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Employment, Social Affairs and Equal Opportunities DG

Social Protection and Integration

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

## **Conference Mutual Learning on Financial Inclusion (MULFI)**

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**Final panel**

**Intervention by**

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### **1. SETTING THE SCENE**

I am very glad to participate in this meeting. It gives me the opportunity to have a better insight in a successful project that has been financed under the social inclusion strand of the PROGRESS programme and to give an overview of policy developments in the area of financial inclusion at European Union level.

#### *1.1. The Commission: one single institution and several policy processes*

Financial inclusion is one of those issues that in the Euro-jargon we define "cross-cutting", or horizontal or transversal, basically to say that they concern various policy areas.

In fact, there are at least three policy areas, in three different Commission departments that have a stake in the issue: internal market (MARKT), consumer policy (SANCO) and social inclusion (EMPL). I will not be able to do justice of the work done by all colleagues in this field (and I should add to this list the important work of some horizontal services, including EUROSTAT, as I will explain later on). However, I will try as far as possible to give the full picture of what the Commission is doing in the field of financial inclusion.

#### *1.2. Financial inclusion: what is about?*

Let me start from the basics, but very rapidly as most of you are very familiar with the issue.\_

Financial exclusion refers to a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market. Access to these services is essential to enable people to lead a normal social life in the society in which they belong.

There are various reasons why people may experience financial exclusion. They have to do with:

- availability,
- accessibility
- affordability
- adequacy

And there are various kinds of policy interventions that can help addressing financial exclusion, such as

- ensuring access to basic bank services,
- prevention and rehabilitation of over-indebtedness
- financial information and education
- promotion of professional and personal microcredit,

### 1.3. Financial inclusion: what do we know?

What do we know about the magnitude of the problems of financial exclusion in today's Europe?

As you certainly know we still don't have a commonly agreed indicator of financial exclusion (or if you prefer, of financial inclusion), on the basis of which we can describe the situation in the Union and in various Member States.

But I have some good news [it is always encouraging to have some good news]. In fact, very soon, we will have plenty of valuable information based on EU-SILC. The European Survey on Income and Living conditions - the one on which we build the headline indicators on poverty and social exclusion – will provide us with an unprecedented collection of data on financial exclusion and over-indebtedness at European level. The data were collected in 2008 and the results will be available in the beginning of next year. This will certainly change our capacity to understand, assess and address financial exclusion.

But we have not just waited for the EU SILC module to be implemented. Over the last few years, we have committed important research and studies on the matter – some of the authors are present today - we have organised workshops and conferences. And we have extensively used Eurobarometer surveys to have some quantitative indications on the issue.

The most recent Eurobarometer on poverty and social exclusion was released last week and it also asked questions concerning access to financial services.

While the large majority of Europeans do not report obstacles in gaining access to financial services, there is nonetheless a significant share of people who

report some sort of difficulties. What is more worrying, this percentage becomes very high when it comes to disadvantaged categories.

Let's consider the group of people who have difficulties making ends meet: more than half of them (55%) find it difficult to get a credit card; 64% find it difficult to get a loan; and close to three out of four (72%) find it very difficult to get a mortgage.

We have a very similar picture for the unemployed: again, half of them (47%) find it difficult to get a credit card. A further 58% of unemployed people have problems getting loans, and seven out of ten find it difficult to get a mortgage.

The crisis has clearly added new dimensions to the issue of financial exclusion. The Commission and the Member States (Social Protection Committee) have made a Joint Assessment of the social impact of the economic crisis and of policy responses, which also contain telling information on the impact of the crisis on over-indebtedness and households insolvencies.

Among other things, the exercise has highlighted the limits of national frameworks and the need for more effective preventative and rehabilitative strategies to avoid lasting exclusion.

The challenge is now to mainstream the objective of inclusive financial markets in the ongoing regulatory reforms. A well-functioning and inclusive financial system can economically and socially empower individuals, in particular poor people, allowing them to actively contribute to society.

## **2. THE COMMISSION AGENDA**

Let me now give a quick overview of the main Commission initiatives in the field of social inclusion.

