



Understanding and Combating Financial Exclusion and Overindebtedness in Ireland: A European Perspective

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Background

Financial services are a necessity for people in their everyday lives. In order to receive wages, make payments or face unexpected expenses, bank accounts, payment cards and consumer credit are crucial. Their role varies from one country to another. In France, access to a bank account is a necessity as it is impossible to receive wages or social benefits in cash, while this is still possible in Ireland. Conversely, access to credit in Ireland is often necessary in order to deal with unplanned expenses, while in France the same needs are partly met through social benefits and public services.

Over the last 10 years, financial inclusion has become an important policy issue at national and European level. In Ireland, due to the key role played by consumer credit, the first effort to address financial inclusion was the establishment of the Money Advice and Budgeting Services (MABS) in 1992. MABS advisers deal with all kinds of financial difficulties including overindebtedness and difficulties accessing appropriate forms of credit. However, after this early start, financial inclusion disappeared from the Irish political agenda until recently. It was only in 2006 that the phenomenon of financial exclusion was properly documented in a report by the Combat Poverty Agency (Corr, 2006). This report provides an analysis of the difficulties faced by Irish people in accessing and using financial services and makes recommendations on how to improve access to basic banking services. Regarding overindebtedness, most of the research and policy analysis has focused on the inability of the Irish legal system to deal with the issue. Both the Free Legal Advice Centre (FLAC) and the Law Reform Commission (LRC) have highlighted problems in the Irish judicial system in relation to issues of credit and have recommended reforms to deal appropriately with the consequences of a credit society (FLAC, 2009; LRC, 2009). These research studies have had a significant influence on promoting interest in financial inclusion.

Until recently, financial inclusion was not part of the policy discourse in Ireland (Carbo *et al.*, 2005; Corr, 2006). However, in the last few years there has been a number of significant developments. The National Payments Implementation Programme (NPIP) was established in 2005 with the aim of changing payment behaviour in Ireland in order to make it more secure and cost-efficient. One of its objectives is to promote financial inclusion. The current financial crisis has increased the involvement of the government in relation to access to basic banking services. As a result of the guarantee scheme for Irish credit institutions announced in September 2008, the Credit Institution (Financial Support) Scheme 2008 brought into law the requirement that the guaranteed institution should report bi-annually on, among other issues, the promotion of financial inclusion. In the early months of 2010, an expert group was set up to make recommendations on rescue plans for heavily indebted borrowers. Finally, in September 2010 a Steering Committee was established to promote financial inclusion.

At European level, financial exclusion has also become an important policy issue involving DG Employment, Social Affairs and Equal Opportunities, DG Internal Market and Services and DG Health and Consumers. The understanding of financial exclusion and overindebtedness has improved as a result of the funding of two studies by the European Commission (RFA, 2008a; OEE, 2008), while a special module dedicated to these topics was included in the EU-SILC survey of 2008.¹ Alongside these efforts, the need to ensure that, by a certain date, no EU citizen or resident would be denied access to a basic bank account has been stressed by the European Parliament in its resolution in the Green Paper

¹ The European Survey on Income and Living Conditions (EU-SILC) is the reference source for comparative statistics on income distribution and social exclusion in the European Union.

on Retail Financial Service, adopted on 5 June 2008,² and has been the aim of public consultations in 2007³ and more recently in 2010.⁴

Aim of the report

The aim of the report on which this working paper is based is to provide an assessment of strategies promoting financial inclusion that have been implemented in Belgium, France and the UK and to examine what policies could suit the needs of Ireland.

The report focuses on two issues. Firstly, strategies on financial inclusion are assessed in relation to basic banking services and consumer credit. Mortgages are taken into account only in relation to overindebtedness. They are not considered separately, as such an assessment would require an in-depth exploration of the housing market in order to make pertinent recommendations. Savings and insurance, likewise, are not taken into account.

Secondly, the analysis focuses on three countries: the United Kingdom (UK),⁵ France and Belgium. These countries were chosen for two reasons:

- All three have implemented ambitious strategies to promote financial inclusion, and these strategies are marked by their differences:
 - o The UK has based its strategy on market mechanisms such as self-regulation.
 - o France has based its strategy on regulation and the heterogeneity of its financial industry (private, cooperative and public financial institutions).
 - o Belgium has based its strategy on strong regulation.
- Ireland shares common points with each of these countries. Therefore it can learn from their diverse experiences and choose efficient and appropriate practices regarding its own needs.
 - o Similar to the UK, Ireland has a high level of access to consumer credit, but this access is partly provided at a very high cost through moneylenders.
 - o France has a strong financial cooperative movement which plays an important role regarding financial inclusion; the credit union movement in Ireland could replicate this characteristic.
 - o Belgium is the European country that is most committed to tackling financial exclusion. One similarity it has with Ireland is that its debt mediators play a similar role to MABS advisors.

Key findings

I. A renewed definition of the process of financial exclusion

Financial exclusion is a phenomenon that has been documented at national and international levels since the 1990s (for example: Leyshon, Thrift, 1995; HM Treasury, 1999; Kempson, Whyley, 1999; Carbo *et al.*, 2005; Devlin, 2005; Corr, 2006; RFA, 2008a). Basically it is understood as a difficulty experienced by sections of the population in accessing financial services. Overindebtedness is considered as a separate issue even if both are closely linked (RFA, 2008a; OEE, 2008). This report adopts a different understanding of financial exclusion

² See: <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P6-TA-2008-0261+0+DOC+XML+V0//EN>

³ See: http://ec.europa.eu/internal_market/consultations/2009/financial_inclusion_en.htm

⁴ See: http://ec.europa.eu/internal_market/consultations/2010/payment_account_en.htm

⁵ In this report, the emphasis will be placed on the action of central government in London even though Scotland, Northern Ireland and Wales have introduced specific action plans on financial inclusion.

and overindebtedness as it considers the actual *process* of financial exclusion (Gloukoviezoff, 2004, 2006, 2008).

Access difficulties are part of this process but they are the consequences of *use* difficulties. If financial services providers refuse access to certain potential customers, it is because they anticipate that these people will face use difficulties and that they are too poor to be profitable. For example, providers prefer to refuse a bank account to customers who have a high probability of becoming overdrawn and who will probably be unable to reimburse money owed, particularly as a result of irregular transactions. Similarly, some customers refuse to have a current account or a credit card as they know that their financial situation may lead to difficulties because of the terms and conditions that apply.

Therefore in order to tackle *access* difficulties it is necessary to consider *use* difficulties. These occur when:

- people do not use services they have access to because of lack of confidence or awareness of the risks;
- people who use financial services face negative consequences because the services are inappropriate or they have used them inappropriately.

