2012 Financial Services User Group’s (FSUG) priorities report

Ensuring fair, affordable and safe financial products for vulnerable users

ABOUT THE FSUG

The Financial Services Users Group (FSUG) consists of 20 independent experts who represent the interests of consumers, retail investors or micro-enterprises in the EU policymaking process.

The group's remit is to:

- advise the European Commission in the preparation of legislation or policy initiatives which affect the users of financial services
- provide insight, opinion and advice concerning the practical implementation of such policies
- proactively seek to identify key financial services issues which affect users of financial services
- liaise with and provide information to financial services user representatives and representative bodies at the European Union and national level.

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Introduction and summary

Consumers should have access to a choice of appropriate, value-for-money products and services.

Access is the primary consumer principle. Access is particularly important when evaluating the degree of financial exclusion in a market or the consequences of forcing market solutions on consumers.

1. What is financial exclusion?

The term financial exclusion was first coined in 1993 by geographers who were concerned about limited physical access to banking services as a result of bank branch closures.[1] Throughout the 1990s there was also a growing body of research relating to difficulties faced by some sections of societies in gaining access to modern payment instruments and other banking services, to consumer credit and to insurance. There was also concern about some people lacking savings of any kind.

It was in 1999 that the term financial exclusion seems first to have been used in a broader sense to refer to people who have constrained access to mainstream financial services .[2]

Since then, a number of commentators have added their views of how financial exclusion should be defined. These include both academics[3] and policy makers[4].

The term "financial exclusion" has a broad range of both implicit and explicit definitions.

According to the European Commission research paper "Financial Services Provision and Prevention of Financial Exclusion",

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1 Leyshon, A. and Thrift, N. (1995) 'Geographies of financial exclusion: financial abandonment in Britain and the United States', Transactions of the Institute of British Geographers, New Series, 20, pp.312-341 .

2 Kempson, E. and Whyley, C. (1999) Kept Out or Opted Out? Understanding and Combating Financial Exclusion. Bristol: Policy Press.

3 for example, Anderloni, L. (2003) Il Social Banking in Italia. Un Fenomeno da esplorare. Milan: Giuffré.; Anderloni, L. and Carluccio, E. (2006) 'Access to Bank Accounts and Payment Services', in Anderloni L, E Carluccio & M Braga, New Frontiers in Banking Services: Emerging Needs and Tailored Products for Untapped Markets. Berlin: Springer Verlag.; Carbo, S., Gardner, E. and Molyneux, P. (2005) Financial Exclusion. Basingstoke: Palgrave Macmillan.; Devlin J. F. (2005) 'A detailed study of financial exclusion in the United Kingdom', Journal of Consumer Policy, n° 28 pp75-108 ; Gloukoviezoff, G. (2004) 'De la bancarisation de masse a l'exclusion bancaire puis sociale' in Revue Française des Affaire Sociales n3-2004, Paris: La Documentation Francaise, p11-38 ; Sinclair, S. (2001) Financial Exclusion: A Introductory Survey. Edinburgh: Heriot Watt University Centre for Research into Socially Inclusive Services .

4 Treasury Committee (2006a) Financial Inclusion: Credit, Savings, Advice & Insurance. London: House of Commons Treasury Committee: 12th Report of the Session 2005/06, Vol 1: HC 848-1 ; Treasury Committee (2006b) Banking the Unbanked - Banking Services, the Post Office Card Account and Financial Inclusion. London: House of Commons Treasury Committee: 13th Report of the Session 2005/06: HC 1717 ; HM Treasury (2004) Promoting Financial Inclusion. London: HM Treasury.

Financial exclusion refers to "a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong". [5]

2. Why is financial inclusion important ?

The European Commission has placed the fight against poverty at the heart of its economic, employment and social agenda - the Europe 2020 strategy. Heads of State and Governments have agreed a major breakthrough: a common target that the European Union should lift at least 20 million people out of poverty and social exclusion in the next decade.

Otherwise, there is a widespread recognition that financial exclusion forms part of a much wider social exclusion, faced by some groups who lack access to quality essential services such as jobs, housing, education or health care.

Financial exclusion is mentioned by the European Commission in the chapter of the European Platform against Poverty and Social Exclusion dedicated to "Severe exclusion, new vulnerabilities and specific disadvantages ". According to the European Commission,

"Financial exclusion arising from the lack of access to basic banking services, and high indebtedness, that the recent crisis has aggravated, can (...) be an obstacle to finding a job and thus lead to persistent marginalisation and poverty". [6]

Again according to the European Commission, "access to basic payment accounts is (...) a key element for promoting social inclusion and cohesion, in order to allow consumers to benefit as a minimum from a common set of essential payment services.".[7]

3. What is the problem ?

Difficulties accessing appropriate financial services and products....
Beside the fact that use of financial services makes more and more part of a standard life, the way to access and use those services may be more and more over demanding on various aspects as geographical, technical, cultural, educational or about guarantee and risk analysis criteria. This leads to a large range of access and use difficulties that are deeply related to each country's market structure.

Financial products will be considered "appropriate" when their provision, structure and costs do not lead the customer to encounter access and/or use difficulties.

5 European Commission (2008) Financial Services Provision and Prevention of Financial Exclusion. Directorate-General for Employment, Social Affairs and Equal Opportunities, Brussels: European Commission.

6 The European Platform against Poverty and Social Exclusion: A European framework for social and territorial cohesion , SEC(2010) 1564 final .

7 Commission Recommendation of 18 July 2011 on access to a basic payment account, 2011/442/EU.

These difficulties are caused simultaneously by the characteristics of the products and the way they are sold (supply side) and the situation and the financial capability of the customer (demand side). The analysis of each structure (both demand and supply sides) may, for each country, highlight the way supply meet demand, and how appropriate it is.

.... provided by mainstream providers ...

"Mainstream providers" may be considered as non stigmatizing providers regarding to the national reference. Related to the market structure of each country, a particular type of providers may appear as mainstream in one and as "alternative" in another one (e.g. saving banks are mainstream in France or Spain, but not in the United Kingdom).

"Alternative" may refer to organisations paying special attention to marginal segments, often operating as not-for-profit organisations and acting in compliance with rules and regulations or other providers which exploit the marginal market segments and often act on the borderline of legality ("alternative commercial profit-oriented" entities).

... lead to financial exclusion which reinforces the risk of social exclusion

As mentioned before, financial exclusion is deeply interrelated with social exclusion: if the latter almost automatically leads to the first, financial exclusion belongs to a process that reinforces the risk to face social exclusion. Being objectively excluded or having a subjective feeling of being excluded can begin or be reinforced by access or use difficulties in financial practices.

The perfect financial inclusion may therefore be described by the capacity to access and use appropriate financial services proposed by mainstream providers. Meanwhile, there may be an adequate "second best choice" to get appropriate services proposed by alternative providers that comply with rules and regulations and do not exploit low- income people. At least, an authenticated "social / open minded" provider may give a sufficiently safe / positive image to enable excluded people to try once again financial services, which could then be the first step towards financial inclusion with mainstream financial providers.

4. How is it regulated ?

It should be recognised that markets are amoral. Markets allocate value according to economic power not according to the principles of fairness or social justice. Free market providers will provide anything if the price is high enough and they can expect to make a return. A clear example of this can in the sub-prime lending market in certain member states where there is effectively no limit on the amount lenders can charge borrowers. For example, in the UK APRs of more than 200% are not uncommon – indeed, some lenders charge more than 1,000%.

So, in this case, in theory, consumers have access to the consumer credit market. However, many people would argue that this access is provided on terms that are unfair or predatory in the sense that consumers with a real choice acting rationally would never use this form of credit. Therefore, consumers do not have access to markets on terms that meet the access definition, above.

If objective evaluation shows that the market cannot enable access to fair, affordable, safe products for large parts of the consumer population on a voluntary basis, then policymakers have an obligation to ensure that fair market access is regulated or alternative provision is made available. Examples of alternative provision include community based lenders such as credit unions, collective pension schemes (for example, the new national pension scheme in the UK).

According to the European Commission,

> "Access to financial services for the most vulnerable can be enhanced through internal market and consumer policies. Financial exclusion can prevent people from getting a job, creating a business and accessing to other services. Ensuring access to basic financial services is a responsibility of public authorities - both at national and European level. "[8]

5. What is the user perspective ?

> Users can only be considered 'included' if a number of conditions are met:
>
> - consumers must have access to fair, affordable products and services that meet their needs from
> - financial institutions that provide products and services treat them fairly; and
> - consumers use those products and services effectively. [9]

FSUG is taking the initiative and producing this report to raise awareness of the need for regulatory reform to promote financial inclusion best practices and to regulate predatory products and/ or providers.

The report is divided into two parts.

The alternatives gives opportunity to innovate in a responsible way or not. As mentioned before, "alternative providers" may refer to organisations paying special attention to marginal segments and acting in compliance with rules and regulations, or they may refer to other providers which exploit the marginal market segments and often act on the borderline of legality.[10] Part.I Typology of alternative providers of financial services provides a comprehensive list of alternative providers with an overview of the current situation and the analysis of the consequences they have on the users.

The regulation have to promote the best practices and avoid the most detrimental practices. In

8 The European Platform against Poverty and Social Exclusion: A European framework for social and territorial cohesion , SEC(2010) 1564 final .

9 Fin-use response to the consultation document on "Financial inclusion: ensuring access to a basic bank account" , April 2009 .

10 Financial Services Provision and Prevention of Financial Exclusion, VC/2006/0183.

Part 2: A financial access regulation, we identify the appropriate interventions to ensure that i) social alternative provision is made available when the market cannot enable access to fair, affordable, safe products for all the consumer population and that ii) profit oriented providers don't exploit low-income people.

Part. I Typology of alternative providers of financial services

1 Profit oriented (Moneylenders, Sub-prime providers)

.1.1 Current situation[11]

.1.1.1 Overview

Not all, but some sub-prime loans are considered 'predatory' or extortionate'. Predatory lending is a term which is more commonly used in the US, where European commentators usually refer to 'extortionate' or 'usurious' lending. In April 2000, the National Predatory Lending Taskforce was established in the US. This Taskforce stated that a loan can be considered predatory when lenders or brokers:

- charge borrowers excessive, often hidden fees
- refinance loans at no benefit to the borrowers (i.e. loan flipping)
- grant loans without regard to a borrower's ability to repay
- engage in high-pressure sales tactics or outright-fraud and deception
- take unfair advantage of a borrowers' lack of understanding about loan terms

Whenever predatory practices occur, it is usually in the sub-prime mortgage market where most borrowers use collateral in their homes for debt consolidation or other consumer credit purposes.[12]

In a study on *Extortionate Credit in the UK,* Kempson and Whyley summarised the main factors associated with extortionate credit, mirroring those highlighted by commentators in the US. These include:

- High cost of credit (e.g. high interest rates; dual interest rates; fees and charges; non-compulsory insurance policies; late settlement of superseded credit agreements)
- Terms and conditions of agreements (e.g. levels of security required; dual interest rates, with concessionary rates ending at an early stage of default; conversion from unsecured to secured loans following default; interest penalties for early settlement)
- Sales practices (e.g. high pressure sales; encouragement of a cycle of borrowing; roll-over loans; failure to check borrowers' ability to repay; falsification of income data on application forms; equity lending)
- Lack of transparency in agreements (e.g. lack of price transparency; mis-representation or concealment of terms conditions; irregular and incomplete documentation)
- The role of brokers and other third parties (e.g. encouragement of irresponsible lending;

