 2006 and September 2011.