Financial exclusion is a process that links access and use difficulties. At the start of this process people have access to financial services but this access is inappropriate. They face use difficulties at this point. The development of the process sees access difficulties becoming prevalent. At the end of this process, people have no access to any financial services and face real financial exclusion.

Overindebtedness is a stage of this process, characterised by the prevalence of use difficulties (inappropriate forms of credit). The fact of being unable to have a bank account is another stage of this process, characterised by the prevalence of access difficulties. Of course access and use difficulties are a component of the financial exclusion process only when they produce negative consequences. The process of financial exclusion contributes to the wider issues of social exclusion and poverty.

Therefore, this report provides a revised definition of the process of financial exclusion:

Financial exclusion is the process whereby people face such financial difficulties of access or use that they cannot lead a normal life in the society to which they belong

Such a definition has at least two essential consequences regarding the development of an effective strategy to promote financial inclusion.

Firstly, because access and use difficulties are linked, targeting one type of difficulty may have consequences for the other. It implies that an effective strategy needs to consider the process of financial exclusion as a whole. Such an approach is adopted by the Law Reform Commission in its report: "*This [...] raises the issue of a need for basic banking services to be available for all consumers, which enables consumers to avoid higher-risk sources of credit. Arguments have been made that the provision of basic banking services to high-risk consumer groups as part of a financial inclusion programme would be a powerful protection against irresponsible lending practices and so would be of great assistance in preventing overindebtedness*" (LRC, 2009, p.100).

Secondly, linking access and use difficulties with their consequences implies addressing both the causes of these difficulties and their negative consequences. The explanation lies in the intensification of financialisation led by a market logic.

I define financialisation as the increasing constraints encountered by people, firms or governments to use money, banking and financial services to meet an increasing number of needs. The nature of these constraints (e.g. the norms and rules that apply to access and use of money, banking and financial services) is defined by the logic that leads financialisation. There are three main logics: market (i.e. financial markets), redistribution (i.e. the State) and reciprocity (i.e. cooperatives). These are always simultaneously present in every society even if one dominates the other two.

The intensification of financialisation impacts on both citizens and financial service providers. The widespread use of financial services has led to a new set of rules and norms, adherence to which is necessary in order to lead a normal life. The market logic makes these even more unavoidable for citizens. For example, this logic, favoured by neo-liberalism since the 1980s, has impacted on wages, social benefits and public services, often making consumer credit the only response available to deal with unexpected expenses or to make ends meet.

Even though financialisation is common in the four countries studied, its nature is not exactly the same. For example, Ireland and the United Kingdom give a more important role to consumer credit than do France and Belgium; in both France and Belgium, unlike in Ireland and the United Kingdom, it is necessary to have a bank account to receive wages and social benefits.

This dependency of citizens on financial services is made problematic by the profitability constraint on providers. As a result of the market logic which informs the intensification of financialisation, financial services providers operate norms and rules of access and use which are inappropriate for a certain part of the population. Given that every relationship has to be profitable, personalised products and advice are considered too costly to be provided to the poorest customers.

The process of financial exclusion is a result of the intensification of financialisation led by a market logic which has made financial services socially unavoidable for all citizens, even though these services are provided by commercial institutions that only target profitable customers.

The definition of the process of financial exclusion adopted in this report highlights that, in order to promote financial inclusion, it is necessary to:

- limit the influence of the market logic that has led the intensification of financialisation;
- ensure the appropriateness of services provided.

Tackling financial exclusion is simultaneously a political and a technical issue.

II. A political regulatory framework

As a political issue, reducing the influence of a financialisation led by market logic can be achieved in two ways. The first way is to promote appropriate alternatives so that people are less dependent on financial services providers. The second is to reduce the influence of the market logic on financial services providers.

In relation to the first approach, it is possible to limit the consequences of the market logic by giving households access to alternative responses, especially regarding consumer credit. While access to appropriate alternative forms of consumer credit is necessary, attention needs to be paid to what Thiel (2009) asks about the UK: *“Do we really believe that the best way for poor people to make ends meet is to take out more and more credit, and above all credit for which they frequently don’t repay the principal, but only the interest rates?”* (p.28). The provision of alternative responses to consumer credit involves questioning the level of

wages, the characteristics of social welfare benefits, and the quality of public services. Even though these are different issues from that of financial inclusion, they are important elements in the promotion of responsible credit.

The second way involves limiting the influence of the market logic over commercial institutions such as financial services providers. Such a goal requires selecting an approach that would have a stronger influence. Without it, the market logic would considerably weaken the effectiveness of those responses. The concept of corporate social responsibility (CSR) which is at the heart of the British strategy is an example of such an approach. Hitherto the United Kingdom, France and Belgium tried to tackle financial exclusion through self-regulation. These choices were made at a time when belief in free market effectiveness dominated, but they have systematically failed despite marginal improvements.⁶ In France and Belgium self-regulation has been replaced by legislation, while there are numerous calls for a similar development in the United Kingdom.⁷ However, not all legislation is effective, given the failure of the French “Right to an account”.

In order to tackle the process of financial exclusion, regulation is needed, but it must be appropriate regulation. An analysis of the various international examples of regulation indicates that three key elements are required for its effectiveness:

- The definition of precise targets on financial inclusion, based on a range of indicators
 - o Targets regarding basic banking services and credit should be related to both dimensions of financial inclusion: access and use. Therefore indicators will need to be quantitative and qualitative.
- Independent assessments to be carried out of the policies implemented, and the results regarding the targets adopted
- The implementation of incentives and sanctions in order to ensure the involvement of all stakeholders
 - o This could involve the implementation of different mechanisms such as the creation of a financial inclusion fund, which could be used to cover part or all of the costs of dedicated services (e.g. MABS) that contribute to financial inclusion.

A regulatory framework based on transparency and accountability could limit the influence of the market logic without suppressing its positive elements. While financial inclusion goals are usually defined by governments, the more technical aspects in relation to implementation are the responsibility of all stakeholders, including financial services providers. A financial inclusion taskforce (or the existing Steering Committee on Financial Inclusion) could be a useful body to promote and monitor a financial inclusion strategy in Ireland.

Based on the assessment of what has been done in the United Kingdom, France and Belgium, it is possible to define some guidelines regarding the promotion of access to appropriate basic banking services and responsible credit.

III. An Irish strategy to promote appropriate access to basic banking services

The will to improve access to basic banking services is a paradoxical one. On the one hand, this target is explained by the intensification of financialisation which creates difficulties for

⁶ These improvements were mainly obtained when financial providers were threatened by the implementation of a potentially more coercive regulation.