11 Caroline Corr , Alternative Financial Credit Providers in Europe, December 2007.

12 HUD - Treasury Task Force on Predatory Lending. 2000. *Curbing Predatory home Mortgage Lending.* Washington: Hud-User.

failure to disclose ties to lenders; charging fees even if no loan is arranged; deduction of fees from the loan; linking credit agreements to sales agreements so that rights of cancellation are curtailed; unlicensed brokers)
- Debt recovery (immoral and illegal practices; allowing financial penalties to erode the equity for secured loans).[13]

Categories of alternative financial credit providers and affected countries

Alternative financial credit providers	Countries affected
Sub-prime market	
Sub-prime lenders (or non-deposit lending companies)	United Kingdom; Ireland; Lithuania; Slovakia; Bulgaria
Sub-prime credit card companies	United Kingdom
Pay day lenders	United Kingdom; Bulgaria
Mail-order catalogues and rental purchase outlets	United Kingdom; Ireland
Sub sub-prime market	
Legal moneylenders (or doorstep lenders/home credit companies)	United Kingdom; Ireland; Poland*
Pawnbrokers	United Kingdom; Germany; Norway; France; Ireland; Austria; The Netherlands; Belgium
Illegal sub-prime market	
Unlicensed moneylenders (or loan sharks)	Likely to be occurring in most EU States

* Not regulated by financial authority or commercial law

.1.1.2 *Sub-prime market*

Sub-prime lenders: These lenders are often subsidiaries of mainstream banks and offer secured and unsecured loans to people with a history of bad debts, poor credit records, over-stretched mortgages and defaulted loans. These companies largely resemble lenders in the prime credit market except that their charges are significantly higher to reflect the higher-risk borrowers they serve. Several countries have well-established sub-prime lenders (e.g. UK) with the sector in other countries (e.g. Ireland) rapidly increasing. In Lithuania, there are currently 2 offices of AM Credit providing mortgages at higher interest rates than mainstream providers. Similar companies exist in Slovakia and Bulgaria. A distinguishing feature is their use of credit-rating practices which allows them to ensure that they make a profit regardless of the risk and a hierarchy of price banding means that a client will be charged automatically in accordance with the stability of their repayment history.[14] In Ireland and the UK fees and charges can make the cost of credit higher than borrowers originally anticipate and borrowers are also sometimes led to

13 Kempson, E. and Whlyey, C. 1999. *Extortionate credit in the UK.* London: Department of Trade and Industry.

14 Burton, D., Knights, D., Leyshon, A., Alferoff, C. and Signoretta, P. 2004. 'Making a Market: the UK Retail Financial Services Industry and the Rise of the Complex Sub-prime Credit Market'. *Competition and Change:* 8: 1: 3 - 25.

believe, that protection insurance is a condition of their loan.[15]

Sub-prime credit cards: Sub-prime credit cards are a relatively new sub-prime product in the UK. In 2004, it was estimated that approximately 0.5 million low income households had used a sub-prime credit card in the UK in the previous 12 months.[16] APRs in the UK are much higher than the mainstream, ranging from 20 to 60%. Sub-prime credit card companies which are often subsidiaries of mainstream credit card providers usually charge high late fees, high over limit fees, annual fees or up-front fees for the card. Conversely, Collard and Kempson found that sub-prime credit cards developed by moneylenders did not have any additional charges but these were included in the overall charge for credit which was reflected in a higher APR.[17]

Pay-day lenders: Customers write one or more cheques to a pay-day lender, which, in return for a fee, agrees not to present the cheque for up to 30 days. The customers receive the amount of the cheque less a fee.[18] Research in the UK found that payday loans offered easy access to credit for people with a cheque guarantee card and a regular income and these loans were perceived as cheaper than exceeding credit limits on credit cards or overdrafts without authorisation although costs were still perceived as high.[19]

Mail order catalogues and rental purchase outlets: Credit can also be tied to the purchase of goods. In Ireland and the UK customers can buy goods through catalogues which are technically interest-free but if repayments are extended research in the UK has found interest can be as high as 28.8% APR. In Ireland, mail order catalogue shopping can be offered by moneylenders with a charge of 32.77% APR plus a collection fee.[20] In the UK in 2002, around 14 million people, used agency mail order, down from just under 21 million in 1996.[21] In recent years, rental purchase outlets have opened in the UK (e.g. Brighthouse which was formerly Crazy Georges and was banned in France for charging usurious interest rates). Interest rates can be as high as 29.9% APR although 'optional' insurance and service cover can significantly increase the costs of borrowing.

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15 Kempson, E. and Whlyey, C. 1999. *Extortionate credit in the UK.* London: Department of Trade and Industry.

16 Policis. 2004. *The effect of interest rate controls in other countries.* London: Department of Trade and Industry.

17 Collard, S. and Kempson, E. 2005. *Affordable Credit: The Way Forward:* York: Joseph Rowntree Foundation.

18 Collard, S. and Kempson, E. 2005. *Affordable Credit: The Way Forward:* York: Joseph Rowntree Foundation.

19 Collard, S. and Kempson, E. 2005. *Affordable Credit: The Way Forward:* York: Joseph Rowntree Foundation.

20 Conroy, P. and O'Leary, H., 2005. *Do the Poor Pay More? A Study of Lone Parents and Debt.* Dublin: OPEN - One Parent Exchange and Network.

21 Competition Commission. 2004. *March UK Ltd. And the home shopping and home delivery business of GUS plc: A report on the merger situation: cm6102.* The Stationery Office.

.1.1.3 Sub sub-prime market

Moneylenders: Moneylenders make door-to-door calls offering retail credit usually for small cash loans. These are commonly used by people on low or insecure incomes. The agent collects set weekly repayments. Usually, no additional charges are made for default or rescheduling the loan. Moneylenders are well established in England and Ireland and work within the regulatory framework. The market in Poland is developing rapidly, in comparison to the UK where it is at best stagnating and at worst declining. What distinguishes them from the sub-prime market is the 'cross-subsidisation from the poor to the even poorer through standard charging rather than risk-based pricing'.[22] Research in the UK has estimated that approximately 5% of consumers in Britain (approximately 2 to 2.5 million people) have taken out a home credit loan in the past 12 months.[23] In 2005, it was estimated that there were 300,000 customers of moneylenders in Ireland, representing approximately 10% of the population over the age of 20 years.[24] APRs can be as high as 400% in the UK and 200% in Ireland. However, these costs include the cost of home collection as well as the costs of late payment.[25] Therefore research in the UK and Ireland have highlighte that the main downside of using home credit is its high cost.[26] An investigation into the home credit market in the UK also found that there was little evidence of switching, there were significant switching costs, information asymmetries were common (i.e. when the seller has more information than the buyer), and the market is concentrated by a small number of major suppliers with barriers to entry for new suppliers.[27]

Pawnbrokers: Pawnbrokers are one of the oldest traditional sub-prime markets in Europe and still exist in Ireland, UK, France, Germany, Austria and Norway. Pawnbrokers offer small cash loans secured on collateral (usually property or jewellery). In some countries (e.g. Ireland) their presence has been diminishing. Likewise, in the UK, usage has decreased although it has been

22 Burton, D., Knights, D., Leyshon, A., Alferoff, C. and Signoretta, P. 2004. 'Making a Market: the UK Retail Financial Services Industry and the Rise of the Complex Sub-prime Credit Market'. *Competition and Change:* 8: 1: 3 - 25.

23 Policis. 2004. *The effect of interest rate controls in other countries.* London: Department of Trade and Industry; Whyley, C. and Brooker, S. 2004. *Home Credit: An investigation into the UK home credit market.* London: National Consumer Council.

24 Financial Regulator. 2007. *A Report on the Licensed Moneylending Industry.* Dublin: Financial Regulator.

25 Kempson, E. and Whlyey, C. 1999. *Extortionate credit in the UK.* London: Department of Trade and Industry.

26 Collard, S. and Kempson, E. 2005. *Affordable Credit: The Way Forward:* York: Joseph Rowntree Foundation; Corr, C. 2006. *Financial Exclusion in Ireland: An exploratory study and policy review.* Dublin: Combat Poverty Agency; Whyley, C. and Brooker, S. 2004. *Home Credit: An investigation into the UK home credit market.* London: National Consumer Council.

27 These include regulatory barriers, costs involved in setting up a new business and switching costs for customers. Whyley, C. and Brooker, S. 2004. *Home Credit: An investigation into the UK home credit market.* London: National Consumer Council.

estimated that there are still approximately 3 quarters of a million users in the UK.[28] In 2006 in Germany, it was estimated that there were about 1.1 million customers who were paid loans amounting to 500 million euro. Conversely the market is growing in Norway, through the main pawnbroker, Lånekontoret, which is owned by the second largest commercial bank Nordea. Unlike other traditional sub-prime lenders, its service is accessible on the Internet and the profile of its customer base has changed from solely lower income customers to customers from all strata of society. APRs in Ireland in the UK can be extremely high with research in the UK finding that APRs can range from 70 to 200%.[29] However, pawnshops in continental Europe (e.g. France, Belgium, Germany, Holland, Italy, Spain) differ substantially to the Irish and British ones as they are either run by the state or municipality (e.g. Mont de Piété). For instance, in Belgium, Mont de Piété makes approximately 120,000 loans every year. Potential borrowers must provide proof of identity, irrespective of nationality. Applications must be a national or a European Member State. In different countries, interest rates can be as low as 4%. However, in Germany, Italy and Spain, pawnbrokers are also provided by private companies as well as the state and municipalities and therefore charge much higher interest rates.

.1.1.4 *Illegal sub-prime market*

Illegal sub-prime market: The illegal sub-prime market consists of unlicensed moneylenders or lone sharks who charge much higher interest rates than those working within the regulatory framework. Such lenders do not issue credit agreements and apply default charges that can be extortionate and arbitrary. Intimidation and violence are frequently used to ensure repayments are prioritised and to protect lenders from being reported. Illegal lending is a problem in some countries (e.g. UK; Lithuania), although it is limited to specific cases/areas in other countries (e.g. Poland; Ireland; Germany; Norway; Slovakia; Italy). Research in the UK has estimated that up to 3% of low-income households could be using illegal moneylenders.[30] The incidence of illegal lending is even higher in Germany and in France with 8% of those on low incomes who are credit impaired in Germany and 7% in France admitting that either they or someone living in their household have used an unlicensed lender.[31] Some commentators argue that the incidence of illegal lending is lower in the UK as consumers have more legal options through the sub-prime market.[32] In Ireland, a study carried out in a region in the south of Ireland found that 1% of low-income consumers were using illegal moneylending.[33] There are also reports in Norway of people

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Collard, S. and Kempson, E. 2005. *Affordable Credit: The Way Forward:* York: Joseph Rowntree Foundation.

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Collard, S. and Kempson, E. 2005. *Affordable Credit: The Way Forward:* York: Joseph Rowntree Foundation.

30
Policis. 2004. *The effect of interest rate controls in other countries.* London: Department of Trade and Industry.

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Policis. 2004. *The effect of interest rate controls in other countries.* London: Department of Trade and Industry.

32
Policis. 2004. *The effect of interest rate controls in other countries.* London: Department of Trade and Industry. Ellison, A., Collard, S. and Forster, R. 2006. *Illegal lending in the UK.* London: Department of Trade and Industry.

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Byrne, N., McCarthy, O. and Ward, M., 2005. *Meeting the Credit Needs of Low-Income Groups: Credit Unions*

using private 'friendly' loan services, while in Slovakia the problem is mainly concentrated within the Travelling community.

