

# Financial exclusion in EU

From figures to daily concerns



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# Financial exclusion in the EU

- **Facts and figures**
  - Transactions and Payments
  - Credit
  - Car insurance
- **Social impacts**



## Figures and facts 1

### Dimension one : transactions and payments means...

According to the Commission factsheet 3 – PAD

Access to a payment account

- **25 million consumers without bank account but would like one**

Of citizens without a bank account, 2,5 million have been denied access to one

According to EU-SILC special module (Social Europe, 2010)

- **12 % of people lived in households which reported « not having a bank account in 2008**  
(very high in Bulgaria, Romania > 75 %)

According to the Special Eurobarometer on Retail Financial Services (2012)

Most deprived

People over 55, People with lower education, digitally challenged and migrants



## Figures and facts 2

### Dimension one : ... the issues related to remittances

According to Luisa Anderloni (2008)

**Remittances are key in** the various possible stages of **migrants'** life cycle (from initial settlement to consolidation) and part of their **financial inclusion**

According to Manuel Orozco « Sending Money Home Europe. IFAD, 2015 »,

Due to the market structure, the competition and the pricing of **remittances**, compared to the global average, **costs in Europe are relatively higher**.



## An EU solution?

### How the Payment Account Directive will concretely solve these issues?

- Because living with no payment account is a challenging situation for social inclusion in growing financialized economy
  - How to access a « legal job » ? a rent ? to pay utility bills without an account ?

It is necessary to

- Regularly assess how, on the ground, vulnerable users can access and use a basic payment account



## Figures and facts 4

### Dimension 2 : Credit access and use

EFIN's position is not in favour of a right to access credit BUT

EFIN has collected evidence regarding vulnerable people with **no access to appropriate and affordable credit** supply, even though they have a modest but real financial capacity

According to EU-SILC special module (Social Europe, 2010)

- **35 % of people live in households which do not have any kind of credit**
  - This rate is superior to 50 % for people with income below 60 % of the median (poverty threshold)



## Figures and facts 4-

### Dimension 2 : Indebtedness and overindebtedness

No standardised and regular data available

According to CIVIC Consulting (2013) conducted for DG Sanco (based on EU SILC-2011)

**11,4 % of the people in the EU area are in arrears** with payments on rent/mortgage, utility bills and/or hire-purchase/loan agreements

Behind this average, wide variation in the levels of financial difficulties :

- Bulgaria : 30,9 %,                      Greece : 31,9 %
- Germany : 5,2 %,                      Sweden : 5,9 %

**8,8 % of the people are in arrears on utility bills** in the EU

**4 % of the people are in arrears on rents and mortgages** in the EU

So far, no satisfying indicator available to measure overindebtedness



## Figures and facts 4-

### Dimension 2 : Being overindebted

- **In a large majority of situation**
- The double pain principle apply :
  - People face a life accident AND
  - Do not access a supportive proceeding for budget rehabilitation
- This can lead to :
  - Mental and general health decline ;
  - Working capacity decline,... job loss ;
  - Poverty and social exclusion
  - This generate high costs for the whole society, reduce public income (via less tax payment) and increase expenditure (justice, health...)





## Two major reasons of overindebtedness

- **Economic hardship due to life accidents for households with no financial cushion from savings, family or no fast enough return to job or increased work intensity...**
- **Credit market which allow:**
  - **toxic credits** such as the exploiting « paydays / high cost credits lenders » or with mortgage labelled in foreign currency such as the one in Swiss Franc ;
  - **unfair and irresponsible practices** related to unilateral change in the cost of the credit, the duration, the never-ending repayment of originally short term credit, the poor creditworthiness assessment...



## Figures and facts 4

### Dimension 2 : Unfair lending practices examples

concerns reported by the European Banking Authority & EFIN members\*

- Mortgage with variable interest rates with « floor-rate clauses »
- **Variable rate contracts** : lack of transparency, misselling, risks related not adequately explained ;
- Increase **of short term credit with high interest rates**, generally granted to already vulnerable households ;\*
- **Irresponsible lending practices** that as led to high level of indebtedness, mainly revolving credit, short term credit to sub-prime consumers and vulnerable ones ;\*
- Aggressive marketing strategies... concerning credit cards, short-term credit and loan consolidation advertising.



## Social impact

### Dimension 2 - the issue of non access to affordable credit

Credit is necessary to access household goods, services that can not be afforded within the monthly budget, when savings are not available :

- Mobility (second hand cars, car insurance premium... in rural region with a direct connection to employability)
- Basic furniture for a decent living : fridge, beds, washing machine for family,..
- Electronic devices : for communication, job research, training, access to special offers (cheaper prices restricted to electronic orders)...
- Personal micro-credit experiences demonstrate
  - The capacity to serve this public adequately
  - The positive impact on public authority budget because of the social inclusion improvement of the beneficiaries



## Dimension 3: Car insurance

DIR 72/166/EEC « motor third party liability coverage »

Traditional insurance companies have pooled risks on a broad basis – their business model will be undermined by big data. Cheaper insurance for some, more expensive or even exclusion for others.

Major issues presented:

**The number of uninsured vehicles** : when segmentation leads to unaffordable premium for the clients

**The legal discrimination in pricing** : why do we consider legal some client segments (young / old) and discriminatory some others (men/women) ?



## Dimension 3: Car insurance

### Uninsured vehicles : no precise data, but significant volume

Very rough estimation : +/- 10 Mio vehicles in EU 27 are not insured

### Questionable pricing practices

Since end 2012, the gender neutral pricing in insurance industry has entered into force ;

BUT...this neutral pricing principle does not affect the use of other legitimate risk-rating factors (such as, for example age or health status)

### Many complex questions..

How to deal with uninsured drivers about their own life, in case of accident ?

What can be the role and the funding method of a « compensation fund »?

How to implement / design a pricing principle legal AND socially acceptable ?

### Can fintech and bigdata design effective solutions?



## Concluding thoughts

Old challenges stay with us : poverty, lack of financial education, unscrupulous providers, toxic products...

New challenges emerge:

Digital universe : how to guarantee an universal access to this technology ?

Uneven information about market realities makes it challenging to assess potential impact of FinTech and Big Data on the access for all to the minimum set of financial services that allows a full participation of EU consumers in the society...

**Back to facts** : a priority for EFIN and Policy makers, among others, should be to build an appropriate monitoring with relevant indicators of financial and social inclusion



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*Thank you for your attention*