⁷ See Devlin (2005) and Mullineux (2009) as well as the *Financial Inclusion Manifesto* of the Financial Inclusion Centre:

http://inclusioncentre.org.uk/doc/financial_inclusion_manifesto_summary.pdf

people outside the banking system and can lead to a more dual society. On the other hand, improving access to basic banking services intensifies financialisation, making it even more difficult to be outside the banking system. In order to solve this apparent paradox, it is important to favour an “equal” financialisation, e.g. a financialisation that is characterised by an equal access to appropriate banking services in order to lead a normal life.

An example of this paradox is making receipt of social welfare through a bank account compulsory. Such a decision intensifies financialisation and obviously increases access to a bank account because people would not have another choice. However, this higher level of access to basic banking services could only be seen as contributing to greater financial inclusion if appropriate basic banking services are provided to those new customers.

Without this appropriate provision, the financialisation would be unequal and would not lead to greater social cohesion. It would also contribute to the impoverishment of a large part of the population. Therefore there is need for an ambitious strategy that would improve access to basic banking services as well as adopting a global understanding of the consequences for the target group. This implies taking into account the characteristics of the basic banking services provided and their cost (e.g. business model), and ensuring that they are accessible to everyone.

Based on the lessons from the British, French and Belgian experiences and the strengths and weaknesses of the Irish situation, the following broad guidelines of a potential Irish strategy to promote access to basic banking services are outlined.

III.1. Characteristics of the basic banking services

Firstly, it is crucial to define the exact characteristics of the basic banking services that should be provided homogeneously by all banks, without preventing banks adding other services if they wish. It is also essential that the target audience can access the basic banking services easily. Such an obvious target involves several elements.

As Corr (2006, p.172) underlines, it is necessary to include “*flexible account opening requirements around identification in adherence with the anti-money laundering guidelines*”. Such an issue does not apply to France or Belgium, where it is compulsory to have an ID card. Nevertheless, some difficulties have been observed for migrants because their temporary papers are often considered by bankers as difficult to assess. In Ireland specific attention should be paid to other groups who could face similar barriers.

Another aspect is the potential negative credit history of a customer. As basic banking services do not involve credit,⁸ this element should not prevent access for such customers. In the UK, France and Belgium, the issue has been addressed in the same way: only customers with a history of fraud can be excluded by a bank.

Along with these direct practices of selection, other “screening” practices are used. Providers define the characteristics of their products in a way that is calculated to deter undesirable customers. To avoid such practices, it is important to avoid a minimum opening or monthly balance (Corr, 2006) as well as compulsory linked products that would not be explicitly part of a package of basic banking services.

Secondly, the experience of France, Belgium and the United Kingdom shows that some potential solutions should be avoided. In that respect it appears that cards to store money,

⁸ When debit card are not real-time, it can be considered as a form of credit. However, it would be an excessive interpretation of “credit” as the customer does not request or need this “credit”.

e.g. POCA, should be avoided as they prevent access to a bank account. It seems that overdraft facilities should also be avoided as these are too risky for low income customers.

Thirdly, it is necessary to define precisely which products would be part of the basic banking services. This choice should be based on the norms of the country. For Ireland, a package of basic banking services would require, as a basis, a current account with a monthly (at least) account statement. This account should entitle people to receive money transfers, lodge cheques and make deposits in cash. It should be possible for people to access their money easily. This implies giving them a cash card that could be used at every ATM at no cost. As ATMs usually give a 20 Euro note as the smallest note, it is important to have a buffer zone of 20 Euros to allow every cent to be accessible.

As seen in France, Belgium and the United Kingdom, an account by itself is not enough. It is very important that a modern means of payment is accessible. Direct debits and money transfers are essential although they are not enough to lead a normal life. In Ireland, as in France, debit cards are very popular. The difficulty is that this means of payment may be risky for providers. The French solution has been to provide a debit card with real-time authorisation. Such a debit card prevents payment when funds are insufficient. This card has been a great success in France and the possibility of providing such in Ireland could be carefully assessed by the National Payment Implementation Programme. Regarding cheques, this option may be disregarded as this kind of payment is becoming less common for personal use.

Fourthly, the British experience and some Irish studies highlight the usefulness of taking into account the fact that people on a low income often manage their budget on a weekly basis. In order to make the transition from management in cash to management through a bank account easier, it would be helpful to offer the possibility of having a “budget account” – similar to that used by the Credit Unions with MABS – linked to the basic bank account. This would help prevent people from falling into arrears and to progressively adapt themselves to banking rules.

Making sure that the characteristics of the service provided are appropriate to the needs of people without access is key not only to improve access but also to avoid use difficulties. For example, it could limit the fact that some customers self-exclude themselves by withdrawing all their money from their account as soon as they receive it (Corr, 2006, p.77). Such behaviour can be explained by the belief that to use these services would be too difficult and too costly. Their appropriateness may entice customers to make real use of these services and be less likely to manage their finances in cash.

The transition from managing money in cash to a bank account also raises the question of the financial capabilities of customers. In every European country, financial education is promoted as the cornerstone of financial inclusion, even though there is no scientific evidence to show that it has positive impacts.⁹ Nevertheless, it is obvious that the target audience of basic bank accounts need:

- information about its existence and characteristics;
- advice about the way to make the best of this offer.

The first dimension (information) could include leaflets, websites, and other media messages, while the second one implies a face-to-face relationship. A key question is, Who has responsibility for this advice? Certainly the financial provider should have part responsibility. However, for the more complex cases, it would be better to have access to an independent adviser. In order to meet this need, the UK has made an effort in terms of budget advisors. In this respect, Ireland has a successful “tool”, with MABS providing such

⁹ See the work of the Personal Finance Research Centre (www.pfrc.bris.ac.uk).

advice. Nevertheless, the capacity of MABS would need to be increased to face the demand and to provide good quality advice.

Finally, in order to favour the establishment of trust between the target group and the banks, the question of the protection of their resources should be evaluated. In France a defined amount considered as a social minimum cannot be seized. In order to make this right real, it was decided that when a creditor obtained the right to make a seizure on the account of a debtor, the debtor is entitled to ask the bank to make available, in cash, the defined amount (if it was available before the seizure). Such a protection – which also needs to be extended to bank charges – could foster a relationship of trust between the banks and their customers.

III.2. The cost of basic banking services

Appropriate access to basic banking services implies having access to products which make it possible to satisfy people's needs as well as ensuring that the cost does not impoverish those people. Regarding this issue, the UK, France and Belgium have made different choices.

