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**COMMISSION STAFF WORKING PAPER**

**Executive summary of the  
IMPACT ASSESSMENT**

*Accompanying document to the*

**COMMISSION RECOMMENDATION**

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

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## 1. INTRODUCTION

Nowadays, the use of cash is decreasing as salaries, benefits and utility bills are more and more paid via bank accounts. A bank account plays a gateway role as it is an essential tool to access other basic financial services, ranging from electronic payments to consumer loans, mortgages and life insurance<sup>1</sup>. Access to a bank account, offering a set of basic electronic payment transactions has become key to full participation in the internal market and to facilitate the use of the right of free movement of people.

## 2. PROBLEM DEFINITION

### 2.1. Problems

#### 2.1.1. Scale of the problem

Although access to basic financial services has become a necessary pre-condition for participating fully in the economic and social life of a modern society, evidence<sup>2</sup> shows that there are still considerable efforts to be made across the EU to ensure access to transaction banking services for all. Today, due to a lack of access to electronic means of payment, many people in the EU cannot enjoy all the benefits that the internal market has to offer, and incur high costs because of the use of cash only. This situation results in persisting inequalities in the society, possibly leading to financial or social exclusion of a considerable number of EU citizens<sup>3</sup>.

According to recent data, 7 % of all EU consumers, i.e. 30 million Europeans above 18 do not have a bank account<sup>4</sup>. Among these 30 million 'unbanked' citizens, it is estimated that about 6.4 million are actually deprived of or afraid to ask for a bank account when they would want to open one.<sup>5</sup> The situation in the EU regarding lack of a bank account is very diverse and particularly contrasted between EU12 and EU15: on average 91 % of the adult population in EU12 holds a bank account, compared to 97 % for EU15. In the case of Romania and Bulgaria, around half of the respondents do not have a bank account.

The lack of a bank account causes significant detriment to unbanked consumers, because of the higher costs generated by an occasional use of payment services and lack of access to cheaper online goods and services at home or cross-border. Unbanked consumers are also likely to face problems in relation to employment, renting property and receiving wages or benefits. Individuals going cross-border for study, traineeships, or (temporary) employment can face all these problems because they are likely to be denied a bank account on grounds of residence.

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<sup>1</sup> *European Financial Integration Report 2008*, SEC(2009) 19 final.

<sup>2</sup> *Financial Services Provision and Prevention of Financial Exclusion*, DG Employment, Social Affairs and Equal Opportunities, European Commission, 2008, *Study on the Costs and Benefits of Policy Actions in the Field of Ensuring Access to a Basic Bank Account*, DG Internal Market and Services, European Commission, 2010, hereinafter: the CSES study.

<sup>3</sup> *European Financial Integration Report 2008*, SEC(2009) 19 final.

<sup>4</sup> Flash Eurobarometer 282, *Consumers' Views on Switching Providers*, European Commission, forthcoming.

<sup>5</sup> This figure does not take into account the mobile population which may face difficulties in opening a bank account on a cross-border basis, i.e. in another Member State than that of their residence.

### *2.1.2. Reasons for the lack of access to bank accounts*

The reasons of the lack of access to a basic bank account can be found both on the supply and demand side. On the demand side, people are deterred from accessing and using transaction banking services for a range of psychological, cultural and educational reasons. Many of these can be explained by a lack of basic financial literacy skills or a lack of awareness of the advantages brought by the use of banking services.

On the supply side, the acuteness of the problem is to some extent related to the level of development of the banking sector: in economically less prosperous societies where the level of development of the banking sector is less advanced, there are generally lower levels of access to bank accounts. However, whatever the level of economic or financial development in the EU, there is limited availability of products for customers perceived as commercially unattractive. Products may also be too costly for this type of customers, but 'mobile' customers can also be affected when they are offered different –higher– prices than home customers. In addition, lack of clear information as to the total amount of charges for an account and its related services may deter some consumers from applying for an account. Some consumers are denied access to a bank account because they do not fulfil certain eligibility conditions, some of them stemming from legal requirements (e.g. identity checks), or from industry practices and requirements (residency requirements, proof of income, profitability, risk assessment, credit history etc). Many individuals who apply for a bank account are also required to provide a current address or the proof of residency in that country. This constitutes a problem for EU citizens who exercise their right of free movement to work or study in another Member State than that of their residence, and face difficulties in obtaining a bank account in the host state.

## **2.2. Consequences**

The problems identified result in the following consequences for consumers, the industry and public administrations.

### *2.2.1. Consequences for consumers*

#### *Limited choice of goods and services*

More and more goods and services are offered online. In such instances, lack of access to electronic means of payment by some consumers is particularly detrimental as such consumers cannot fully benefit from the opportunities offered by the internal market; they are essentially faced with less choice in goods and services and often higher prices. Online shopping (e-Commerce) for instance cannot be accessed without means of electronic payments.