.1.1.5 *Credit brokers*

Sub-prime loans are often arranged via a third party who has a relationship with the lender and can apply for credit on behalf of the customer.[34] With secured loans this is usually a credit broker. Kempson and Whyley stress that borrowers who use credit brokers are more likely to become involved in an extortionate credit agreement as given their commission structure, brokers are more likely to encourage irresponsible lending, to fail to disclose ties to lenders, to charge fees even if no loan is arranged, to falsify information and to misrepresent the terms and conditions of agreements.[35] Fees may also be deducted from an advance, leaving borrowers with less than they thought they had borrowed, while still paying interest on the total amount.

Unsecured loans may also be arranged via a third party but this is usually arranged by the organisation that provides the goods or services being supplied on credit such as a home improvement company or motor trader.[36] According to Kempson and Whyley, this type of lending can raise consumer protection issues. For instance, some companies might not inform borrowers that agreements are cancellable.[37]

Kempson and Whyley also highlight the case in the UK where Asian communities have people known as 'go-betweens'. They state that at the 'less reputable end, there are strong indications that the go-between is selling on a loan taken out in his own name'.[38]

.1.2 Consequences on the users[39]

Customers of alternative financial credit providers can face a number of negative consequences. By using alternative financial credit providers as opposed to mainstream providers, customers are unable to build up a good relationship and good credit history with a mainstream provider. Even if they successfully repay an alternative credit provider without falling into arrears, they will not be able to use this good credit history with potential dealings with mainstream providers.

As already stated, the main disadvantage of sub-prime lending is the high costs involved. In

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versus Moneylenders. Dublin: Combat Poverty Agency, Research Working Paper Series.

34 Kempson, E. and Whlyey, C. 1999. *Extortionate credit in the UK.* London: Department of Trade and Industry.

35 Kempson, E. and Whlyey, C. 1999. *Extortionate credit in the UK.* London: Department of Trade and Industry.

36 Kempson, E. and Whlyey, C. 1999. *Extortionate credit in the UK.* London: Department of Trade and Industry.

37 Kempson, E. and Whlyey, C. 1999. *Extortionate credit in the UK.* London: Department of Trade and Industry.

38 Kempson, E. and Whlyey, C. 1999. *Extortionate credit in the UK.* London: Department of Trade and Industry.

39 Caroline Corr , Alternative Financial Credit Providers in Europe , December 2007.

research carried out in the south of Ireland, Byrne *et al.* (2005) found that people on low incomes who rely on moneylenders as a source of credit pay out a higher percentage of their income on loan repayments compared to those who use mainstream providers. They concluded that moneylending was not only a 'serious drain on the household economy' but also 'on the local economy of poorer communities across Ireland' as a 'significant percentage of state transfers into communities is quickly drained out in high interest payments to moneylending companies'.[40] Similarly, British research has found that the high interest rates of moneylenders can cause further financial strain and unmanageable levels of debt for low-income households.[41]

Kempson and Whyley argue that vulnerable consumers are 'at greater risk of default and likely to face more server consequences should default occur'.[42] Defaulting on a payment with sub-prime lenders can generate a penalty in the form of increasing the interest rate.[43] This can lead customers into greater financial difficulties. The Money Advice and Budgeting Service in Ireland is concerned that those borrowing from sub-prime lenders can become overindebted because of 3 main reasons:

- Many of the products are heavily advertised and may cause people to borrow more than they can really afford
- Proof of income is not always required which could lead to borrowers overstating their capacity to repay
- Equity lending may be the prime motivation of the lender rather than the consumer's income or ability to repay.[44]

Similarly, in the UK, Kempson and Whyley (1999) found that sub-prime lenders target vulnerable consumers and encourage them to take out loans that they are unlikely to be able to repay.[45]

Evidently, the most negative consequences are experienced by those lending from illegal financial credit providers given that they are covered by no consumer credit protection. Research in the UK found that penalty charges are often disproportionate and arbitrary, paperwork is rarely

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Byrne, N., McCarthy, O. and Ward, M., 2005. *Meeting the Credit Needs of Low-Income Groups: Credit Unions versus Moneylenders.* Dublin: Combat Poverty Agency, Research Working Paper Series.

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Herbert, T. and Hopwood-Road, F., 2006. *Banking Benefits: CAB Evidence on Payment of Benefits into Bank Accounts.* London: Citizens Advice.

42
Kempson, E. and Whlyey, C. 1999. *Extortionate credit in the UK.* London: Department of Trade and Industry.

43
Burton, D., Knights, D., Leyshon, A., Alferoff, C. and Signoretta, P. 2004. 'Making a Market: the UK Retail Financial Services Industry and the Rise of the Complex Sub-prime Credit Market'. *Competition and Change:* 8: 1: 3 - 25.

44
Money Advice and Budgeting Service. 2007. 'Most Vulnerable not protected by the new Consumer Protection Code'. Press release, 19th June, 2007.

45
Kempson, E. and Whlyey, C. 1999. *Extortionate credit in the UK.* London: Department of Trade and Industry.

provided and the cost of credit could be as high as three times the cost of credit from the highest cost legal lender.[46] In Germany, Policis highlighted that one of the major risks associated with borrowing from illegal lenders arises when borrowers find themselves in financial difficulties with lenders likely to use violence and intimidation.[47] In Slovakia, when customers do not fulfil their repayments, unlicensed lenders pass on the information to an outsourcing company who then use harsh methods to recoup payments. Research in the UK found that 'most relationships between illegal lenders and their customers are based on fear and intimidation with lenders seeking to control their customers with a range of coercive practices'. In the worst cases, failure to pay can result in customers being forced to deal drugs or into prostitution on behalf of the lender.[48]

2 Social oriented

.2.1 Current situation

.2.1.1 Overview

In addition to private commercial institutions, many EU countries have other commercial organisations offering financial services, including savings banks, post offices and other mutual or co-operative providers. For short-hand we refer to these as 'commercial social- oriented providers' to distinguish them from the private commercial profit-oriented banks. This does not, however, imply that they are subsidised, merely that they are not privately owned companies quoted on stock exchanges. They often operate in a limited geographical area and are closely linked to the needs of that area, but are generally backed by a network providing expertise and professional management as well as a wide range of products to sell.

.2.1.2 Credit Unions

What makes credit unions different? Credit unions are best described as member owned and governed not-for-profit self-help financial services cooperatives. The main function of credit unions is to make available for their members savings, loans, and often a wide range of other financial services that members need. The source of funds to enable the provision of loans is the collective pool of members' savings – shares and deposits. Credit unions do not seek funds on the open market. As the ownership and funding of credit unions is confined to members, they avoid the need to generate extensive profits to remunerate stockholders and pay performance bonuses to

46 Ellison, A., Collard, S. and Forster, R. 2006. *Illegal lending in the UK.* London: Department of Trade and Industry.

47 Policis. 2007. *Economic and Social Risks of Consumer Credit Market Regulation: A comparative analysis of the regulatory and consumer protection frameworks for consumer credit in France, Germany and the UK.* London: Policis.

48 Ellison, A., Collard, S. and Forster, R. 2006. *Illegal lending in the UK.* London: Department of Trade and Industry.

executives. Consequently members can receive a reasonable return on savings, lower interest rates charged for loans, often no service charges, and can enjoy benefits such as loan protection and life savings insurance cover at no direct cost to the individual member.

A significant characteristic of credit unions is that members share a common bond, for example living in the same community, working for the same employer, membership of the same profession. The common bond gives a sense of belonging, sharing, cohesion and purpose. It enhances the trust among members and contributes to the management of loan repayment performance.

In addition to being able to avail of highly competitive financial services, credit union members can have the opportunity of:

- Improving their own and family financial circumstances – perhaps starting a business or even building a family home, and providing educational opportunities for the family.
- Becoming an owner of and having a say in their own financial cooperative organisation.
- Voting at general meetings where each member has an equal opportunity of influencing decisions – one member, one vote irrespective of the amount of savings.
- Volunteering to participate in the operation and governance of the credit union.

Distribution of credit unions today: The World Council of Credit Unions (WOCCU), the worldwide representative and trade association for credit unions, compiles data on the international distribution and size of the credit union movement. Data can be found at www.woccu.org

WOCCU statistical summary 2010:

- Countries 120
- Credit unions 52,945
- Members 187,986,967
- Savings $1,229,389 million
- Loans $ 960,089 million
- Assets $ 1,460,551 million

Worldwide, the USA has the greatest number of members at 92 million and assets of $926,610 million, followed by Canada with 10.7 million members and $256,187million assets. India reports 20million members and $52,086 million assets. Australia and South Korea have, respectively, assets of $53,420 million and $42,200 million.

In Europe, there are credit unions in Belarus, Estonia, Great Britain, Ireland, Latvia, Lithuania, Macedonia, Moldova, Poland, Romania, Russia and Ukraine. Ireland has the highest number of credit unions, 498, membership 3 million, penetration 70% of population and assets $18,289 million. Poland has 59 credit unions with membership of 2.2 million, penetration 8% and $4,728 million assets. Great Britain has 480 credit unions, membership of 0.9 million, penetration 2.3% and assets of $1,191 million.

History: Credit unions have their genesis in the urban and rural credit cooperatives first established, respectively, by Hermann Schulze-Delitzsch and Friedrich Wilhelm Raiffeisen in Germany in 1850 and 1864. The financial needs of small urban traders, and in rural areas those of small farmers, were served by these credit cooperatives. The Raiffeisen cooperatives were established within confined areas of operation – local administrative districts and villages, in order to maintain and obtain important information on members which assisted them in the management of credit granting and control. Both movements flourished and by 1913 there were some 800,000 members in 1,500 urban credit cooperatives, and 1.5 million members in about 17,000 rural credit cooperatives.

The credit cooperative concept quickly spread to other European countries - to Italy, where Luigi Luzzatti promoted the Schulze-Delitzsch model; and to Austria, Holland and Belgium etc. with the Swiss Government even awarding bonuses for the establishment of credit unions.* See" F. W. Raiffeisen The Credit Unions " Eight Edition - English translation 1966. Today, credit cooperative successor cooperative banks are widespread in Europe.

Credit unions modelled on the original Raiffeisen concept first manifested themselves in the Americas in the town of Levis, Quebec, Canada in 1901, promoted by Alphonse Desjardins, and later in Manchester, New Hampshire, US in 1908 with the support of Edward Filene. And today they continue to be an integral part of saving, borrowing and financial service provision for millions of people in both French and English speaking Canada, and in the US.

In Ireland, the first credit cooperative following the Raiffeisen model was established in 1895. For the next twenty years there was significant growth in the number of societies, peaking at 268 in 1908. Their prime purpose was the provision of credit to the farming community. However, these societies never developed their structures, governance and funding on a par with the German ones. Boards of directors were often small in number, dependant on one or two individuals to negotiate bank loans as a source to provide credit to borrowing members. Also up to half of the lending resources were advanced by government bodies and the recovery of outstanding loans was weak, with society members often reluctant to pursue neighbours for repayment. By the mid 1930s they had nearly all died out.

In the late 1950s*(See "Nora Herlihy-Irish Credit Union Pioneer" published by Irish League of Credit Unions 1990) the successful credit union movement of German origin, which had reached the US in the early part of the century, was the catalyst for the start of a new wave of credit union formation in most towns, villages and urban areas of Ireland, North and South, resulting in over 3 million credit union members today. In the 50 years of operation members have cooperated both as savers and borrowers using their credit union to recycle money from those who have it to save to those who need to borrow it. There are no outsiders to take a profit at the expense of the member owners and interest rates are set so that the credit union works to the benefit of all.