In the UK access to a basic bank account is free, a debit card is provided but the cost is potentially very high if difficulties occur (e.g. failed direct debit). In Belgium the basic banking service costs around 1 Euro per month, fees are those usually applied by the bank and no debit card is provided. In France there is the right to an account, the basic banking service is free, fees are capped, and a debit card is provided.

This comparison poses the question regarding the cost for the customer and the provider. It could be argued that customers should pay for the price of the service provided. It could also be argued that this cost should be appropriate (e.g. inferior to the potential monetary gain for people to switch from cash to banking management). In the same way, it is important that the potential cost of the basic banking service is clear for those people in order to help them integrate it into their budget. Finally, another effect should be taken into account: the incentive effect for the provider. The basic banking service should be the first step in the banking system, so it would be interesting if banks were encouraged to offer wider access to their services in order to make the relationship more profitable (but still appropriate to the needs of the customers).

According to the results obtained in the three countries studied and to the movement to free banking in Ireland, a basic banking service, as defined in the previous paragraph (III.1.), with a debit card with real-time authorisation (without stamp duty) could be provided free of charge.

Along with this offer, it would be pertinent that the fees which occur when customers break a term of their contract (e.g. unauthorised overdraft, failed standing order, bounced cheque, etc.) would be capped as has been done in France. It would partly avoid difficulties which could lead to cumulative charges. This is an important issue because when people manage their money in cash and are not able to face a bill they are in trouble with their creditor, but when they manage their budget through a bank account and experience a similar problem, they are in trouble with their creditor and with their bank. It doubles the costs.

For those who face difficulties with cumulative charges, it would be interesting to orientate them to MABS advisors who could help solve (as much as possible) the difficulties people face and help reduce the banking costs.

If the services provided are free and if the charges are capped, there is a real threat that basic banking services become an unbearable cost for the providers who are the most welcoming. How can this be avoided? Several possibilities exist.

The first possibility is related to the fact that providing basic banking services is recognised by the European Commission as a Service of General Economic Interest (Art. 86 of the EC Treaty). Such recognition allows for a public compensatory financing system. A second possibility is a compensatory fund like that proposed by the Belgian government but which was never implemented. Each financial institution would receive money from the fund or contribute to it depending on the comparison between their overall market share for banking products and their market share regarding the basic banking service. Such a system would make the cost of providing basic banking services sustainable for the providers who would most welcome low income people, and would create an incentive for all members of the industry to promote access to basic banking services.

This way of funding basic banking services is led by a different logic than the market one: reciprocity. Each stakeholder (citizen, bank, State) provides part of the funding in accordance with its capacity. Such a provision is justified by the fact that all stakeholders benefit from a more financially inclusive society.

III.3. Making access to basic banking services effective

One of the main lessons from the assessment of the British, French and Belgian strategies is that voluntary charters or codes of practice are not effective. In the UK the industry's code of practice was applied only when the Chancellor threatened a more rigorous regulation in 2002. However, those efforts did not last and the proportion of unbanked people ceased to decrease by 2005. In France the basic banking services charter of 1992 was replaced by a law in 1998 as it had no effect. And in Belgium the charter of 1996 promoting basic banking services was substituted by a law in 2003 for the same reason as in the French situation.

The ineffectiveness of voluntary codes of practice could be explained by the fact that access difficulties to basic banking services result from the insufficient profitability of those customers vis-à-vis profitability requirements. The commitments of the industry cannot really go against this constraint. However, a law is not by itself the appropriate answer as is shown by the French example. The right to an account and the basic banking service were highly confidential for 20 years until the pressure from government on the industry increased in 2004.

A law is necessary as it is the only tool that can act as an effective opposition force to the constraint of profitability. Nevertheless, to be effective it needs to be appropriately defined. In that regard, several elements need to be respected.

Firstly, the content of the law should be the result of consultations with the key stakeholders as their involvement is a key element of the success of such legislation. This was the case in Belgium, and in the UK the Taskforce looks like the perfect body to lead these consultations. In Ireland the new Steering Group on Financial Inclusion could possibly do the same.

Secondly, it is essential that providers are obliged to supply a detailed reporting of their activities regarding access to basic banking services. This obligation could be consistent with the requirement of paragraph 45 of the Credit Institution (Financial Support) Scheme 2008.¹⁰ With this obligation, providers should display figures related not only to basic banking

¹⁰ "Each covered institution shall procure that the Irish Banking Federation, on behalf of all covered institutions, submits a bi-annual report to the Minister on goals and targets laid down by the Minister in relation to Corporate Social Responsibility, including the goals and targets with respect to the objectives of this Scheme, the delivery of the national payments strategy, the promotion of financial inclusion, the development of financial education and the implementation of the next phase of the Government's Social Finance Initiative."

services but also figures related to access to banking products of people on low income; this would enable an assessment of the actual level of access of this public to banking services, not only to basic banking services. Such a tool was planned in the Belgian legislation although it was not applied, and was advocated for in a broad range of research from the Taskforce in the UK as well as independent research carried out in the UK. France is particularly poor in that respect. This partly explains the lack of effectiveness of the “Right to an account”.

Thirdly, it is very important that the legislation allows for incentives and constraints. The cost of not committing to the provision of basic banking services should be significantly higher than for committing. Without this element, the profitability constraint will underpin the whole legislation.

These principles can be applied to every type of legislation dedicated to improving access to basic banking services. However, it is possible to develop further guidelines for potential Irish legislation.

Regarding foreign experiences, it appears that the most effective way to provide basic banking services is the Belgian approach. Every bank should be constrained to provide basic banking services to customers who do not have access to similar banking products. Such an approach would prevent the risk of administrative difficulties which deter people from applying for this right, like in France. It means that customers without a current account could apply for the basic banking service in the bank branch of their choice, which could not refuse them unless they have a history of fraud.

In order to make this legislation even more effective, it would be important to provide the Credit Union movement (as well as Building Societies) with the possibility of becoming part of the clearing system. Such a development would build on the strength of the banking sector in Ireland, as it did in France, for the cooperative banks which are more likely to welcome financially excluded customers – customers who are more likely in return to trust them more than private banks. A move of this importance for Credit Unions would however require some modernisation.

Although An Post announced the end of its banking activity, the possibility of using the An Post network to provide basic banking services for other providers in a similar way to the British universal banking service should be assessed.

III.4. Towards an Irish basic banking service

The potential Irish basic banking service could incorporate the responses implemented in the UK, France and Belgium. This is because the Irish banking sector shares common points with these three countries.