#### *Higher costs*

Using banking services occasionally is more expensive than being a regular bank customer. A consumer without a bank account may need to pay a fee or use an intermediary to cash the cheque, for which a commission can reach 3 % of the amount of the cheque. If such a consumer wishes to make a payment, e.g. pay a utility bill or for goods or services, he/she may need to purchase a cheque or use a payment transmission service which can be very costly. Cross-border or seasonal workers who have moved to another Member State may need to send money home, and if they carry it outside of the banking system, they will incur high

costs of money remittance. Furthermore, discounts offered by utility providers for electronic payment will be inaccessible to unbanked consumers.

### *Financial exclusion, social exclusion and poverty trap*

A consumer without access to a bank account may encounter problems accessing other financial services, and may therefore face financial exclusion. Such a consumer is also very likely to be disadvantaged in other areas of everyday life as nowadays salaries are increasingly paid to accounts, and property owners and utility providers increasingly require electronic payments. This is especially true in countries where the use of cash is less common. However, consumers in Member States where banking is not yet so widely spread, are very likely to face problems in the coming years.

Whilst financial exclusion may be a cause of a lack of participation in the society, i.e. social exclusion, social exclusion in turn may lead to financial exclusion, when disadvantaged groups cannot open a bank account, either because of the price of the latter or of the eligibility criteria set by banks.

### *Barrier to free movement of persons*

The exercise of the right of free movement of persons within the EU should not be put at risk by difficulties such as those relating to the opening of a bank account. Indeed, the Single European Payment Area (SEPA) aims at ensuring that one bank account will be enough to carry out all national and cross-border transactions. However, SEPA applies only to payments in euro within the EEA and is not completed yet. Secondly, it only concerns electronic transactions. When consumers move temporarily to another Member State, if the latter does not belong to the euro area, it may still be more beneficial for them to open a bank account in that Member State.

#### *2.2.2. Consequences for industry*

An increasing number of providers provide discounts for electronic payments or offer their goods and services online. In such cases, lack of access to such means of payment by some consumers means that both suppliers and consumers are prevented from fully benefiting from the opportunities created by the internal market. Consumers have less choice in goods and services and often higher prices, and suppliers lose sales opportunities.

For utility service providers, having to deal with consumers without a bank account is also more costly. Furthermore, it prevents from proposing direct debit as a means of payment, which enables the securing of their cash flows<sup>6</sup>, thereby facilitating their treasury management.

#### *2.2.3. Consequences for public administrations*

As studies<sup>7</sup> show, there is a strong correlation between the income level and the status of being unbanked, i.e. those on low income (there are 84 million persons at risk of poverty in the EU), disabled, unemployed or single parents are more likely to be unbanked. These groups

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<sup>6</sup> At least in theory, as there may be circumstances where low income consumers might rather prefer to opt for credit transfers or other means of payment allowing to keep a tight control on their finance.

<sup>7</sup> See footnote 2.

are also the most likely recipients of social benefits. In addition, there is a correlation between the unbanked status and age, with the oldest people, i.e. those receiving pensions (mostly in EU12) being unbanked.

Member States that do not pay social security benefits or pensions via electronic means e.g. credit transfers, incur higher remittance costs. As several Member States are currently facing severe budgetary constraints, reductions of transaction costs using electronic payments in relation to physical processing should become more and more pertinent. This presupposes the necessary infrastructure to make and receive payments through bank accounts in the Member States administrations. Furthermore, the aim of the Digital Agenda and of E-Government of fully digitalising the relationship between citizens and public authorities may not be reached if recipients of social benefits are unable to open a bank account.

### **2.3. Dynamic baseline scenario**

A number of factors need to be taken into account in a dynamic baseline scenario as they might contribute for part to addressing the problems of the EU unbanked population. Firstly, the specific situation of Bulgaria and Romania where almost half of the population is currently without a bank account would be expected to improve, in line with their expected economic growth and the development of their financial sector over the next 15 to 20 years, to the level of Hungary.

Secondly, the question may arise as to whether the present economic situation would not spur financial services providers to intensify their efforts to exploit all profit opportunities, including the low income consumer segment which is likely to grow. There is however no guarantee that this will be the case as providers might as well opt for a more conservative strategy, in trying to maximise their relationship with their existing clientele base.

Thirdly, the self-regulatory initiative on transparency and comparability of bank fees undertaken by the banking industry should allow consumers to make informed decisions, which, combined with the possibilities offered by bank account switching at national level, could help account holders to benefit from a higher level of competition. The limitation of this initiative is that it is carried out at national and not pan-European level, leaving domestic structural market conditions unchanged.