The Irish credit union movement has a strong history of altruistically sharing its success and expertise, notably on the early support of credit unions in the UK and Poland and more recently through the Irish League of Credit Unions International Development Foundation with Russia, Albania, Africa and Asia in helping to set up new movements and refurbish existing ones.

At the request of the Irish League of Credit Unions, the Government instituted a Commission on Credit Unions in the Republic of Ireland which reported in March 2012 (Report of the Commission on Credit Unions http://www.finance.gov.ie/viewdoc.asp?DocID=-1&CatID=45&UserLang=EN&m=31) with a detailed assessment of credit unions and offering a range of recommendations on future models of operation, governance, stabilisation, restructuring, legislation and regulation, all to strengthen and position the movement to continue to meet the financial service needs of members into the future in a safe, effective and efficient manner.

.2.1.3 *Saving banks*

The results of a study published in 2009 shows that there are no radical differences between savings banks and their commercial peers in terms of profitability, cost-efficiency, market power and earnings stability in Austria, Belgium, Germany, Italy and Spain. Savings banks appear to be slightly less profitable in Austria, Germany, Italy and Spain, but the differences are not consistent and depend on the choice of profitability measure, i.e. RoA, RoE or cost to income. It is worth noting that the only country where a notable difference exists across the three performance measures is Italy, where savings banks operate as joint-stock corporations just like commercial banks. In terms of cost-efficiency, savings banks exhibit a slightly inferior performance in Austria, Italy and Spain.

Savings banks enjoy greater market power in Austria but the opposite is true for Italy; in either case, the differences are relatively small.

The results also highlight two distinguishing aspects of savings banks. First, savings banks fulfil an important role in assisting regional economic growth. In the three countries with active savings banks, i.e. Austria, Germany and Spain - regions with a greater presence of savings banks - experience stronger growth rates. Second, in some cases savings banks cope with income volatility better than other banks. Although the statement is true for all Austrian savings banks, in Germany and Spain the larger savings banks are better able to absorb deviations in income.

Taken together, these findings imply that in addition to co-existing with other banks under similar conditions, savings banks have responded to shifts in market developments while fulfilling an integral role for the sustained development and stability of economies. [49]

.2.1.4 *Cooperative banks*

The results of a study published in 2009 shows that there are no consistent differences between cooperative banks and their commercial and savings bank peers in terms of profitability, cost-efficiency, and market power, while cooperative banks, especially the larger ones, enjoy greater earnings stability than their commercial peers.

When using financial indicators (RoA and RoE), cooperative banks are slightly less profitable in all countries with the exception of Germany, Spain and Finland.

In terms of cost efficiency, the differences between cooperatives and other banks are also mixed. Cooperatives seem to enjoy significant cost benefits, in terms of cost-to-income in Finland, France, Italy and Spain, while scoring lower in Austria, Germany and the Netherlands.

In terms of market power, the results are once again mixed. In Austria, Germany and the Netherlands, cooperative banks have a significantly less market power while the opposite is true for Italy, Finland and Spain. In Germany, smaller banks as well as larger banks enjoy greater market power; these results could mitigate some of the differences favouring cooperative banks. These results have to be interpreted with care in order to avoid making erroneous judgements

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Ayadi, R., R.H. Schmidt, S. Carbo Valverde, E. Arbak and F. Rodriguez Fernandez (2009), Investigating Diversity in the Banking Sector in Europe: The Performance and Role of Savings Banks, Centre for European Policy Studies (CEPS), Brussels.

due to the close relationship of mark-ups with cost-efficiencies.

In terms of stability of earnings, cooperatives are significantly more stable than other banks in all countries other than Germany and Spain, where savings banks are taking the lead. In some cases the differences are astounding, i.e. France and the Netherlands, where these banks enjoy greater stability. These results confirm the expectation that cooperative banks enjoy a stable cushion of earnings, reducing their likelihood of insolvency.

In terms of contribution to regional growth, regional presence of cooperative banks has a positive impact on GDP growth in most countries, most notably in Austria, Finland, Germany and the Netherlands. For Germany, there is a self-reinforcing relationship between cooperative presence and growth. Quite intriguing, in Austria and the Netherlands, cooperative banks appear to play a stabilising role, maintaining their presence in regions experiencing low growth and thereby contributing to future growth. These findings call for re-examination of the role of cooperative banks, especially in regions where growth is depressed, either cyclically or persistently.

Taken together, these findings imply that in addition to coexisting with other banks under similar conditions, cooperative banks have responded to shifts in market developments while fulfilling an integral role of contributing to stability and regional growth in their economies. [50]

.2.1.5 *Public-sector pawnbrokers*

In continental Europe the pawnshops are usually managed by public authorities whereas it is not the case in English-speaking countries.

In countries as Belgium, France and Germany, the governments contribute directly to credit provision through public sector pawnbrokers lending with considerably lower interest rates than those charged by commercial pawnbrokers in other countries.

In Germany, for example, they offered 1.1m loans in 2006 at an interest rate of 1% per month, plus a charge for the storage of the items pledged. The amount lent against the value of the pledged goods was, however, about 20 per cent lower than that lent by commercial pawnbrokers. [51]

.2.1.6 *Community Development Financial Institutions (CDFIs)*

In the United Kingdom, CDFIs (not-for-profit Community Development Finance Institutions) offer low- cost loans to people who find it difficult to access the prime credit market. Unlike many credit unions, they do not link loans to savings - since most of them are not deposit

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50 Ayadi, R., D.T. Llewelyn, R.H. Schmidt, E. Arbak and W.P. de Groen (2010), Investigating Diversity in the Banking Sector in Europe: Key Developments, Performance and Role of Cooperative Banks, Centre for European Policy Studies (CEPS), Brussels.

51 Financial Services Provision and Prevention of Financial Exclusion, VC/2006/0183.

takers.

.2.1.7 *Invoice Financing*

Part 1: Typology

Invoice financing is a means of short-term borrowing for enterprises, aiming to improve their liquidity. Firm's invoices are discounted, allowing a business to draw money against its sales invoices before the actual cash flows from customers' payments are realized. Firms receive a percentage of the value of their invoices from a finance company, where the latter accepts invoices as collateral. Responsibility for raising sales invoices and for credit control stays with the borrower, and the finance company will often require regular reports on the sales ledger and the credit control process. With the traditional financial system in trouble, access to regular financing loans from high-street banks is gradually more difficult, especially for micro enterprises, which look at invoice financing as an alternative source of financing.

This type of financing is institutionally represented by the EU Federation for the Factoring and Commercial Finance Industry (EUF)[52]. According to the EUF, the industry is dominated by banks and bank owned suppliers but a vibrant independent sector also operates. Regarding the industry growth, despite the generally low levels of economic growth currently evident across the EU, the industry continued its strong growth pattern in 2011, with volumes increasing by nearly 15% to a record €1.14 Trillion (around 60% of the world volume). This growth reinforces the importance of the funding solutions for the support of SMEs, economic activity, wider growth and wealth creation. The Industry believes that, as the benefits of factoring and commercial finance become better known and understood, this growth will continue to develop. An annual growth rate of 15% in an uncertain and stagnant economic environment shows a possible turn of the small enterprises in this alternative source of financing.

Part 2: Consequences

Invoice financing helps enterprises improve their liquidity, which is indeed a vital part for a firm to survive and grow. However, this service does not come without a cost. As a matter of fact, this cost is relatively high. In the UK, invoice financing costs about 10-15 percent yearly, including the totality of charges, whereas conventional overdraft costs 3 to 4 percentage points over base rates[53]. Furthermore there is evidence that some companies are behaving in an unacceptable manner by profiting from business failures, while the industry remains

52 http://www.euf.eu.com

53 Source: http://www.ft.com/intl/cms/s/0/895a5822-6f2e-11df-9f43-00144feabdc0.html#axzz1Nmrv7Off

unregulated[54].

.2.2 Consequences on the users

.2.2.1 Credit unions

- As most credit unions in developed countries are members of a credit bureau (and under Irish proposed law all loans will be require to be registered on the Central Credit Register) there is little, and where CCR reporting is mandatory there is no downside regarding maintaining a good banking relationship and credit history.
- Credit unions are not sub-prime lenders and do not apply penalty charges.
- Interest rates are normally capped under applicable legislation. The maximum rate that can be charged for a credit union loan in Ireland is 12.68% apr and X?% in Great Britain.
- As its members own the institution, a credit union encourages thrift in saving and borrowing among members. It does not extend credit beyond the capacity of the borrower to repay. To support lending decisions credit unions take into account the previous saving and repayment record and seek evidence to support repayment capacity.
- The savings ethos in credit union allows members to accumulate resources for times of need/emergencies and supports the ability to borrow when needed.
- Credit union interest rates are highly competitive and often are only marginally above the cost of the provision of the loan when guaranteed by pledged savings.
- Where a member experiences difficulty in loan repayment, the credit union will seek to assist the borrower by reducing the repayment amount or extending the term of the loan. Where it is clear that borrowers through no fault of their own are unable to repay, the credit union can write off the outstanding amount due.
- Credit unions can provide loan protection and life savings insurance cover at no direct cost to the borrower but paid for as an expense item on the credit union; so that in the case of death (or permanent disability) the outstanding loan balance is repaid by the insurance provider and savings are increased (100%, 75%, 50%, 25% depending when accumulated).
- Such loan protection life savings insurance cover is particularly beneficial to the next of kin where no other insurance exists or financial resources are scarce.
- Mobilised savings are recycled locally thus supporting community and social development.
- Without credit unions many citizens would have to recourse to money lenders -legal and illegal in times of financial need.
- Credit unions extend consumer choice in access to financial services.

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54 Source: http://www.sharedserviceslink.com/file/95219/invoice-finance-companies-accused-of-unacceptable-behaviour.html

- Credit unions did not cause the current financial crisis but have suffered collateral damage.
- In many countries where they exist credit unions are being positioned to meet and comply with any new regulatory and compliance requirements that may apply to them as an out come of the crisis.
- GSUG recommends that the Commission investigate how credit union financial services might be extended to Member States where they currently do not exist.

.2.2.2 *Cooperative banks*

Three questions may be of interest regarding consumer protection.

1. Consumer protection
   We know the gap between the financial institutions' communication touting the attention they pay to their customers and the inadequacy reality of products and services. In this context, are cooperatives, which aim to best serve the economic interests of their cooperators, able to orient their activity to satisfy the true interest of their customers?
2. Real economy
   A growing number of citizens believe that the financial sector is opaque, unable to achieve its primary function to irrigate the economy by circulating properly the necessary capital. Are cooperative banks, that pursue public interest rather than satisfy a particular interest – that of shareholders, better equipped to meet current economic, social and environmental challenges?
3. Stability
   According to a study done by the International Labour Organization (ILO), the global financial and economic crisis has had a negative impact on most businesses, but cooperative enterprises worldwide have proved resilient to the crisis. In particular, financial cooperatives have remained financially stable, even if the speculative mania that characterizes the recent years and which led to greater risk taking has not spared cooperative banking models. This despite the fact that profit maximization is not, in theory, their priority.[55]

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Johnston Birchall et Lou Hammond Ketilson, Resilience of the Cooperative Business Model in Times of Crisis, International Labour Organization, June 2009, ISBN 978-92-2-122409-9.

Part 2: A financial access regulation

The market (via its structure, its regulation, its actors,...) should allow anyone to access fair, affordable and safe financial products.