I would classify those under two main headings:

- The mainstreaming of financial inclusion objectives in the internal market policy
- Financial inclusion within the social inclusion and social protection strategy (or social OMC)

Under the first heading, mainstreaming of financial inclusion in the internal market policy, I shall mention "responsible lending" and "access to a basic bank account".

### **2.1 Responsible lending**

Let me remind you some milestones:

- March 2009: Communication to the Spring European Council
  - the European Commission undertook to come forward with measures at EU level on responsible lending and borrowing;
  - including a reliable framework on credit intermediation
- June-September 2009:
  - Public consultation & public hearing on responsible lending & borrowing
- Currently:
  - Commission services are now preparing an impact assessment with a view to launch an initiative in first half of 2010. Up to the new Commission to make a proposal

## 2.2 Access to basic bank account

The origin of this initiative is in the "Citizen's agenda" and in particular in the Single market review (Nov 2007) when the Commission took the commitment to "take measures to ensure that, by a certain date, nobody is deprived of access to a basic bank account".

This issue was widely debated in May 2008: EU conference "Financial inclusion, which saw the participation of Commissioners SPIDLA and McCREEVY.

Feb-April 2009: public consultation to collect views from all stakeholders

The scope of the consultation was limited to the access to basic bank accounts, which include services such as payments and withdrawals but exclude overdraft facilities. Other financial services may be considered at a later stage.

The European Commission received 97 responses to the public consultation. The Commission is now assessing the costs and benefits of different scenarios:

- Option 1: no further EU action
- Option 2: promoting and sharing best practices
- Option 3: encouraging self-regulation by the industry at EU level
- Option 4: an EU Recommendation
- Option 5: an EU Directive

The results will be available early 2010.

## 2.3 Financial inclusion within the social OMC: reinforcing the knowledge base

Concerning the initiatives that are being undertaken in the context of the Social OMC (social inclusion strategy), I already mentioned the considerable effort that is being done to enlarge our knowledge basis, and in particular to improve our capacity to measure financial exclusion.

As I said, the results of the EU-SILC module on financial exclusion will become available in spring 2010. This module asked very detailed questions with regard to bank accounts and overdrafts, credit cards, sources of credit/loans, arrears, and drops in income as well as future expectations.

This module was used only once in 2008, but some of its questions could be introduced in the general module in 2011 if they appear to be especially relevant.

As it is always the case, this will trigger a number of activities that will push the issue higher on the social inclusion agenda. Seminar and analysis from the network of experts are also foreseen. We know the capacity of new data to push the policy agenda.

#### 2.4 The new microfinance facility

As one of the EU initiatives to mitigate the impact of the current crisis on employment, the Commission made last 2nd of July a proposal for a new facility for microcredit for employment and inclusion. The new facility should be implemented from early 2010, on a budget of 100 million Euros to start with. This facility should help creating 50000 jobs.

The intention is to give the autonomy and to help sustain employment and individual initiatives, in a consistent manner with the active inclusion and financial inclusion policies. Microcredit should be conducive to the mainstream credit market.

### **3. CONCLUSION**

#### 3.1. what has already been achieved

There is a lot to be done, but we should not underestimate what has already been achieved.

- The concept of financial inclusion is key to address in a balanced way potentially conflicting policy objectives (e.g. access to credit for low-income people and prevention of over-indebtedness) and to connect different worlds (social and financial). It has become more visible, and almost consensual.
- Some important reference knowledge has been built at European level, and very soon we will have a much more comprehensive and reliable picture thanks to the EU-SILC.
- Partnerships between actors – public authorities in the social and retail finance areas, social and consumer organisations, financial service providers, academics – has also become stronger.

#### 3.2. Congratulating the creation of EFIN-European Financial Inclusion Network as a new network

Let me conclude by saying that I am very pleased that this conference that concludes the project that the Commission has supported under PROGRESS is also the launch of a new European-wide network.

This is totally in line with our preoccupations. Projects mean partnerships, networks mean lasting action.

There is some competition among European networks, and it is certainly a challenge to set up a new one. But I am confident that you have the potential and will become very quickly a referral network on financial inclusion.

And we do need very active and very powerful networks that can influence the policy agenda towards more inclusive financial and credit markets at this very delicate juncture.

Thank you for your attention.

Website: <http://ec.europa.eu/social/main.jsp?catId=750&langId=en>

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