European Financial Services Round Table

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EFR PAPER ON FINANCIAL INCLUSION
BEST PRACTICES AND POLICY RECOMMENDATIONS

1. Introduction – Why are we producing this paper?

The European Financial Services Round Table (EFR) is made up of Europe's largest banks and insurers. With this paper we want to fulfil our responsibility to improve the situation of those citizens facing financial exclusion in Europe, on account of it being a pressing social issue that concerns us as responsible businesses and providers of banking and insurance services to European citizens.

Europe is one of the world's most advanced economies, home to many of the world's leading businesses. Yet, as illustrated by data presented in the 2019 World Bank ECA economic update on financial inclusion, there is still room for improvement regarding financial inclusion in Europe, in particular, but not exclusively, in Central Europe. For example, the report shows that bank account ownership in Central Europe in 2017 was as low as 79% of all adults, with a 2 percent point gender gap. Other forms of financial exclusion relate to the absence of insurance protection against unexpected financial burdens or the risk of poverty in old age. Furthermore, according to the OECD/INFE 2020 international survey of adult financial literacy, about half of the EU adult population does not have a good enough understanding of basic financial concepts

Financial exclusion does not only exacerbate poverty, it also has consequences for the life expectancy as well as physical and mental wellbeing of the individual concerned. It is therefore applaudable and appropriate that the issue has attracted the interest of European policymakers and the financial sector. For example, the European Pillar of Social Rights includes a right of access to essential financial services and old age income. At the same time, EU retail financial services initiatives, such as the expected EU Strategy for retail investors, and pension policy discussions, as in the 2021 Ageing Green Paper, are aimed at promoting (retirement) saving by EU citizens. With regard to financial education, the 2022 EU/OECD-INFE Financial Competence Framework for adults also deserves mention in the context of financial inclusion.

EFR Member companies believe they have a clear role to play in reflecting on and assuming their responsibility to promote financial inclusion, for fairness and equality reasons, but also because it makes commercial and economic sense. We believe that all European citizens, regardless of their age, gender or income level, should have access to basic financial services, and beyond that, to good quality and value banking, insurance and retirement savings products adapted to their needs.

In this paper, EFR would like to share its Member companies' experiences and approaches, for the purpose of assisting and encouraging others and to support a broader dialogue between, and within, public and private sectors about policy approaches to improve financial inclusion in Europe. Finally, this paper also contains recommendations for policymakers.

2. Obstacles to financial inclusion

Obstacles to financial inclusion are often related to 1) individual circumstances, and 2) circumstances and developments in society.

2.1. Various groups of people experience obstacles to financial inclusion.

There are several causes for inequality in our society. Some people lack (economic) opportunities, which prohibits them from being financially included, often relating to:

- Gender;
- Mental or physical disabilities or other health problems;
- Educational difficulties (e.g. learning difficulties, or school leavers);
- Cultural obstacles (e.g., lack of cultural fit, behavioural norms, understanding of the educational system);
- Economic obstacles (e.g., low standard of living, poverty trap, long-term unemployment or indebtedness);
- Social obstacles (e.g., discrimination or the lack of networks and social skills);
- Geographical obstacles (e.g., living in rural areas; lack of employment opportunities locally).

2.2. Structural societal issues increase the risk of financial exclusion.

Research shows that about half the European adult population does not have sufficient understanding of basic financial concepts. In particular, low-income groups, as well as women, young people and older people, tend to score lower than the rest of the population when it comes to financial knowledge. Financial illiteracy prohibits people from planning for the future and making informed decisions about what to do with their money, which can lead to over-indebtedness, excessive risk-taking, vulnerability to fraud, and/or cyber risks. This increases the risk of financial exclusion.

The lack of digital access and/or digital literacy is also an important societal obstacle. Digitalisation has the potential to make financial services more inclusive but, on account of it posing challenges for some people, it may also aggravate social inequalities. There are three levels of digital obstacles:

- The lack of access to digital resources (such as access to the Internet or having the devices to use digital solutions);
- The lack of digital skills needed to operate hardware and software, such as typing and how to use a device;
- The actual outcomes and implications of the use of digital resources for the individual's life opportunities, given that offline disparities might be reinforced by digital inequalities. E.g. social ties and networks (i.e., social capital) can be reinforced online, but cannot be established exclusively online.

Developments in the labour market also raise new challenges for financial inclusion. New forms of work and related new types of workers (e.g., platform workers or self-employed), are at a higher risk of being financially excluded as they lack certain benefits received by traditional workers which are critical to ensure household financial security, such as a fixed salary, sick leave, pension savings, and certain basic insurance.

Lastly, although trust in the financial sector has increased the last decade (see 2022 Edelman Trust Barometer) there is still work to be done. As a result, there are customers who are not always aware of new, innovative and inclusive financial services and products.

These obstacles are often not stand-alone, rather they are correlated, amplifying and reinforcing each other.

3. Best practices

EFR Members have observed several types of actions promoted by banks and insurers that have the objective and/or potential to make financial services more inclusive, such as:

- **Digital access and user-friendly digital applications.** Ensuring that customers have the best digital experience, easy access to digital advice and services and app-based access, thereby removing obstacles to avail themselves of insurance protection and making use of banking services. This contributes to the accessibility of banking and insurance products and services

- **Access to banking products and services that are suitable to each of our customers' needs also to support social inclusion.** For instance (i) provision of banking services targeting price-sensitive customers who want more independent services on a budget, (ii) offering favourable terms to young people for student loans, or (iii) offering banking services packages to support social inclusion designed to help people manage their finances.