A financial access regulation would be organised in three pillars:

- Monitoring: policymakers and regulators must be ready to pre-empt consumer detriment and market failure and step up their efforts to ensure that financial markets are fair and inclusive, efficient and competitive, and transparent.
- Banning predatory and discriminatory practices : appropriate measures must be taken to avoid that profit oriented providers exploit low-income people and use discriminatory practices.
- Promoting fair, affordable and safe financial products for vulnerable users: when the market cannot enable access to fair, affordable, safe products for all the consumer population, social alternative provision must be made available.

1 Monitoring

The financial crisis has major implications for the 'real economy' in the EU, not just financial markets. FSUG is concerned that we are in a sustained period of high public and private debt, low economic growth, low interest rates, and comparatively higher inflation (that is, higher than is consistent with the current low growth environment). Of course, the effects will not be uniform across the EU but generally speaking the new economic paradigm may have major impacts on household incomes, consumer behaviour, sustainability of business models, and industry behaviours. Financially vulnerable households may be targeted by predatory lenders. Downward pressure on industry revenues means firms will be tempted to protect revenues by introducing expensive, socially useless innovations and product features. In the longer term, smaller niche providers may find it difficult to survive reducing competition and diversity in the market. Financial exclusion is likely to grow as providers focus on better off, less 'risky' households. The low return environment raises major concerns for pensions. Pension funds should be on their guard against advisers promoting complex investment strategies and 'alternative' products which claim to provide a higher return with no extra risk. In a low return environment, market efficiency is critical. We may see an even greater destruction of investor value in the investment management sector. Financial advisers need to work harder to i) help investors understand the risks involved in the new financial environment and ii) exert competitive pressures on investment managers and insurers by penalising poor investment performance and ensuring investors get the best value. Policymakers and regulators must be ready to pre-empt consumer detriment and market failure and step up their efforts to ensure that financial markets are fair and inclusive, efficient and competitive, and transparent. To help policymakers and regulators understand the risks involved, the FSUG has produced a paper setting out the risks to consumers categorised so that the relevant ESAs (EBA, EIOPA, and ESMA) are able to identify the risks that fall within their remit.[56]

56 Financial Services User Group's (FSUG) 2012 Risk Outlook - Impact of the 'new economic paradigm' on EU

2 Banning predatory ans discriminatory practices

Appropriate measures must be taken to avoid that profit oriented providers exploit low-income people. The national market (via its structure, its regulation, its actors,...) should allow anyone to access affordable and adequate credit (fit to the needs and financial capacity of the borrowers) when affordable for them. Credit providers (of all kinds) should comply with rules and regulations and do not exploit low-income people. Because of the important differences in each national state, the implementation measures employed to achieve this goal should take a variety of forms.

For instance, measures can be taken to regulate

- revolving credit (for non-term contract) to avoid a debt trap,
- discrimination practices which result in increased profits by products aimed at poor people or people at risk of exclusion (because of high interest rate, fees...)
- …

Otherwise, in 2008 the Commission issued a proposal for a Council Directive on implementing the principle of equal treatment between persons irrespective of religion or belief, disability, age or sexual orientation.[57] This draft directive covers equal access to goods and services and is a major step forward in achieving a European Union free of discrimination.

Appropriate measures must be taken to avoid direct or indirect form of discrimination on the ground of religion or belief, disability, age or sexual orientation. For instance, measures can be taken to avoid that

- upper age limits, downgraded products and prohibitive premiums constitute barriers preventing older citizens from accessing quality and affordable healthcare which runs counter to the commitment that all EU Member States took within the Open Method of Coordination to ensure universal access to quality and affordable healthcare.,
- banks impose age limits to access loans and these are usually set at the official retirement age; this approach is also used by many retailers who offer customers the possibility to buy and pay for goods and services by instalments.

3 Promoting fair, affordable and safe financial products for vulnerable users

When the market cannot enable access to fair, affordable, safe products for all the consumer population, social alternative provision must be made available. This objective can be reached by three ways:

- Basic financial services are services of general economic interest (SGEI) and the regulatory environment should take better account of the specific nature of these services and to meet the challenge of delivering them in a way which incorporates the values of quality, safety and affordability, equal treatment, universal access and users'

financial services users , June 2012 .

57 COM (2008) 426.

rights; some banks may be commissioned by the Governments to provide them.

- Regulation should be designed as to facilitate the existence of a large range of banks / providers type, such as savings and cooperative banks, credit unions, social oriented banks/ financial institutions improving quality of the supply, competition and coverage of niche markets.
- A public assessment, not only of the sector globally and but also of each operator in particular, of their offer of fair, affordable, safe products for all the consumer population.

.3.1 Necessity to promote Services of General Economic Interest

An option worthy of consideration in addressing the problem of financial access is to consider that fair, affordable and safe financial products are services of SGEI and that access at affordable prices for everyone to these services is at the heart of the European model of society.

According to the Commission, "While the Treaty has always ensured that Member States have the flexibility to provide quality services of this type, the Treaty of Lisbon has introduced new provisions: Article 14 of the Treaty on the Functioning of the European Union (TFEU), and Protocol no 26 on services of general interest. It has also given Article 36 of the Charter of Fundamental Rights the same legal value as the Treaties. It is in this new context that the Commission has decided to bring together in a single quality framework the comprehensive set of actions which it is pursuing on services of general interest. This will ensure that in the coming years the regulatory environment at EU level continues to reinforce the social dimension of the single market, to take better account of the specific nature of these services, and to meet the challenge of delivering them in a way which incorporates the values of quality, safety and affordability, equal treatment, universal access and users' rights recognised in the Protocol." (...)

"According to Article 14 TFEU, "the Union and the Member States, each within their respective powers and within the scope of application of the Treaties, shall take care that such services operate on the basis of principles and conditions, particularly economic and financial conditions, which enable them to fulfil their missions". This Article creates the possibility for the Union to legislate in the field of services of general economic interest by setting the principles and conditions, particularly economic and financial conditions, which enable them to fulfil their missions, using a regulation and through the ordinary legislative procedure. It makes clear that any such regulation must be "without prejudice to the competence of Member States, in compliance with the Treaties, to provide, to commission and to fund such services". This acknowledges the fact that the organisation, delivery and financing of such services are primarily for Member States to decide at national, regional or local level. Various public consultations and an on-going dialogue with stakeholders will continue to examine the need for legislation based on Article 14 TFEU. The consensus at this stage seems to be that this not an immediate priority. The Commission is of the view that a sectoral approach, where tailor-made solutions can be found to concrete and specific problems in different sectors, is more appropriate at this stage."[58]

58 Communication from the Commission to the European parliament, the council, the European economic and social committee and the committee of the regions, "A Quality Framework for Services of General Interest in Europe

Before Article 14 TFEU and Protocol 26 on Services of General Interest of the TFEU and the TEU, there was the White Paper of 12 May 2004.[59]

This White Paper identifies nine principles that have emerged from European debates as the basis of a developing common doctrine. A doctrine now reinforced with Article 14 TFEU and Protocol 26 on Services of General Interest of the TFEU and the TEU, introduced in the Treaty of Lisbon in 2009, which takes up most of these principles.

The nine guiding principles of the White Paper can be set out as:

Enabling public authorities to operate close to the citizens: Services of general interest should be organised and regulated as closely as possible to the citizens and the principle of subsidiarity must be strictly respected.

Achieving public service objectives within competitive open markets: the Commission remains of the view that the objectives of an open and competitive internal market and of developing high quality, accessible and affordable services of general interest are compatible: under the TFEU Treaty and subject to the conditions set out in Article 106(2), the effective performance of a general interest task prevails, in case of tension, over the application of Treaty rules.

Ensuring cohesion and universal access: the access of all citizens and enterprises to affordable high-quality services of general interest throughout the territory of the Member States is essential for the promotion of social and territorial cohesion in the European Union. In this context, universal service is a key concept the Community has developed in order to ensure effective accessibility of essential services.

Maintaining a high level of quality, security, and safety: Furthermore, the security of service provision, and in particular the security of supply, constitutes an essential requirement which needs to be reflected when defining service missions. The conditions under which services are supplied also have to provide operators with sufficient incentives to maintain adequate levels of long-term investment.

Ensuring consumer and user rights: These include in particular the access to services, including to cross-border services, throughout the territory of the Union and for all groups of the population, affordability of services, including special schemes for persons with low income, physical safety, security and reliability, continuity, high quality, choice, transparency, and access to information from providers and regulators. The implementation of these principles generally requires the existence of independent regulators with clearly defined powers and duties. These include powers of sanction (means to monitor the transposition and enforcement of universal service provisions) and should include provisions for the representation and active participation of consumers and users in the definition and the evaluation of services, the availability of appropriate redress and compensation mechanisms, and the existence of an evolutionary clause allowing requirements to be adapted in accordance with changing user and consumer needs and concerns, and with changes in the economic and technological environment.

", COM(2011) 900 final, 20.12.2011.

59 European Commission, Green Paper on Services of General Interest, 2003, COM(2003) 270 final; European Commission, White Paper on Services of General Interest, 2004, COM(2004) 374 final; European Commission, Communication on 'Services of general interest, including social services of general interest: a new European commitment', 2007, COM(2007) 725 final.

Monitoring and evaluating the performance: in line with the prevailing view expressed in the public consultation, the Commission considers that any evaluation should be multi-dimensional and cover all relevant legal, economic, social, and environmental aspects.

Respecting diversity of services and situations: any Community policy in the area of services of general interest must take due account of the diversity that characterises different services of general interest and the situations in which they are provided. However, this does not mean that it is not necessary to ensure the consistency of the Community's approach across different sectors or that the development of common concepts that can be applied in several sectors cannot be useful.

Increasing transparency: the principle should apply to all aspects of the delivery process and cover the definition of public service missions, the organisation, financing and regulation of services, as well as their production and evaluation, including complaint-handling mechanisms.

Providing legal certainty: the Commission is aware that the application of Community law to services of general interest might give rise complex issues. It will, therefore, make a continuous effort to improve legal certainty regarding the application of Community law to the provision of services of general interest, without prejudice to the case law of the European Court of Justice and the Court of First Instance. [60]

The European Commission considers basic banking services as essential services affirming that Member States remain free to extend existing universal service obligations, or to introduce new ones, provided that the measures comply with EU law.61

Some banks may be commissioned by the Government to provide SGEI. To do so, compensation may be paid to them to remunerate this service. Decision 2005/842/EC from the Commission dated 28 November 200562 is fully applicable to the banking area and governs conditions under which potential compensation may be accepted in this area in terms of grants.63

For instance, the European Commission has authorised UK plans to grant a £1.155 million (around €1.383 million) network subsidy to the UK Post Office Ltd aiming to keep open and modernise non-commercially viable offices. The Post Office Ltd operates a nationwide network of around 11,500 post office counter outlets that provide over-the-counter access to social benefit payments, basic banking and other services in the UK. Part of these offices, especially rural ones, would not be commercially viable, but are maintained as a public service, because they fulfill important functions for the communities they serve.

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60 About this principles: Erika Szyszczak, Jim Davies, Mads Andenæs, Tarjei Bekkedal, Developments in Services of General Interest, 1st Edition., 2011, XVIII, 266 p. 2 illus., ISBN 978-90-6704-733-3, p. 29.

61 Communication from the Commission to the European parliament, the council, the European economic and social committee and the committee of the regions, "A Quality Framework for Services of General Interest in Europe ", COM(2011) 900 final, 20.12.2011 .

