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Financial Exclusion in Europe

Introduction

The European banking and financial services sector has also been subject recently to intense deregulation and globalisation pressures within the process of completing the internal market and the development of European monetary union. Within the EU, financial exclusion has emerged as a major issue. Like UK and US experiences, the apparent dichotomy between the 'free competition' model and the 'public good' aspects of basic financial services has emerged as a major policy and bank strategic challenge. In all countries experiencing and reacting to financial exclusion, the banks are seen as an indispensable and integral part of the response mechanism. As noted before, one always has to be aware of the institutional context of different countries in explaining financial exclusion, its economic consequences and the appropriate policy responses.

This chapter explores recent experiences in continental European countries. As EU policymakers are beginning to pay more attention to financial exclusion, bankers and the financial services industry are being reminded of their central role in this debate. The apparent 'threat' of affirmative regulatory action by the EU has to be tempered by the possible strategic 'opportunities' that the emerging financial exclusion agenda might raise for European banks.

At the same time, continental European banks have traditionally had a stronger focus on retail banking via the development of many kinds of specialised banks. The concepts of 'regional banking' and 'social banking' are also comparatively well-developed in Europe. Nevertheless, as deregulation and globalisation continue to emphasise 'value added' and the shareholder model, the experiences of the UK

and US became more interesting to the emerging EU landscape. One thing that is apparent is that the institutional structure of different countries' banking and financial sectors has an important bearing on the nature of financial exclusion and how it is (and can be best) tackled. That is not to say that one country's experiences may not be relevant and helpful to another. An unqualified adoption of another country's 'model' for handling financial exclusion, however, may not be appropriate without considering the respective institutional contexts.

Policy and strategic context

Many of the same policy issues and bank strategic challenges concerning financial exclusion are emerging in EU banking systems. Like the UK and US, deregulation, intensifying competition, technological developments and high rates of innovation are strong drivers in EU financial sectors.

Nevertheless, there is a wide variety of different historic and institutional settings in EU banking systems in which these modern economic forces have been unleashed. As a result, there are still markedly different levels of financial sector development and varying policies for tackling issues like financial exclusion. Social and financial exclusion, however, are now high on the EU policy agenda.

Tackling financial (and other kinds of) exclusion is being increasingly recognised as a major issue in the EU. Pollin & Riva (2002, p. 213) point out in this connection:

Financial exclusion is one face of this problem and access to financial services is increasingly becoming an important step in the path towards inclusion into the labour market and into social life in general. Furthermore, financial inclusion can contribute to substantial cost savings for the community. It also encourages consumers to take ethical values into account to a greater extent when making their choices. Finally, it can bring new activities and customers to the financial system.

Increasing EU interest and banking awareness of these issues confirm that (like the UK and US) financial exclusion will be of increasing policy and bank strategic concern. Banks will increasingly be exhorted (and perhaps mandated) to make their contribution towards greater financial inclusion. Many banks may see these developments as a