- **Innovative insurance products adapted to a changing society.** For instance, providing insurance cover for non-traditional workers, including platform workers, adapted to their needs. Increased attention to prevention, in particular also with regard to mental health which is nowadays the main cause of disability claims. This helps to keep premiums affordable.

- **Specifically for pension products, some insurers organise tutorials available on the web, as well as conferences to improve financial literacy.** Themes can vary from "how to protect a disabled child", "how to save ahead of retirement". Specific programmes are also organised targeting women. In 2019, one insurer organised more than 400 conferences aimed at more than 6400 people.

- **Ensure physical accessibility** for customers with disabilities and senior citizens (in accordance with Directive 2019/882[1]): adapting premises where necessary and making applications more user-friendly, including access to automated teller machines (ATMs) in strategic locations so that they remain available, as well as bank statements in Braille, and wheelchair access.

- **Wellbeing programmes**, to promote the physical, mental and financial wellbeing of financial services firms' customers, employees and other community members, also offered as an add-on to insurance products. **Support programmes** for people who are experiencing difficulties in life, for the purpose of providing reception and listening spaces, as well as dedicated advisers who can help to find sustainable solutions.

- **Impact investing.** In a survey[2], 62% of family offices identified impact investments as a key focus, given that they seek to address societal challenges framed by the UN Sustainable Development Goals, from climate (40% of family offices) to education (63%) and economic development / poverty alleviation (30%) to healthcare (50%). Mechanisms for positive change range from active fund manager engagement that can influence corporate strategy to bonds that fund development banks' work on economic development and sustainability-linked bonds imposing penalties if issuers do not achieve specific ESG goals.

- **Educational programmes to support financial resilience and economic opportunities for all.** For instance, by partnering with NGOs who work with the groups described in section 2.1. Or, as another example, through a **solidarity and development foundation** active in the area of (fiscal) education, digital inclusion, mobility, job search assistance and professional training and support for entrepreneurs, to foster economic and professional integration. Furthermore, banks' and insurers' websites provide information to customers and citizens on financial news and financial products, and provide tips on everyday money-management.

[1] Directive (EU) 2019/882 of the European Parliament and of the Council of 17 April 2019 on the accessibility requirements for products and services

[2] UBS GFO report 2020

4. EFR Policy recommendations

Given the complex causes of financial inequality and exclusion, EFR Members believe that there is scope for increased action to make the Europe financially more inclusive, including through public-private cooperation. As mentioned above, EFR member companies have taken many initiatives to promote financial inclusion and increase financial literacy in their respective communities. However, while the financial services sector has a role to play in financial inclusion, we believe there is a public responsibility to address social and educational issues, with banks and insurers contributing as much as they can. In particular, some actions that may be envisaged, may need additional public funding. To enable banks and insurers to become fully successful in contributing towards financial equality, and serve European customers in an optimum manner, the following policy actions are recommended:

- **Ensure that financial and digital education starts early** on and reaches all members of society, ideally by including this in school curricula, with the flexibility to incorporate new developments as they arise. Financial education should pay sufficient attention to saving for retirement, as it is important to start early, and to specific features related to new forms of work.
- **Incentivise firms to take action in the area of financial inclusion** as part of their sustainability efforts by encouraging them to share best practices at industry and country level (e.g. in the context of national financial inclusion strategies), develop public-private partnerships to further stimulate action and ensure full transparency of policies in this area, as part of the 'S' (social) pillar of ESG reporting. As a further recommendation, firms should commit to observe specific financial inclusion targets and undertake to measure the performance against these targets over time, in order to quantify the impacts of the initiatives implemented.
- **Promote and facilitate financial innovation**, e.g. with related research and by supporting products that are flexible to adjust to future society, including atypical employment forms, cross-border mobility, and changing customer preferences.
- The European Commission and Member States as well as other European governments should **promote public-private cooperation** in combatting financial inequality and exclusion, particularly in the areas of financial and digital education.
- In order to protect consumers and also to support social inclusion, certain measures should be required. For example, auto-enrolment in occupational pension plans may be considered for all types of workers. Another possible example would be disability insurance for all workers, regardless of their employment status
- The European Commission and European governments should **foster best-practice sharing and cooperation among firms**, also across regions and sectors. An EU platform and/or annual conference on this objective would be helpful and inspiring.
- **EU co-funded Member States' initiatives** in the areas of social rights, employment and education should integrate measures to reduce financial inequality and exclusion.
- In order to provide consumers with the best possible protection, especially to support social inclusion, a regulatory level playing field should be fostered to ensure that the same safeguards are in place for the same retail financial services.

The European Financial Services Round Table (EFR) was formed in 2001. The Members of EFR are Chairmen and Chief Executive Officers of international banks or insurers with headquarters in Europe. EFR Members believe that a fully integrated EU financial market, a Single Market with consistent rules and requirements, combined with a strong, stable and competitive European financial services industry will lead to increased choice and better value for all users of financial services across the Member States of the European Union. An open and integrated market reflecting the diversity of banking and insurance business models will support investment and growth, expanding the overall soundness and competitiveness of the European economy.

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