62 Commission of the European communities (2005), Commission Decision of 28 November 2005 on the application of Article 86(2) of the EC Treaty to State aid in the form of public service compensation granted to certain undertakings entrusted with the operation of services of general economic interest, 2005/842/CE, OJ L 312, 29.11.2005, p. 67-73

63 Colson J.-L. (2006), Éléments relatifs à l'activité passée et future de la Commission européenne dans le domaine du contrôle des aides aux banques , Concurrences, 30 Novembre 2006 .

The Commission found the measure to be in line with EU state aid rules, in particular because the aid does not exceed the net cost for providing the public service mission entrusted to the Post Office Ltd. The Commission also endorsed the continuation, under stricter conditions, of a working capital facility of up to £1.150 million (around €1.377 million) which will provide the Post Office Ltd with sufficient liquidity to carry out its public service obligations. The Commission concluded that this liquidity facility is provided on market terms and therefore does not constitute state aid within the meaning of EU rules.

Those measures were notified in January 2012. In previous decisions in 2003 and 2007, the Commission had authorized comparable financing measures for the Post Office Ltd.

.3.2 Necessity to diversify legal models and business objectives of the financial entities in the retail banking sector

Regulation should be designed as to facilitate the existence of a large range of banks / providers type, such as savings and cooperative banks, credit unions, social oriented banks/ financial institutions improving quality of the supply, competition and coverage of niche markets.

O n 5 June 2008, the European Parliament issued a Resolution containing the following statement:

“The diversity of legal models and business objectives of the financial entities in the retail banking sector (banks, savings banks, cooperatives, etc.) is a fundamental asset to the EU’s economy which enriches the sector, corresponds to the pluralist structure of the market and helps to increase competition in then internal market. ”[64]

On 23 October 2008, the European Economic and Social Committee issued an own-initiative opinion on the “Ethical and social dimension of European financial institutions” containing the following statement:

“Protecting the biodiversity of suppliers of financial services is an element in Europe’s cultural and social heritage that must not be frittered away; on the contrary it should be sustained, given the enormous social value that it represents.

(…) The documented and important role of the savings banks and various cooperative movements in promoting ethical/social initiatives and fostering the development of local systems merits particular attention. In spite of the recognition granted by the European treaty, some Member States still do not specifically acknowledge or uphold it. Efforts should be made to secure more systematic and widespread recognition of this type of social governance.

(…) Each time that a specific organisation can be shown to have given up, at least in part but on a structural and permanent basis, the principle of maximising profit in order to promote initiatives of an ethical or social nature, it should be entitled to come under tax and regulatory rules that are different from the general ones, except in the case of prudential rules, at least in

64 European Parliament resolution of 5 June 2008 on Competition: Sector inquiry on retail banking (2007/2201(INI)).

part. In some Member States, ethical investors already enjoy a derogation from the banking directive: efforts should be made to extend this principle to all the Member States.

(…) By ensuring that Member States do not adopt measures that would distort competition, the European Commission can help protect diversity in the supply of financial, banking and insurance services. The rules on State aid should take account of this aspect."[65]

A 2009 CEPS report argues as follows: "not only legal, political and risk-related considerations serve to highlight the need for a European banking model based on diversity..." In an uncertain market environment, diversity has advantages as it cannot be predicted which form of corporate structure or business model is best suited to all particular circumstances. The case for diversity includes:

Reducing institutional risk, defined as the dependence on a single view of banking that may turn out to have serious weaknesses under unexpected conditions such as the current crisis.

Leaving aside the merits of any particular business model, there are powerful systemic benefits to be derived from diversity of business models and ownership structures in the banking sector, to which cooperative banks contribute alongside other banks. Indeed, cooperative banks as members' institutions are not subject to the short-term pressure of the capital market which can induce banks to take excessive risks and ultimately undermine their stability. They are likely to enhance competition and access because of their different business model centred on proximity to the clients and relationship banking. Their local character and their particular focus and expertise on the local community also tend to reduce powerful centrifugal tendencies in the financial system. [66]

All in all, a pluralistic approach to ownership and business models is likely to be conducive to greater financial stability and regional growth. With their contrasting capital structures and business strategies, the shareholder-value (SHV) and cooperative banks balance their risks and activities differently. Systemic risk is thereby reduced and access improved. The more diversified a financial system is in terms of size, ownership and structure of businesses, the better it weathers the strains produced by the normal business cycle, in particular avoiding the bandwagon effect, and the better it adjusts to changes in customer preferences. Ultimately, a diverse system is a prerequisite for stability and growth.

The issue of having a financial system populated by a diversity of organisational forms is as significant as the merits and drawbacks of each particular form of organisation. The case for sustaining a powerful cooperative sector in the financial system is wider than any alleged intrinsic merits of the cooperative model.

This has important public policy implications. The debate particularly emphasises the expected role of different types of financial institutions to finance the real economy, to contribute to

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CESE 1680/2008 - ECO/216.

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Ayadi, R., E. Arbak, S. Carbó Valverde, F. Rodriguez Fernandez and R.H. Schmidt (2009), Investigating Diversity in the Banking Sector in Europe: The Performance and Role of Savings Banks, Brussels: Centre for European Policy Studies.

systemic stability and to promote inclusion. This raises the role of dual-bottom line or Stakeholder Value (STV) institutions to fulfil other equally important objectives than mere short-term shareholder value creation. This suggests that financial performance and economic efficiency are neither the only nor the ultimate standard of assessment.

These are indisputably important but they are not sufficient to assess the contributions of STV institutions to the economy. Allowing for new standards of assessment that take into consideration the variety of objectives of STV institutions would emphasise the value of diversity in the European banking sector. Beyond such assessment, the functional implications of diversity (such as regulation, financial stability and liquidity creation) merit further investigation. [67]

.3.3 CRA inspiration for Europe

One option worthy of consideration in promoting Corporate Social Responsibility (CSR) in the financial sector to address the problem of financial exclusion is the introduction of a Community Reinvestment Act (CRA) in the EU, modeled upon the 1977 Community Reinvestment Act introduced in the United States. The US CRA encourages financial institutions to "fulfill their continuing and affirmative obligation to meet the credit needs of their communities".

The Act requires the regular evaluation of the community lending performance of financial institutions and for this performance to be taken into account when considering merger, acquisition or branch relocation proposals.

The US legislative model may not be directly applicable to Europe. However, the principle of information disclosure that lies behind the CRA could be applied to the regulation of financial institutions in order to measure? their lending activities. This type of legislation might even be most appropriate at European level in the form of a Disclosure Directive.

Such a development seems to fall in line with the wish expressed by the European Parliament to prepare a list of criteria for enterprises to be complied with if they claim to be responsible, and to shift emphasis from 'processes' to 'outcome', leading to a measurable and transparent contribution from the business in the fight against social exclusion.68

It seems to us that the CRA example, if it should be adhered to in Europe, should follow four stages.69

The first stage consists in determining appropriate indicators. The CRA experience shows that not only with a view to avoiding too heavy an administrative burden and therefore potential hostility from credit providers, but also to encourage creativity and self-regulation in the sector,

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67 Ayadi, R., D.T. Llewelyn, R.H. Schmidt, E. Arbak and W.P. de Groen (2010), Investigating Diversity in the Banking Sector in Europe: Key Developments, Performance and Role of Cooperative Banks, Centre for European Policy Studies (CEPS), Brussels.

68 European Parliament (2007), Resolution on corporate social responsibility: a new partnership, 2006/2133(INI), 13 March 2007.

69 Bernard Bayot , Elaboration d'un service bancaire universel - Deuxième partie - L'accès au crédit et l'exemple du Community Reinvestment Act, Réseau Financement Alternatif, 2002.

they should focus more on the outcome than on resources applied. This optic corresponds to the European Parliament desire. Also, strictly quantitative indicators, which are required to analyse the financing gap, should be paired with qualitative indicators, which, among other things, can assess more thoroughly the quality of services offered. Finally, indicators related to credit access should be favoured even though they should come with indicators relating to investment policy and banking services.

The second stage consists in compelling every credit provider to periodically supply information relevant to these indicators. This is why such information should not strictly relate to the activity of the whole sector but also to that of each operator in particular.

Then, this information should be audited by an independent organisation according to clearly established procedures.

Finally, as part of the last stage, the controlling organisation should be able to assess both the action of the sector globally and that of each operator in particular. This implies that precise standards should first be determined, as the European Parliament requested, and that adequate methods should be developed. Such assessment of requirements and of the coverage of such needs should help the various players, credit providers, social services and public authorities to implement the most appropriate policies to meet these needs. This will only be relevant if it is periodical - the assessment based on CRA will take place approximately every two years – and this will further make it possible to assess new requirements through time and the impact of policies implemented to satisfy them. Such an assessment only seems likely to guarantee measurable and transparent contribution from business in combating social exclusion.

Transparency consists in making public the appraisal of the way each credit provider met credit requirements, on the basis of indicators. The objective of this measure is to inform the public and influence the policy of credit providers concerned about their reputation in this direction. This transparency measure actually made the CRA efficient in the United States starting from 1992. However, it is uncertain that it will have the same impact in Europe, considering that there probably is no social movement in Europe able to exercise a pressure similar to that the one American community development NGOs exercise on banks. Though transparency alone might be insufficient, it still remains a basic measure used to encourage social responsibility in the financial sector.

However, as mentioned before, some banks may be commissioned by the Government to provide SGEI. To do so, compensation may be paid to them to remunerate this service.

Obviously, a compensatory financing system is critical to the implementation of such a system in terms of access to basic financial services: the point is to avoid the fact that financial institutions which assume their social responsibility more should be put at a disadvantage compared with others.

Such compensatory financing would depend on the assessment which have been made, on the basis of indicators described above, of the way each financial institution assumed its social responsibility. So, enhanced social responsibility assumed by some operators would be economically cancelled out, which would avoid distorting competition among operators and would be an opportunity for development for those which made this choice.

This measure, which should provide a structural solution to the need for financial inclusion, probably is the complementary aspect which is critical to the application in Europe of a legislation based on CRA. It further helps encourage social responsibility for financial organisations, as expressed by meeting the needs of underprivileged populations rather than outsourcing services offered to them.

Depending on historical traditions and specific characteristics of the services concerned, Member States apply different mechanisms in order to ensure the financial equilibrium of providers of services of general interest. The financing mechanisms applied by the Member States include contributions by market participants (e.g. a universal service fund).70

A compensatory financing system funded by contributions by market participants exists for instance in two Belgian laws. First, the law dated 24 March 2003 introducing a basic banking service created a compensation Fund for the provision of a basic transaction banking service. Every credit institution would contribute money to the Fund and those which manage – in terms of percentage – a number of basic banking services proportionally higher than their economic importance may apply to the Fund for support. This mechanism has not been implemented yet. Indeed, as far as we can observe, there are no variations on the market that would push an actor to apply for the compensation Fund. Since actors may have to deal with this Compensation Fund if they 'cheat', currently every actor respects the rules.

The other law is the law dated 5 July 1998 on collective debts' payment. This law introduced the Over-indebtedness Treatment Fund. Each lender is to pay to this Fund an annual contribution calculated on the basis of a coefficient applied on total arrears for credit contracts registered in the Centrale des Crédits aux Particuliers managed by the Banque Nationale de Belgique. In other words, the more a credit provider grants credits unjudiciously, the more it has to contribute to the Fund. With such earnings, the Fund will repay fees and expenses for debt mediators who could not be paid by debtors.