The provisions of an Irish basic banking service could be characterised as follows (very close to the recommendation of Corr, 2006, p.172):

- a current account;
- flexible account opening requirements around identification;
- no exclusion with possible exception of a history of fraud;
- no minimum or monthly balance;
- a monthly account statement;
- the possibility to lodge cheques and to make deposits in cash;
- direct debit and standing order facilities;
- a 20 Euro buffer zone;
- no overdraft facility;
- a debit card with real-time authorisation without stamp duty;

- a weekly bill payment account;
- financial advice and information (when banking difficulties occur, contact with a MABS advisor should be facilitated).

The basic banking service should be provided at no cost and the charges that occur when customers break a term of their contract (e.g. unauthorised overdraft, failed standing order, bounced cheque, etc.) should be capped.

In order to encourage people to make use of their account and not to withdraw all their money from it, a minimum amount should be protected from seizure in the account.

The basic banking service should be provided by every financial service provider. Therefore customers could apply for it in a bank branch of their choice. It would be pertinent to include credit unions and building societies as potential providers, although they would need to be part of the clearing system. The An Post network could be used by other providers to provide a basic banking service when customers would prefer to have access through the post office or when there is no bank branch in a locality.

In order to finance the basic banking service, a compensatory fund supported by banks and the State as a Service of General Economic Interest should be set up. Such a fund should ensure solidarity within the industry. Those providers who welcome a bigger market share of the target group than other providers should have their extra costs compensated. Conversely, those who do not contribute to the improved access of this target group should be penalised.

Because codes of practice are ineffective, the basic banking service should be implemented through law. Its legal definition would prevent a heterogeneous provision of services among providers. In order to be effective, such a law should be preceded by a large consultation of key stakeholders; their involvement is crucial. Such a consultation should identify a group to oversee the implementation of the law – possibly the Steering Group on Financial Inclusion. It is very important to involve different government departments (e.g. Department of Finance, Department of Social Protection, etc.) as such an issue is clearly cross-cutting.

The popularity of basic banking services would be reinforced if it were compulsory to pay social welfare and wages into a bank account.

IV. An Irish strategy to promote responsible credit

While each country needs to find its own way to deal with the challenges of promoting responsible credit, the following elements, which have been effective in other countries, could inform a specific Irish strategy.

IV.1. A comprehensive perspective

In order to implement an efficient strategy to promote responsible credit, it is important to remember that credit plays a key role in people's lives and in society as a whole. It helps households finance their needs and cope with unexpected expenses. While the UK is similar to Ireland, the situation in France and Belgium is substantially different. In these two countries, many of the financial needs which are met by credit in Ireland or the UK are satisfied in other ways (e.g. higher level of public services or social benefits).

IV.1.1. A political issue

The social role given to consumer credit is the result of political choices. If collective schemes (i.e. social benefits and public services) are not well developed more people will rely on credit. Both choices have pros and cons. If public services and social benefits need to be developed, this questions their effectiveness as well as how they should be funded. However, extensive use of consumer credit questions its ease of access, as well as its appropriateness (and therefore it questions the availability of alternative financial answers when credit is not the appropriate solution).

Another example of the political role of credit is when a choice needs to be made between increasing access to credit and reducing overindebtedness, recognising that these two targets are sometimes contradictory. This choice has to be made prior to assessing the technical dimensions of how to achieve it.

Therefore the first step in promoting responsible credit is to identify what social role consumer credit will play in society. Ireland currently has a strong “consumer credit society” which means that the political choices made until now have been to favour access to credit. This choice could be pursued or reversed depending on the advantages and disadvantages of each option.

IV.1.2. A specific strategy

In relation to access to credit, it is necessary to take into account the difficulties faced by people who are unable to access credit as well as the difficulties of people who have access but in an inappropriate way (i.e. price, conditions). In that respect, promoting responsible credit means promoting appropriate access to credit for every potential borrower. However, it is not a “right to credit”, as potential borrowers who cannot afford a loan should be denied access. Ireland has succeeded in developing very easy access to credit. However, the appropriateness of it remains questionable, in particular for low income households.

People who have access to credit can face difficulties with repayments and this needs to be addressed in the interest of all stakeholders. The situation in Ireland is characterised by a real lack of understanding of the causes and consequences of financial difficulties. According to the Law Reform Commission (LRC, 2009), debtors in arrears are considered as refusing to pay (won't pay), while in the vast majority of cases they are unable to pay (could pay, cannot pay). Therefore financial difficulties are only taken into account when it is necessary to punish the debtor and to make him/her pay what he/she owes. Such an approach is based on commercial agreements and court procedures which are totally inappropriate ways of addressing overindebtedness. Even if MABS offers good quality support to debtors, the lack of an appropriate framework to take into account financial difficulties is even more problematic given the key role credit plays in Irish society.

Ireland has placed more efforts on increasing access to credit than any of the other countries examined in this report. The vast majority of the population is able to access credit through some source. However, conditions to ensure quality of access have been widely ignored. Conversely, the UK has made an effort to develop alternative, appropriate sources of credit, while France and Belgium have implemented interest rate ceilings in order to limit the level of risk taken by lenders.

Even though preventative measures would be extremely effective, they cannot suppress financial difficulties and overindebtedness. *“In this light, the law must recognise that a consequence of a credit society is that certain individuals will become overindebted, and thus a means of rehabilitating such debtors must exist”* (LRC, 2009, p.69).

Therefore a potential Irish strategy needs to ensure as wide as possible access to credit without sacrificing its quality, as well as allowing for a fair treatment of financial difficulties. It should neither prevent lenders lending nor favour irresponsible behaviour from either lenders or borrowers. In order to achieve such a goal, six key elements are necessary:

- quality information for lenders (i.e. credit register);
- appropriate pricing (e.g. level of interest rate);
- variety of suppliers (i.e. alternative lenders);
- pedagogy for borrowers (i.e. information, education, advice);
- fair arrears management (e.g. when debts are considered separately);
- debt settlement procedures (e.g. answers to overindebtedness).

Ireland could also improve its regulatory framework to promote responsible credit for each of these key elements, similar to what has been done in the UK, France and Belgium.

IV.2. Areas of action

Successive European Consumer Credit Directives have homogenised the legal framework regarding disclosure of information prior to the credit agreement. However, they are limited in scope which is why the three other countries (UK, France, Belgium) went further to promote it. Ireland could adapt some of their responses for its own strategy.

IV.2.1. Better informed lenders

The availability of information for lenders regarding the existing indebtedness of potential borrowers as well as their history of repayment difficulties is seen as a key element of responsible lending. However, there are different ways to make this information available which affect its quality.

The main provider of information in Ireland is the Irish Credit Bureau (ICB). The quality of its information is not very good as all lenders are not part of the information exchange scheme and even those that are, are not constrained to provide all their information.

