Accessible and fair financial services
Alternatives to mainstream banking

Conference Report
European Conference Accessible and fair financial services: Alternatives to mainstream banking

#FinServices4all

11-12 May 2015

Venue:
CENTROCENTRO Cibeles de Cultura y Ciudadanía
Auditorio Caja de Música
Plaza de Cibeles, Madrid, Spain

The conference was organized by the Confederation of Family Organisations in the European Union (COFACE) with the support of the Municipal Institute of Consumption of the City Council of Madrid, the General Association of Consumers (ASGECO) and the European Financial Inclusion Network (EFIN).

All the videos, pictures, and speakers’ presentations are available on the event’s page: www.coface-eu.org/en/Events/Accessible-and-fair-financial-services

This conference was organized thanks to the European Union Programme for Employment and Social Innovation (EaSI).
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Main findings

Access to independent and quality financial guidance has proved extremely valuable to prevent over-indebtedness, avoid falling further into debt and getting out of debt. This guidance can be carried out by a number of organisations, especially public authorities and civil society/consumer organisations. The key to their success is a clear recognition of their role and continuous support from public authorities and broad partnerships with related services which ensure a proper follow up of the individual seeking guidance (social services, debt mediation etc...).

A clear link exists between ethical banking, independent financial guidance and affordable and accessible financial services for families. Commercial banks are ill suited to provide independent advice to consumers as this advice is often loaded with conflict of interest (bonuses, commissions...). Ethical banks on the other hand adhere to a number of values and principles ensuring that their staff acts in the best interest of their clients and the general interest of the community, understanding that a credit might not be the "solution" to a client's problems.

Access to fair and affordable financial services is possible, even for the poorest and most vulnerable families. Micro-credit loans and social mortgage loans are two examples of financial products accessible to the poorest at a very low price compared to the traditional financial products. Both examples show that the poorest segments of the population do not present more risk of default provided they are accompanied and supported before and during the time of their loan. Another key difference with traditional financial products is that the financial institutions granting these financial products thoroughly check the overall situation of the applicant and whether the product responds to his/her needs and make his/her situation better.

Public authorities and regulation have a major impact on over-indebtedness and financial inclusion. Besides the obvious employment, welfare and social policies, governments can help create a friendly environment for ethical banks to thrive, clamp down on abusive practices from irresponsible banks, support the emergence of independent financial guidance and enforce fundamental rights. Unfortunately, even after a major crisis, governments still shy away from regulation, scared by doomsday predictions by the financial industry. But regulators should remember two essential points:

Firstly, as soon as the financial industry has become so large and important that it not only presented a threat to global financial stability but also that being excluded from access to financial services meant social exclusion, the financial industry placed itself directly in the realm of public interest, thereby being more subject to regulation and supervision than any other sector. Secondly, if our economic and financial systems is truly "free" and "liberal", governments should not fear the collapse of a "bad" banks since the gap it will leave in the market will quickly be filled by other (hopefully more responsible) actors. Gaps never stay empty for long in a truly competitive and free market.
To conclude, this conference showed that there are already many existing initiatives that foster financial inclusion and responsible and social banking. But their impact is relatively small and more needs to be done for these initiatives to scale up. Given the massive lobbying strength of the financial industry, it is clear that ethical banks, family organisations, consumer organisations and other stakeholders sharing our core values, need to cooperate and lobby together to create a friendly environment in which socially responsible initiatives are allowed to thrive.

Introduction

Access to financial services has become indispensable for social inclusion. Without a bank account, a family cannot receive payments such as a salary or social benefits or make payments for essential expenditure such as rent or utility bills. Access to other financial products and services such as a mortgage, a life insurance or a pension are just as important during a family's lifetime.

The conference entitled "financial inclusion - alternatives to mainstream banking" examined many different aspects of financial services through five panel sessions: (1) independent information and financial guidance, (2) affordable credit for families, (3) families in financial distress, arrears and foreclosures, (4) alternatives to commercial banks and (5) the role of civil society and alternative financial institutions in policy making.

The following conference report will summarize the inputs of all the speakers throughout the conference and will contribute to shape the future work of COFACE in the area of financial services.

Welcome address

Annemie Drieskens, COFACE President

COFACE has been active for over 57 years now, in contributing to build social and family friendly Europe. We bring forward the voices of millions of families through our 58 national members from across the EU. Our key recommendations in lobbying the EU institutions for better policies can be summed up in three main family needs: resources, services and time. In 2014, COFACE focused its activities on reconciling work and family life. This year, our focus turned to families in vulnerable situations, taking stock of the effects of the current economic crisis, less public services and the shrinking labor market. Many families are at risk of poverty or are already in a situation of poverty and find it difficult to make ends meet, or even have to leave their homes.
Financial inclusion has always been high on the agenda of COFACE. Access to basic financial services is a pre-condition for social inclusion, starting with a bank account. Owning a savings account for instance, is essential, as it enables families to save money to cater for unforeseen expenditure or life accidents and plan for future expenditure such as financing the studies of their children.