70 Commission of the European communities (2003), Green Paper on services of general interest, COM(2003) 270, May 2003.

Annex 1 Best and worst practices of alternative providers of financial services in different countries

Best practices

Austria

One large savings bank (Erste Bank) opened its own bank in 2006 which is run strictly by voluntary employees (Zweite Sparkasse) to combat the lack of access to payment services. Accounts at Zweite Sparkasse are granted exclusively at the recommendation and in collaboration with social agencies.

Zweite Bank serves the clients referred by the social institutions with the intent of having them switch back to a "regular" bank after bankruptcy/debt arrangements are made. This initiative of Zweite Sparkasse is welcome.

This intensive customer care for clients from social institutions cannot replace a fundamental easing of access to bank services based on a legal entitlement. Zweite Sparkasse is known in Austria as a social project. This fact is also problematic because one can assume a degree of stigmatisation for clients. Of course it is easy for someone with a non-neutral account to be tagged as "socially deprived" or as a client of a social agency or a debt counselling service.

The possession of the so-called Basiskonto (basic acoount) is limited by time. After three years of holding the basic account, the bank is going to check whether the account holder will be able to open an account with another bank or not. According to the wording of the bank: The bank will prolongate the contract in case of necessity. That means, that a client may have a current account contract longer than three years when needed (which is supposedly an individual case-to-case examination): http://www.sparkasse.at/diezweitesparkasse/Leistungen/BasisKonto.

Belgium

Enabling low-income and financially-excluded consumers access affordable credit for basic goods and services[71]

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71 Réseau Financement Alternatif, Affordable Personal Inclusive Credit: Belgian Case Study ; CAPIC - VP/2010/014 2012 , http://www.fininc.eu/gallery/documents/efin-newsletters/news-efin-sims-capic-7/capic-belgian-case-study-27092012.pdf.

This partnership project runs between Crédal Plus (social entreprise), the Walloon Region (public regional authorities) and the Belfius Foundation (former Dexia Foundation; private foundation related to a bank).
In Belgium, many financially excluded people in low-income situations do not access basic goods and services to allow them to pursue a project in their life or to reach a minimum but adequate living standard. Via the personal microcredit developed, the specific objective is to allow clients' life projects to happen within a more broad objective of prevention against overindebtedness.
The three current partners are:

1. Crédal – is a group composed by cooperatives and associations that has developed alternative social (micro)credits for organisations, entrepreneurs and people for more than 25 years. Active in the French-speaking part of Belgium, which include the Brussels and Walloon Regions, Crédal is the most active social operator. It proposes a wide range of credits: from mortgage (for social companies) to professional investments, from "bridge credit" to "working capital", from microcredit for business to personal microcredit (this last activity is concentrated in "Crédal Plus" association structure). Innovative, often leader in its field, Crédal is constantly enlarging its supply to meet the needs of excluded people/institutions from mainstream credit.
2. The Walloon Region - Department of Social Affairs, in charge of the regional treatment of overindebtedness. For more than 25 years, this department has been involved in research and actions to develop an answer to overindebtedness. A well-structured social service has been created, at local, provincial and regional levels. In order to invest in an innovative tool to combat overindebtedness, the Region supports, since 2004, social / affordable personal credits' supply for excluded people.
3. Belfius Foundation - Since 2006, the Belfius Foundation has decided to support initiatives regarding the two following priorities: social integration and the underpriviledged's quality of life. This first priority translates to financial and human resources support for microcredit and social personal credit and the second priority is similar support for hospital palliative units.

Crédal is the partner for microcredit in the French-speaking community and another Flemish institution, Hefboom, is the operator in the Dutch-speaking community.

In the case study, it will also be interesting to analyse the circumstances that made possible, in the early years of this mechanism, a collaboration with the Banque de La Poste, which had the effective role of creditor within the partnership. Crédal was the credit intermediairy, specialised in social approach and which established contacts with social services and their beneficiairies. The latter where, during the very first step of the pilot project, the targeted clients.

Crédal Plus' role: Crédal has developed small amount credits for personal basic purposes for people excluded from mainstream credit supply, which incomes are under ceilings taking in account disposable income, renting charges and family structure. The credit amounts varies from 500 to 10.000 €, the APR is 5%. The money used for the credits is provided by Crédal, which signs the contract and does the social and repayment follow-up.

The Walloon Region's role: The public authority supports the Crédal Plus activity via two key measures: subsidies for the activities (staff costs, rent,...) and a guarantee fund in case of credit default. A representative of the Region in included in the Credit Committee which decides on credit granting. The support of the Region is limited to the Wallonia territory.

Belfius Foundation's role: The Foundation supports Crédal to enlarge its activity to the Brussels-Capitale Region. The Foundation provides subsidies to cover staff as well as operating costs and proposes a complementary support via volunteers. Belfius also has a representative in the Credit Committee dedicated to the Brussels area activities.

What the partners wish to gain from the project

For each of the three partner organisations, the project is a practical financial inclusion initiative through an affordable credit option for personal projects, such as basic goods and services, but also for family reunification and energy savings expenses.

1. For Crédal Plus, this new activity allows a broader spectrum of financial needs to be satisfied. Crédal's objective is to meet as far as possible unsatisfied demands from excluded people on the credit market field: affordable personal credit is effective, the demand is increasing, the social impact is high, even on the labor market perspective! Crédal Plus is also the expression of the innovation that will increase and influence responsible credit practices.
2. For the Walloon Region, this "lasting" pilot project is a very innovative and creative response to 1) a lack of access to appropriate credit for excluded people (because they have low-income), 2) a efficient tool for budgeting education proposed at the most risky moment for the person, at the moment when they look for credit 3) poverty and social disadvantages which can be limited and sometimes reduced thanks to microcredit impacts. This project is complementary to the curative plan for the overindebtedness situation and is an element of a preventive strategy.
3. For Belfius Foundation, via its support, it is actively supporting an action that fits to its two priorities - social inclusion and - improvement in the quality of life of underpriviledged people. Complementary to this sponsorship activity, the partnership allows workers and former workers of Belfius bank to volounteer in the action.

Bulgaria

Ustoi microfinance (mainstream commercial social oriented) on a regional level

Problem

Lack of possibility to develop micro business.

Solution

Ustoi microfinance operates on regional basis and provides services to micro entrepreneurs, predominantly women. Ustoi's loans are developed according to the needs of the micro entrepreneurs from the trade, the services and small production sectors. The main goal is to provide micro entrepreneurs with continuing access to financial services at reasonable conditions and simplified procedure, while promoting partnership and mutual assistance among them. The conditions for receiving a credit are the following: to have a family business with perspective of development, the number of the employees in the firm must not exceed more than 3 persons, the size of the business assets is around 5000 EUR. The delivered loan is about 6000 EUR only for active clients of Ustoi microfinance association. The interest rate is equal to the market interest rate.There are no fees and commissions. Ustoi is filling a market niche which is difficult to be covered by commercial banks. They are supporting clients that are small family businesses, encouraging them to continue their activity with the perspective of enlargement.

Target population
Micro entrepreneurs

Impact
Disbursed more than 3600 credits for the amount of 22 million EUR

Programme sustainability
The programme is financially sustainable without public money. The funding comes from USAID and the Catholic Church.

Period of implementation
Since 2000 and ongoing.

Czech Republic

The best example in the Czech Republic is the Erste bank group (Ceska sporitelna) project targeted to providing social credit to social economy entities. The objective of the credit must be of (social) business, social or environmental concern - e.g. to create new jobs for vulnerable people. They consider social business as seeking the profit and public benefit as well. A part of the pilot program is free of charge guiding in respect to financial management (Social Enterprise Finance).

France

Enabling low-income and financially-excluded consumers access affordable credit for "life projects"
This initiative involves the Secours Catholique (social entreprise), the Caisse des Dépôts et Consignations (public authority) which manages the "Fonds de cohésion sociale" and the Fédération Nationale des Caisses d'Epargne (profit-making company) which works in close relationship with the organisations Parcours Confiance and Finances & Pédagogie.

Since 2003, the Secours Catholique decided to fight financial and banking exclusion. It created personal microcredit with some banking partners and funded a guarantee fund. This initiative has then been supported in 2005 by the Caisse des Dépots which manages the "Social Cohesion Funds" dedicated to provide partial guarantee of microcredit for businesses and personal life projects. To activate this guarantee, banks must organise an effective social follow-up in partnership with social structures.

The objective of the triad is to create or re-create relations between banks and the targeted publics which have been excluded. The microcredits must be related to a personal project, an inclusive step, to access or maintain a dwelling or a job. The amount of these loans varies from 300 to 3000€ for a maximum period of 36 months. They are designed to finance various needs relating to training, mobility, employability, family cohesion, health, minor renovations, etc.. These needs are grouped under the name "life projects". Therefore, in principle, these credits cannot be used to pay mortgage or debt consolidations. The beneficiaries' follow-up is considered as a key element of the partnership: a) during the pre-contractual period: the study of the personal project, the budget, the financial capability b) during the reimbursement period, if the beneficiary faces a difficulty.

Concretely, the way the partnership works is the following.

The Secours Catholique:

- Assess the demand, the reason why the credit is asked for,
- Participates in the Credit Committee,
- Assumes the beneficiary's follow-up and
- Guarantees 50% of the credit risk default.

The Caisse des Dépôts et Consignations:

- Manages the "Fonds de cohésion sociale" guarantee fund and
- Coordinate the national action (reporting, website France Microcrédit, regular meetings on organisational and developing aspects, bank-association relationships).

The Fédération Nationale des Caisses d'Epargne in collaboration with Parcours Confiance and Finances & Pédagogie:

- Analyses and participates to credit granting decisions,
- Manages the money delivery and credit back-office,
- Follows-up the repayment and
- Proposes financial education workshops for beneficiaries.

The actors' roles are defined, formally, by local or national conventions, but also on the basis of a "working together" collective learning.
Since the initiative started in 2003, some tools and collaborative practices have been developed which substantially improved the overall efficiency of the device, for example:

- An Internet platform called Microcrédit France, established by the Caisse des Dépôts et Consignations,
- Training modules for industry players, supported by the Fonds de cohésion sociale,
- Workshops and working groups to promote best practices' exchange and tool sharing.

What the partners wish to gain from the project

This initiative has been working well now for a few years in France. By participating to this Europe project, the partners from the French triad wish to gain a European experience and nurished their current activities by ideas coming from other partnerships. They hope to constitute a European network and establish contacts with different operators in various

European countries.

Ireland

Credit unions (mainstream non commercial social-oriented) on a national level

Problem
Lack of access to credit for disadvantaged groups.

Solution
The identification of specific loans extended by credit unions for social objectives.

Target population
Marginalised and low-income families

Impact
The Irish League of Credit Unions (ILCU) carried out a survey in 2004 among 137 member credit unions. The survey revealed that all the credit unions provided small loans to already indebted or low-income families. Over half the credit unions surveyed (58%) were providing social finance, which constituted 10% of loans made. The majority of social finance lending was to individual members (70%), which included members who could not borrow elsewhere (8%), individual members who would be regarded as disadvantaged (31.1%) and members setting up or expanding their businesses (30%). However, the survey found that the fund was not being publicised 'due to perceived problems of loan assessment/risk, staffing requirements and systems support'.

Programme sustainability
The programme is sustainable without public funding.

Period of implementation
Since 2004

Italy

Financially supporting vulnerable people, excluded from the traditional banking system, helping them to overcome socio-economic problems, through the provision of affordable personal credits. [72]

In Italy, during the last couple of years, microcredit projects based on a partnership model presenting similarities and some specificities have materialized in different regions and provinces.