In this regard, the Belgian credit register would be a good example for Ireland to follow. The public credit register holds information about every borrower and it is compulsory for lenders to contribute to it as well as to check information prior to granting a loan. The register has obtained real results, increasing access to credit in a more appropriate way as arrears have been reduced, although it has been unable to prevent overindebtedness.

There is also much debate on whether a credit register should be public or private. The credit register in Belgium is publicly run in order to avoid excessive or inappropriate use of the information collected. The crucial element is that it should be compulsory for every type of lender (e.g. mainstream, subprime, credit unions, etc) to participate (e.g. to inform the credit register and to check information) so as to ensure the quality of the information displayed and its effectiveness.

However, information provided through credit registers is not sufficient in itself for assessing the demand of a potential borrower. Interviewing the borrower is potentially a very efficient way to obtain information about his/her income as well as specific needs and constraints which could affect the repayment.

IV.2.2. An appropriate price: the question of interest rate ceiling

An interest rate ceiling is a highly controversial question. On the one hand, high interest rate levels are seen as impoverishing borrowers. On the other hand, it is argued that capping interest rates can make access to credit impossible for the riskiest and poorest borrowers,

especially when it could suppress some lenders such as home credit companies who often meet their credit needs. Nevertheless, the higher the interest rate is, the higher the level of overindebtedness. While both these arguments are justified, neither takes into account the context as well as the diversity of interest rate ceilings possible.

Firstly, it is necessary to consider the social role of consumer credit. The consequences of an interest rate cap in France and Belgium – where financial alternatives to consumer credit exist, i.e. social benefits, public services, etc. – are different than in Ireland or the UK where they are much weaker.

Secondly, capping interest rates reduces the profits of numerous lenders and could lead to the disappearance of some of them. This is an important issue as it can explain the strong lobbying of the industry against this potential measure.

Thirdly, there is more than one way to cap interest rates. Ireland for example is capping interest rates as follows: lenders who lend over 190% APR are unable to renew their licence, while credit unions cannot lend over 12% APR. Even in France and Belgium interest rate caps vary between 8 and 20% depending on the type of credit.

Therefore the effectiveness or ineffectiveness of introducing an interest rate ceiling:

- is related to the institutional context as well as the ceiling's characteristics, and
- needs to be compared to the effectiveness of the present situation.

In relation to the prevention of overindebtedness, it seems that it is more effective to cap interest rates than to reopen credit contracts to assess whether the conditions are extortionate, which is currently the case in Ireland and the UK. The latter approach assumes that people are aware of this option and have easy access to justice – which is not necessarily the case. Capping interest rates assumes that there are alternative solutions. Even though France and Belgium have good social benefits and public services, these are not always an appropriate answer for all borrowers excluded from credit. Appropriate alternatives would involve mainstreaming the microcredit pilots.

Ireland and the UK are in a different situation: the Irish Credit Union movement could provide an affordable alternative, while the British government is currently investing money in promoting alternative lenders. But in both cases these alternatives have not been successful in offering a viable substitute to high cost lenders. The main issue is that they cannot always compete with the high cost lenders on the quality of the service (i.e. home collection, weekly repayment, etc.). If an interest rate ceiling were to be introduced in Ireland and the UK, subprime lenders would not be able to maintain their seductive characteristics in a profitable way. Therefore their borrowers would become more interested in credit unions and other alternative providers. The key question is at which level to set the interest rate ceiling: 20%, 30% or 40%? This level should be defined in relation to the cost of providing the credit in a way that satisfies the borrowers' needs but remains appropriate regarding its price.

Credit unions provide a good service at a rate of 12% a year. However, they would have to change their practices (e.g. higher interest rate) in order to welcome borrowers who are currently customers of moneylenders. It could be pertinent to have different interest rate ceilings, depending on the type of credit provided (e.g. with or without a savings history). However, it is essential that these interest ceilings are applied to all lenders in the same way.

In summary, any debate on interest rate ceilings needs to consider two essential elements:

- the level of the ceiling;
- the provision of alternative access to credit and to other financial solutions (social benefits, public services).

IV.2.3. Appropriate credit alternatives

While the UK, Belgium and France have to invest public money in order to develop appropriate alternative providers, Ireland already has the credit union movement. The credit union movement could be seen as the perfect answer to the promotion of responsible credit as it is widespread and popular and provides alternative credit. However, it has two key shortcomings:

- it requires that people save for a period of time before being allowed to apply for a loan;
- it has to compete with other suppliers who can develop more seductive products in terms of services even if their cost makes them inappropriate for poor people.

The first weakness has been partly addressed through the “social fund” which allows clients recommended by MABS to access credit from certain credit unions even if they have no savings history. However, this scheme is not widely publicised. Such a partnership is similar to the one developed in France to promote personal microcredit. In Ireland it could be seen as a pertinent strategy to give emergency access to consumer credit even if the requirements (e.g. meeting the assessment requirements of MABS workers) are more demanding than a request to moneylenders. Therefore even if it were mainstreamed, such a scheme does not solve every problem. In that respect Ireland could learn from the UK where funds have been invested to allow credit unions to lend without requiring a savings history.

Once an alternative, appropriate source of credit is available, it is crucial that a regulatory framework is designed which allows it to produce the beneficial effects. In order to encourage borrowers to use credit unions it is necessary to limit the availability of subprime credit. As mentioned in the previous section, this could be achieved with the introduction of an interest rate cap.

Ireland already has the resource to set up a strong and fair alternative credit sector. The ability to develop it relies on the political will to build the appropriate regulatory framework.

IV.2.4. Financial pedagogy: information – education – advice

Similar to most other European countries, financial education is at the heart of the Irish strategy to promote responsible credit. This generic label covers a diversity of tools which vary in effectiveness.

Firstly, information is provided to borrowers in order to help them make decisions in relation to borrowing or to deal with financial difficulties. This information can be provided through adverts (newspapers, radio, TV, internet), website or leaflets. It can be general or specific in nature (e.g. about the risk of overindebtedness in relation to consumer credit) or practical (e.g. template of a letter to send to a creditor if financial difficulties arose or if the borrower required information about his/her rights).

Secondly, education is provided in order to improve the financial skills of the population and to make the best use possible of the information available. Sometimes it is more targeted at people on a low income. This education is mainly provided in school in Ireland. Such training tries to increase participants’ awareness about budgeting techniques as well as the characteristics of financial products.

There is no evidence to suggest that information and education have a significant impact on responsible borrowing. Nevertheless, the availability of information and the increased awareness among the general population of financial products can only be beneficial. However, it is questionable whether financial education merits a key role in any responsible borrowing or financial inclusion strategy.