Budgetary education is also a necessity to ensure that families are encouraged to save money and balance their family budgets responsibly. It will also enable them to make better decisions in selecting financial products that are compatible with their needs and respect their budget.

Access to other financial services such as mortgages, consumer credit and insurance policies, is also necessary for families in order to cater for such needs as buying a home, acquiring a means of transportation or get insurance coverage against common risks such as fire or death. Through our policy recommendations, we assess whether these services are fair, of high quality and accessible for all families, even the most vulnerable ones, without falling into overindebtedness.

This conference brings together many high level speakers - academics, civil society representatives, policy makers, public authorities - who will present and share good practices and examples on how to secure fair and accessible financial services.

Focusing on alternative banking is quite timely, taking stock of the OECD study "securing livelihoods for all" which envisages another major financial crisis and recommends to invest in local banks, disconnected from the global financial system.

Later this year, COFACE will publish a compendium of the good practices of COFACE members in the area of financial services.

Key Note Speech

Mick McAteer, Chair of the FSUG

The financial crisis has deeply transformed the financial and economic reality with profound social consequences. European States face severe fiscal adjustments and austerity with shrinking public services, banks are much more restrictive in their lending practices and economic growth, financial returns and interest rates are very low. Much focus is given to public debt, but more importantly, it is the private debt of households that requires policy makers’ attention.

The labor market is also being transformed, with the breakdown of the "old" model where employees used to work and retire in the same company with a steady rise in their income. Nowadays, career paths are much more unpredictable and many citizens are forced into temporary, uncertain, part-time jobs or self-employment and do not earn enough to make a decent living.

Many households are going to remain financially vulnerable over the next years and financial inclusion plays a big role in helping these households build financial security and financial resilience. Among the vulnerable households, we find the squeezed middle class which face uncertain income, the "invisible" or "working
poor”, and many other specific groups such as people with disabilities, single parents, younger and older people, migrants etc.

These households need access to a variety of financial services during their life course:
- A basic bank account.
- Fair, affordable credit to smooth peaks and troughs of incomes.
- Insurance policies to protect against risks and shocks.
- A decent retirement income.
- Assets to maintain standard of living and participate in society.
- Fair, affordable mortgages, or access to affordable housing.
- Financial provision for social and/or long term care where needed.
- Objective money advice/financial guidance.

The causes of the financial exclusion of households that do not have access to the above services stems from a variety of causes: demand side causes, supply/market side causes and external factors.

The external factors include socio-economic factors such as low income, changing labor markets which lead to too much debt and not enough savings, diminishing role of the state/government (less public services, social protection...).

Demand side causes include a diminished consumer trust and confidence and low levels of financial literacy or capability.

Finally, supply/market side causes include many different aspects:
- Conflicts of interest and irresponsible lending, marketing practices, product design and technological/risk pricing developments;
- Lack of interest in serving citizens that are barely commercially viable, lack of social innovation and products that meet social needs;
- Market inefficiency, the fact that the market simply cannot and will not deliver certain financial services that are fair, of high quality and accessible to most people.

What can be done to tackle financial exclusion?

There are of course measures to help reinforce the financial capabilities of citizens through financial education, but many studies show that this is highly ineffective in changing their behaviors. A much more effective way is to use trusted intermediaries in civil society.

On the market/supply side, again, a lot more can be done. Proper regulation can help improve market efficiency, provide better consumer protection and specific laws to protect consumers in financial difficulty (personal bankruptcy), prevent usury practices by price interventions (interest rates caps), reinforce solidarity between the richest and the poorest via cross subsidies or mutuality, mandate the delivery of socially responsible financial products and improve corporate governance. The active role of the State should not be underestimated. The State can still provide a safety net to protect against risk and deliver decent pensions. State funding can also help those that are most vulnerable for instance by investing in social housing.
Finally, **civil society** has a major role to play. It can provide access to independent and quality financial advice/guidance, and push people to adopt certain responsible financial behaviors such as saving and avoid falling into debt via an irresponsible use of credit. Civil society organizations, through partnerships, contribute to create new financial infrastructure and socially useful financial innovations.