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72 Réseau Financement Alternatif, Affordable Personal Inclusive Credit: Italian Case Study , CAPIC - VP/2010/014 2012 , http://www.fininc.eu/gallery/documents/efin-newsletters/news-efin-sims-capic-7/capic-italian-case-study-09112012.pdf.

Such projects have come to life with the double objective of providing micro-enterprise loans and affordable personal credit to low income people that are not otherwise able to satisfy basic social needs (putting down a deposit for a rental, paying for a dental treatment, repairing a car used to reach the worksite, etc.). These experiences need to be analyzed in some detail in order to consolidate and improve them. The project included in this proposal started in the province of Pistoia in January 2010 thanks to the initiative of a not for profit organizations' group of, a banking foundation, some local banks and financial cooperatives as well as the provincial administration. The contributions, functions and responsibilities of the partners and the operational principles of the project are defined in a partnership protocol signed by the partners.

The project partners and their roles

The project "Microcredit System in the Province of Pistoia" is supported and implemented by: three not for profit institutions, 6 cooperative banks, one local bank, one bank foundation (private company) and the provincial administration. The partners involved in the initiative contribute in different ways to the project depending on their institutional mission and the capacity and nature of their organization. The operational roles and financial commitments are specified below:

The financial institutions (6 cooperatives banks, 1 local bank, Cassa di Risparmio di Pistoia e della Lucchiesa) are responsible for:

- Providing 50% of the guarantee fund (covering the risk of the microcredits provided by the project)
- Issuing the credits and monitoring them;
- Participating in the Evaluation Committee responsible for approving (or rejecting) the credits that have passed the first screening assured by the - project centers
- Participating in the partnership committee

The not for profit organizations, are two church organizations, one confessional/social assistance organization and one private foundation.
They provide the human resources (volunteers) to carry out the activities of the project centers which represent the first point of contact with prospective customers. Moreover, the confessional/social assistance organization (Confraternita della Misericordia) hosts the centers on its premises, while two of the not for profit partners (the Un Raggio di Luce Foundation and the Confraternita della Misericordia) also contribute financially as they provide 20% of the guarantee fund each. The Evaluation Committee, in which representatives of the not for profit organizations participate, periodically meets on the premises of the Misericordia. All the not for profit organizations are members of the partnership committee.

The provincial administration of Pistoia, as the public authority/institution involved in the project, contributes to the guarantee fund and, through the public welfare services, directs eligible prospective customers to the project centers. The role of the province will be expanded after the first project evaluation to take place in July 2011. A representative of the provincial administration participates in the partnership committee.

The banking foundation (Fondazione Cassa di Risparmio di Pistoia e della Lucchiesa) contributes to the guarantee fund and sits in the partnership committee.

What the partners gain from the project

Through this partnership project, all partners fight usury practices, pursue the common goal of financial inclusion, provide opportunities for enterprising people and help economically disadvantaged households to solve social problems and overcome temporary crunches. The partnership is built on synergies and the complementary roles and capacities of a diversified group of partners, sharing close ties to the local area and bound together by their commitments to local communities.

The Province as a public administrative subdivision with responsibilities and prerogatives in the areas of economic policies and local economic development, social welfare and employment, cultural affairs, is keenly interested in promoting initiatives and programs that can lead to job creation, alleviate the economic hardships of low income people and assist professional categories suffering from the adverse effects of the economic and financial crisis through new credit opportunities. Because of the paucity of existing initiatives, the scarce financial resources made available by the central state and municipal governments, the partnership on which the microcredit project is based allows the provincial authority to fulfill its mandate.

The nature of the financial institutions involved in the project (cooperatives banks with strong ties to the local area, one bank and a banking foundation which, also, have strong ties to the territory) explains their participation in the project. As per their statutes, these banking institutions must allocate part of their earnings to the financing of social projects in their area. The reduced interest rate charged by the banks for the credits provided through the project is explained by the reduced transactional costs of the operations owing to the human resources provided, at no cost, by the voluntary organizations and the Un Raggio di Luce Foundation. Finally, the financial institutions gain from being in the partnership since the financial risk is reduced thanks to the guarantee fund. Through the project, they are also able to expand their clients' pool.

Finally, the activities of not for profit organizations involved in the project are driven by their mandate as charity organizations, values of solidarity and their overall commitments as expressed in their statutes and mission. The partnership with banking institutions on a microcredit projects providing affordable personal credit for social purposes and small scale business gives them the opportunity of helping people without creating strong dependencies. In particular, the Un Raggio di Luce Foundation promotes, as one of its areas of intervention, social economy sector development and innovative microfinance programs both in Italy and in developing countries. Thus, this experience helps the foundation pursuing and testing methodologies and models in ways that it could not do by itself.

Spain

The concept of ethical banking, also known as social banking, is a set of financial institutions whose products are not tied exclusively to the criterion of maximum profit and speculation. They invest in real economy, and in some cases even have an internal structure based on the cooperative participation (like in Spain if we don't count Triodos Bank).

The Ethical cooperative banking is a joint of financial intermediaries that meet the objectives listed above (real economy and positive impact on society) and have a system of government where every Bank user has one vote of equal weight, regardless of the capital invested in that institution. One person, one vote. They usually have a better reception in the third sector associations between individuals and businesses. Some of these institutions have no tab as a bank and act as social and ethical credit unions (or credit cooperatives): An example of these entities are Fiare Project, Coop-57, Oikocredit, among others:

http://www.proyectofiare.com/web/es/

http://www.coop57.coop/index.php?lang=es_es

http://www.oikocredit.org/es/inicio

An interessant link to be considered about information of all the entities of ethic finances operating now in Spain, his implantation by regions, the financial services and ways of collaboration offered and the geographic abast of their social projects (it is in spanish):
http://es.wikipedia.org/wiki/Comparativa_de_finanzas_%C3%A9ticas_en_Espa%C3%B1a

United Kingdom

Enabling low-income and financially-excluded consumers access affordable credit for household electrical goods

This partnership project includes the Nottingham Credit Union Ltd., Nottingham City Council and The Co-operative Electrical.

In the UK, many financially-excluded people in low-income communities, when faced with the need to purchase a washing machine, television or other household electrical item have little option but to borrow money from sub-prime lenders, often at interest rates reaching 300 per cent APR; to use expensive weekly-pay catalogues; or to purchase from weekly repayment high-street rental purchase stores, where an electrical item can often cost more than three times the normal high-street price. Costs in these stores escalate with the addition of expensive additional service and insurance charges, which are made compulsory for customers with no home contents insurance. In the 2007 EU report, "Financial services provision and prevention of financial exclusion"1, the authors highlighted the prevalence of these high-cost options in low income communities and demonstrated poor low-income families end up been grossly overcharged for electrical and other household goods.

In this partnership project in Nottingham, three organisations have come together in order to create an affordable option for people on low incomes who wish or need to purchase household electrical appliances. The project will enable people to purchase high-quality, affordable appliances with the support of a credit union loan. These appliances will be supplied by Co-operative Electrical and the project supported and promoted by the City Council as part of its financial inclusion strategy for the City.

The three partners are:

1. Nottingham Credit Union Ltd - a co-operative, community social enterprise, created and governed by volunteers for the social and economic well-being of people who live or work in Nottingham. It has a focus on serving the financially excluded and those on low incomes. The credit union offers a range of affordable financial services, including current accounts, loans and savings accounts. It is a major delivery agent for the UK Governments Financial Inclusion Fund. This local community organisation has 4,892 adult members, 1,119 junior savers. Total member savings stand at £1,166,568 and loans at £1,170,887. The credit union is the lead body of the project.
2. Nottingham City Council is the municipal authority and has taken a lead role in developing a financial inclusion strategy for the City. This provides a framework to inform and shape the work of all partner agencies concerned with financial inclusion in Nottingham, over the next three years. These partners include the credit union. The 2007 Indices of Deprivation ranked Nottingham as the 13th most deprived local authority out of the 354 districts in England.
3. The Co-operative Electrical is a commercial, online electrical company, which is a constituent part of The Co-operative Group. The company has teamed up with credit unions throughout the UK as part of its ethical and social commitment to tackle financial exclusion. Co-operative Electrical is not looking for this scheme to generate a large revenue income but it does need to ensure sufficient sales to be cost effective. A staff member has been appointed to develop the link with credit unions.

What the credit union will do

The credit union will enable people in Nottingham to purchase electrical household appliances with a credit union loan. Members will choose appliances on the credit union premises or on the internet, and the credit union will undertake all administration in relation to the purchase.
The project has been organised to make it as easy as possible for the credit union to administer and for a member to choose an appropriate product. Nottingham Credit Union has a registered account with Co-operative Electrical that allows it to place an order directly on behalf of a member. There is no need for the credit union to issue a cheque to the member as the credit union pays Co-operative Electrical directly after the goods have been delivered.

What The Co-operative Electrical will do

The Co-operative Electrical will supply a list of affordable mid-range appliances to the credit union from which the member can choose a product. The aim is to keep the cost down for the member and the list includes all the latest best buys.
Also to keep costs down for low-income consumers, no delivery charge is made on goods and no charge is made to take away and dispose of old items (which is a £15 discount on disposal for credit union members).

The Co-operative Electrical will undertake all customer service and after-care functions (including complaints) in relation to the purchase.
Co-operative Electrical is supporting the credit union through a strategic marketing campaign and the production of posters highlighting the link between Co-operative Electrical and the credit union. Posters will present a consistent message about the scheme throughout the City and enable advertising to take place in Co-operative retail shops and other outlets.

What Nottingham City Council will do

Central to the success of the project is the involvement of the third partner, Nottingham City Council. The credit union works has a long-standing collaborative relationship with Nottingham City Council, with which it shares the mutual objective to improve financial inclusion in the City.

The Co-operative Electrical project is regarded by the City Council as an important strategic initiative which aims to tackle poverty and disadvantage through assisting members to access household appliances at an affordable cost.
Not only will the City Council promote and advertise the project in the City and to its own workforce, many of whom are on low incomes, it will take a lead in introducing the scheme to social housing providers. Many people taking up a tenancy for the first time, including young people leaving care, require household electrical appliances. It is often at this time that they take out loans to purchase such items from high-cost lenders or from the weekly repayment rental purchase stores. This partnership project will offer them a more affordable option.
As part of the project, the City Council will be able to assist in the development of the project through available intelligence relating to financial demographic for the City and target groups that may benefit from the project.

What the partners wish to gain from the project

For each of the three partner organisations, the project is a practical financial inclusion initiative through which an affordable credit option for the purchase of household appliances will be offered to people on low-incomes in Nottingham.
For the credit union, the project offers the opportunity to reach larger numbers of people on low incomes in the City. In particular, the project will widen the services it is able to offer to social housing tenants.
For the City Council, the project offers the possibility of a practical initiative aligned to its wider financial inclusion strategy
For The Co-operative Electrical, the project offers the possibility of strengthening its links with the credit union sector and contributing effectively to social enterprise development.
This is a new project and will be a learning opportunity for all three partners. Participation in the European project will enable the three organisations to learn from others and develop the electrical appliance project effectively.

Worst practices

Czech Republic

The worst practice is the business activities of several companies regarding so called „show room trips“ mostly focused on pensioners, who are taken out by bus and strongly pushed for long hours to buy overpriced goods through installment business (companies like BECK International s.r.o., Royal Home, s.r.o., Trade King spol. s r.o.).