Finally, whilst actions at EU or Member States level regarding financial education might over time raise the levels of awareness among the 30 million unbanked consumers about the advantages of holding of a payment account, and therefore lead to a higher proportion of the banked population, these actions alone are unlikely not solve the core of the problem at stake, a view shared by many consumer organisations.

## **3. POLICY OBJECTIVES**

The general objectives of the initiative are, firstly, to promote the full participation of all EU citizens in the internal market, and secondly, to promote financial inclusion and social inclusion. The specific objective is to improve access to payment accounts and electronic means of payment throughout the EU. The operational objectives would be to:

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

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

#### 4. THE CASE FOR EU ACTION

The problems identified lead for part of our society to consumer detriment because of limited choice of goods and services, high costs and difficulty in taking jobs and receiving incomes. At the moment, the majority of Member States have not addressed the issue of access to a basic payment account at the national level, while those who have do not provide for cross-border access to consumers from other Member States. This absence of action at national level in most Member States leads to a sub-optimal functioning of the internal market and creates unnecessary burdens to cross-border mobility. Furthermore, action of Member States has been insufficient from an EU perspective: the situation remains patchy at EU level. The status quo is unlikely to change in the near future, especially given the effects of the global financial turmoil and national market retrenching.

An EU-wide guaranteed access to payment accounts would constitute a first step for consumers in accessing financial services and availing of the benefits offered by the EU financial markets. Access to a payment account would also make it possible for consumers to benefit from the Single Euro Payments Area as well as from the rights and protection introduced by the Payment Services Directive. Payment of benefits by public administrations would be easier and more cost-effective. Furthermore, consumers not equipped with a bank account cannot make the most of the Single Market, notably in its e-dimension.

Ensuring that basic payment accounts are available for consumers will lead to a long-term win-win situation both from a domestic and cross-border perspective. Factors that prevent access to payment accounts and therefore full participation of EU consumers in the internal market can be addressed by appropriate EU policy initiatives.

#### 5. POLICY OPTIONS

A number of policy options have been identified. The table below summarises these options. The retained options are highlighted. The analysis has proven that those options are the most effective and efficient in achieving the objectives described above.

<b>Products and services</b>
1: No policy change
2: Ensure that basic payment services are offered by payment services providers
<b>3: Ensure that basic payment services and a payment card are offered by payment services providers</b>
4: Ensure that basic payment services, a payment card and an overdraft (credit line) are offered by payment services providers
<b>Price of a basic payment account</b>
1: No intervention at EU level

<b>2: Ensure that where a basic payment account is not free of charge, the price is reasonable</b>
3: Free of charge provision of a basic bank account
<b>Conditions for access to a basic payment account</b>
1: No policy change
2: Access to a basic payment account for unbanked households
3: A requirement that all unbanked consumers are granted access to a basic payment account
3.1: Access only for unbanked residents in their home Member State
<b>3.2: Access for unbanked residents and non-residents</b>
4: Access to a basic payment account for every EU consumer
4.1: Access only for residents in their home Member State
4.2: Access for residents and non-residents

## 6. IMPACTS

The preferred options are expected to have a positive long-term impact on financial and social inclusion and consumer confidence, encouraging consumer mobility also cross-border. The implementation of the options would have a particularly positive effect on consumers, promoting their full participation in the internal market by improving availability, access to and affordability of basic payment accounts. This would result in a significant improvement in access to payment accounts and electronic means of payment throughout the EU.

Providers are expected to experience a mix of potential benefits and costs. These can lead to an overall impact ranging from weakly positive or neutral to negative. The key determinant here is the level at which the price will be set and whether any potential losses are fully, partly, or not recovered by other parties.

The overall impact to Member States administrations will also be the result of a number of potential costs and benefits. A major issue here is related to whether and to what extent Member States would shoulder losses, if any, that providers would incur by providing basic accounts at a loss. It is expected that the impact will range from moderately positive to negative.

The cumulative impact in quantitative terms is likely to be substantially positive, as any potential negative impacts on providers should be outweighed by the large positive impacts to consumers (and Member States to a lesser extent).

Most of the preferred options' impacts will be spread all across the EU, with a predominant effect on EU12 and on the majority of EU15 where no such basic payment account is offered for the time being. The benefits and costs will be amplified in those Member States which will need to substantially adapt the rules in place or introduce a complete regulatory framework.

For most of the retained options the administrative burden is likely to be marginal.

## 7. CONCLUSION

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

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

The combination of policy options would promote full participation of all EU consumers, particularly those on low income, financially excluded or vulnerable, in the internal market, and promote financial and social inclusion more generally. It would also improve cross-border mobility, particularly of workers, trainees and students.

The proposed recommendation would foresee an evaluation of the effectiveness of the mechanism regarding access to basic payment accounts as well as a review of its application by Member States in meeting the objectives.

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