The benefits of financial education and information are limited because when people face difficulties or an emergency their decisions are influenced by their emotions. Furthermore, the complexity of their needs (e.g. to be able to consider the global financial situation as well as the different solutions available) requires skills that only professional people hold. Only these professionals can remain objective when examining the financial difficulties and can provide possible solutions in cooperation with the borrower.

The “Money Guidance Pathfinder” in the UK, the *Points Passerelle* or the *Parcours Confiance* in France, and the debt mediation services in Belgium have all been set up as dedicated structures with specialised professionals to respond to such needs. They are similar to MABS, so Ireland already has a very effective structure to provide financial advice and education to people. However, its work could be made more efficient in three ways.

Firstly, MABS workers are currently facing substantial increases in the number of requests for help from borrowers. Their work requires time to assess the client’s overall financial situation, define a personalised strategy with the borrower and negotiate with creditors (if necessary). The quality of their work (e.g. to solve borrowers’ difficulties) is totally dependent on their ability to dedicate enough time to those borrowers. In order to maintain this quality, it seems that MABS would need to recruit more financial advisers. Such a cost does not necessarily need to be funded by public monies, but all lenders could contribute to it.

Secondly, the organisational structure of MABS could be improved by replicating what the British government has done with both the “Money Guidance Pathfinder” and the Consumer Financial Education Body. Local MABS and MABSndI in collaboration with the National Consumer Agency (NCA) could replicate their work by providing information, education and advice in a more coherent way and through different media (face-to-face, telephone, website). MABS already performs a large part of this role but it could be increased by giving the service the financial and statutory means to be the cornerstone of the pedagogical aspect of a responsible credit strategy. Local MABS could deal with the queries of people facing financial difficulties, or respond through the above-mentioned media, while MABSndI could collaborate with the NCA and the different stakeholders in order to provide:

- a unique website dedicated to financial information;
- information campaigns through different media;
- financial education tools for teachers and interested people.

The expertise of MABSndI regarding people experiencing financial difficulties would be an added value to the competencies of the NCA.

Thirdly, it would be useful if MABS could develop the quality and the output of the data provided through its MABSIS database (e.g. monthly newsletters/updates). This would help inform policy. Furthermore, MABS could develop or promote research in order to improve the understanding of financial difficulties and overindebtedness in the Irish context.

These recommendations concur with those of the European Commission’s report on overindebtedness: *“Probably the most effective way to co-ordinate and develop training and standards is through a central organisation, either some type of ‘umbrella’ organisation for debt counselling [...], or a national agency [...]. These organisations can also play an important role in representing the interest of debt counselling services and their users at a strategic and political level”* (OEE, 2008, p.86)

IV.2.5. Arrears management

When difficulties occur, the situation can either improve or deteriorate depending on how they are taken into account as well as the impact of the regulatory framework. There are four options.

Firstly, a moratorium (up to 24 months) could be set up for debtors who face an unexpected difficulty (i.e. having lost their job) but whose situation is likely to improve. Such a possibility exists in France where a judge can reschedule a debt over this period of time.

Secondly, arrears recovery needs to be regulated in order to define procedures that prevent inappropriate practices. It would also be an improvement if creditors had to inform debtors two weeks before they begin the procedure about their readiness to recover the debt and the possibility of finding a solution. This exists in Belgium where debtors can contact debt advisors (similar to MABS workers) in order to find a negotiated solution. Such procedures should be compulsory for both creditors and debt recovery agencies. These companies should also be registered as a means of guaranteeing the quality of their work along with the possibility of implementing sanctions.

Thirdly, the protocol between MABS and the Irish Banking Federation (IBF) is an appropriate way to find a negotiated solution to arrears. According to the Law Reform Commission (LRC, 2009), such a partnership should be extended to cover all types of lenders. This could work in a manner similar to the role of debt mediators in Belgium and could be organised around MABS as it is a free and effective service. If commercial entities (i.e. lawyers, accountants, etc.) are involved, they need to be carefully regulated because their prices and quality vary in both Belgium and the UK. "Debt mediation" would obviously only be opened to debtors who are willing to pay. The others would continue to deal with the legal system.

Such a protocol would require a set of standardised documents and procedures, similar to those developed in Britain between debt advisors and members of the British Bankers Association. These procedures would also have to be defined with care as it would significantly increase the work of MABS. As mentioned previously, the funding of this mediation service could be shared between stakeholders (even debtors when they are able to contribute) as it is beneficial for all of them.

Fourthly, dealing with arrears sometimes requires rescheduling the debt. If the creditor is not willing to reschedule or if there are several creditors making it difficult to reschedule the overall amount, the debtor's situation may deteriorate. Therefore there is a need for an appropriate financial tool. For example, the *Point Passerelle* in France obtains very positive results with its personalised assessment of the situation and negotiation of the debt. A social partner assesses the situation, negotiates the debt and supports the borrower during the repayment period, while a financial institution provides the credit and a guarantee fund which reduces the risk.

If this model were to be replicated in Ireland, MABS could act as the social partner while the credit unions act as the financial institution. A guarantee fund could be set up involving public and private funds. This could provide a quicker and more appropriate solution for people who could pay if the conditions of their debt were adapted. However, such a scheme could present a risk: creditors trying to sell their "bad debts" to credit unions and the guarantee fund. In order to avoid such an adverse effect, it is necessary to define conditions of access that deter lenders' opportunistic behaviours (i.e. conditions like the fact to have agreed to reduce the global amount of the rescheduled debt, to fund the guarantee fund, etc.).

IV.2.6. Dealing with overindebtedness

The Irish way to deal with overindebtedness is out-of-date. Debt enforcement procedures are court led, each element of the global debt is assessed on an individual basis, and it is presumed that debtors won't pay rather than can't pay. The Law Reform Commission (LRC, 2009) provides an impressive and comprehensive analysis on how to improve the Irish legal system. This report shares the views of the Law Reform Commission and proposes to complement its work through the analysis of policies from the three other countries studied.

Ireland needs a more gradual and personalised procedure to overindebtedness and many lessons could be learned from the Belgian experience.

When arrears or difficulties fail to be managed by debt advisors/mediators, debtors and/or creditors, a legal collective debt settlement procedure needs to be available. Such a pilot was set up by MABS, the IBF, and FLAC in 2002 for a short period of time – the *Pilot Scheme for Alternative Debt Settlement*. In order to build on this, an appropriate regulatory framework would need to be developed which would imply that:

- the involvement of all creditors would be compulsory;
- only MABS or other registered debt mediators could be involved in negotiating the agreement;
- the length of time dedicated to negotiation should be limited (e.g. two periods of six months in Belgium);
- the conditions for the agreement to come into force would have to be defined. Different possibilities exist:
 - o If a creditor rejects the agreement, a valid reason should be provided and an assessment should be carried out by an external third party (e.g. a judge in Belgium);
 - o The agreement of two-thirds of the creditors (regarding the value of the debt) should be sufficient to validate the agreement;
- the agreement is legally binding.

Such an amicable procedure would only be open to debtors unable to pay. Again, the “won't pay” debtors should be dealt with in the court system.

If the amicable debt settlement step fails to produce a sustainable agreement, it should be transferred to the judge to decide, based on the elements put together by the debt mediator. The judge should have a limited length of time to make a decision (e.g. six months in France) and the tools available should be precisely defined:

- possibility to reschedule the debt over a maximum period of time (8 years in France, approximately 5 years in Belgium);
- possibility to suppress interest and various fees;
- possibility of partial or total write-off in order to allow debtors to have a real fresh start;
 - o Debtors are eligible to total write-off when they are too poor to satisfy any repayment plan.
 - o The write-off of debts leads to the sale of the belongings of the debtor but in a way that protects the dignity and essential assets of the debtor regardless of any outstanding debts.

A total write-off would replace the actual bankruptcy procedure which is very costly, overly punitive and may never end. A period of 2 or 3 years before the write-off becomes definitive seems appropriate.

An effective Irish debt settlement procedure would need to take into account two other elements. Firstly, it needs to be sustainable for the debtor in case his/her situation remains stable or changes. This involves a clear definition of an appropriate minimum income, taking

into account the size of the household. Both amicable and judicial procedures would have to respect this minimum. In addition, it would be useful if the debtor had access to budget support during the repayment period if the need arose.

Secondly, both the amicable and judicial procedures should establish incentives for creditors and debtors to participate. The cost of the procedure, its results and the availability of potential costlier alternatives should encourage them to find an agreement as early as possible (e.g. even before the collective debt settlement procedure or to favour the amicable step to the judicial one). However, in order to be equitable, the cost of the procedure should be shared between all stakeholders (debtors, creditors, State) in relation to their means. Debtors should pay as little as possible (it is free in France), and in any case, the poorest debtors should not have to pay anything.

IV.2.7. High quality qualitative and quantitative research

An efficient, responsible credit strategy needs to be informed by good quality qualitative and quantitative research. In Ireland there is a dearth of research on responsible credit, although those that have been produced could inform the basis of a responsible credit strategy (see Corr, 2006; FLAC, 2009; LRC, 2009). Research is needed to address the causes of access difficulties to consumer credit, the reasons for repayment difficulties and overindebtedness as well as evaluations of any solutions provided. The UK has produced the most comprehensive range of research studies on the issue that have been funded by public and private funds. This has allowed stakeholders to base their analysis and proposals on scientific evidence and it provides complementary evidence to that provided by the stakeholders.

IV.3. An effective Irish strategy to promote responsible credit

In order to define an effective strategy to promote responsible credit, Ireland has to address its weaknesses by building on its strengths. Such a strategy should ensure as wide as possible access to consumer credit, while at the same time ensuring that the access is appropriate and that the negative consequences of repayment difficulties do not result in people falling into poverty. It is a difficult exercise because these different goals are partly opposing.

Firstly, credit providers are commercial entities and it is in their interest to make as much profit as possible even if this may sometimes have a negative impact on the borrower. An effective regulatory framework would need to reconcile the interests of the lenders with those of the borrowers. Such a goal could be achieved by ensuring that inappropriate lending practices are not profitable or are impossible. Potential solutions include regulations on prices and arrears management as well as better evaluations of credit applications. Credit unions could play a very significant role within this strategy; they would be needed to compensate for the reduction of inappropriate credit supply as a result of regulation (part of this compensation could also be provided through social benefits or public services).

Secondly, it is necessary to ensure that borrowing practices are appropriate. Information and financial education have a role to play in this respect. However, the availability of fair and independent advice is essential to help debtors develop a clear understanding of their situation and of the implications of the credit for which they are applying. MABS is already able to play this role.

The third and final element of such a strategy is addressing the financial difficulties of households within a more appropriate framework. Even though some debtors refuse to pay, the vast majority is willing to pay. Some of them would need to see their debt rescheduled, while others are unable to repay and need to see their debt written-off. A personalised,

comprehensive and gradual approach is needed. MABS and other potential registered debt advisers could play an important role. This approach could be seen as a three-step process:

- First step: commercial negotiations. MABS could advise the debtor and negotiate with the creditor(s) in order to find an appropriate solution;
- Second step: amicable collective debt settlement procedure. Very similar to the commercial negotiation except that creditors' participation is compulsory.
- Third step: judicial collective debt settlement procedure. When the amicable phase has failed, the judge makes a decision about a repayment plan or a total write-off, allowing a fresh start for the debtor.

At each step MABS and potential registered debt advisers could intervene in order to provide their expertise to debtors and facilitate the negotiation with creditors.

The effectiveness of such a strategy would be increased if each aspect is developed within a legal framework that would ensure the regular assessment of their effects. The British approach has favoured self-regulation based on the involvement of the industry as well as social corporate responsibility and "name and shame" mechanisms to encourage professionals to respect their commitments. The involvement of the industry as well as all other stakeholders is a key element. However, the effectiveness of self-regulation is undermined by the profitability constraint. Belgium has favoured a more appropriate option based on the involvement of all stakeholders and the implementation of a proper regulatory framework which is able to limit the influence of the profitability constraint. The challenge is therefore to define appropriate sanctions in order to encourage stakeholders to implement this strategy.

The costs of a responsible credit strategy in Ireland should be carefully assessed at different stages (short, medium and long-term). Such a strategy would be costly in the short-term but would be beneficial over time. Certainly the need for such a strategy is urgent given that the consequences of the crisis are becoming more and more challenging every day. Finally, it needs to be remembered that:

- the French way to deal with overindebtedness partly fails despite the appropriateness of the procedure because there is a lack of investment in independent debt advisors such as MABS;
- the British strategy to promote appropriate credit alternatives faces challenges in being mainstreamed despite the high level of financial investment. This is due to the refusal to regulate interest rates which makes it difficult to compete with high cost lenders who are able to provide easier access even if at a higher cost.

These recommendations are based on the evidence from different strategies and policies implemented in the UK, France and Belgium. There is no one way to promote financial inclusion. The success of such a strategy relies on its ability to complement the specific context of a society. It also relies on a culturally appropriate definition of financial exclusion, agreed by all stakeholders. The guidelines provided in this report will hopefully contribute to these reflections.

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