**Lobbying, campaigning and advocacy** work can serve to inform policy makers about problems that vulnerable consumers face and solutions. Too often, however, civil society focuses on stressing the problems and not enough on a detailed plan of solutions based on hard evidence.

To conclude, the effects of the financial crisis are still being felt and this has profound consequences for the most vulnerable citizens. Financial exclusion will get worse without a concerted intervention by the state, regulators and civil society. For this to happen, we need to produce a well-argued case for reform and robust policy based on hard evidence.

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**Panels**

**Panel 1: Independent information and guidance**

*Carmen Rebollo Sánchez*, Municipal Institute Consumption, Madrid City Council  
*Jean-Bernard Audureau*, ASGECO  
*Rémi Therme*, French Family Organizations (UNAF)  
*Anne Fily*, European Consumer Organization (BEUC)  
*Christel Verhas*, Flemish Family Organizations (Gezinsbond)

Independent financial guidance and information is of utmost importance to help families and consumers **make the right financial decisions**. The information and advice given at the point of sale, by financial service providers or intermediaries, is biased and of poor quality due to bonuses and other financial incentives, a lack of expertise and a lack of transparency (consumers believe the advice is free while it is being paid for indirectly).

Independent financial guidance is a necessity for many reasons. For some financial products such as mortgages or pension plans, consumers cannot be informed and educated since they will mostly take out a mortgage or sign up for a pension only **once in their life**. The **growing complexity** of financial products and the uncertainty linked to some financial products (foreign currency loans) also makes financial education difficult. Finally, consumers rarely have a **global overview** of their financial situation but rather choose financial products "piecemeal". Even if
they are knowledgeable about individual financial products, their combined use may prove to be toxic for them.

Organizations such as consumer organizations (BEUC) and family associations (Gezinsbond) have lobbied public authorities to help standardize the information given to consumers at the point of sale to enable easy comparison and be aware of the risks of specific financial products, and ban certain practices such as commissions to help address conflict of interest. But regulators should also look outside the point of sale. In recent years, comparison websites have flourished but not all of them are trustworthy. BEUC has proposed to include a series of quality criteria in regulation to ensure that these comparison websites deliver quality and transparent information to consumers.

But in the end, independent financial guidance has to be sought outside of the financial service providers, and many different actors have a role to play.

Public authorities can directly engage in providing independent financial guidance and information. The OMIC (Municipal office for consumer information), which has 22 offices in Madrid, is but one example of a public body formally engaged in quality, transparent and independent guidance and information to consumers. It takes on many different roles, informing the consumer about many topics including food safety and financial services, collecting consumer complaints and acting as a mediation body between consumers and businesses in case of conflict.

With regards to financial services, OMIC provides also a family budget/simulation tool that helps families assess their financial situation. It also provides face to face advice and information through publications and their website about various financial services like consumer credit, insurance, mortgages and situations like overindebtedness. Finally, it provides training in schools to empower the younger generation of consumers.

Civil society organizations such as family associations and consumer associations are also involved in providing information and guidance to consumers, as well as organizing awareness raising campaigns or training sessions and seminars.

ASGECO (Spain), for instance, has led a massive campaign in Spain addressed to consumers and encourages them to go to their bank and ask for financial products better suited to their individual needs (¡Hola banco, me he informado y tenemos que hablar!). Many banks do not sell the products that consumers need but the products that are commercially interesting for them. ASGECO used a variety of communication tools and strategies to reach consumers: social media, website, publications, seminars and training sessions, even videos of famous personalities.

Consumer organizations such as Test-achat (Belgium) provide transparent and independent information to consumers via their magazines, websites, campaigns etc. They also provide various tools to help consumers make better financial decisions such as online mortgage calculators.

The Gezinsbond (Belgium) delivers information to families via its bi-weekly magazine in the form of advice, how/where to compare different financial products and warnings concerning certain practices. It also focuses on the budgetary education of young adults who are about to leave their parents' home by providing training sessions in cooperation with FSMA (Financial Services and Market
The topics covered include how to plan your household budget, insurance policies, savings, legal advantages for couples (marriage, other legal statutes) and paying taxes, renting, payment methods and online shopping.

Finally, wide partnerships between civil society, public authorities and social services can give birth to independent financial guidance on a larger scale. UNAF (France) has set up, in cooperation with partners at local and national level, household finance advice spots (Point Conseil Budget) which aim at giving independent financial guidance and prevent situations of overindebtedness via free and personalized support to families.

The services they provide include analysis of a family's budget, awareness of their rights, mediation with banks, micro-credit grants, advice on home ownership and information/training seminars in different locations such as schools about managing one's budget.

For all the initiatives listed above, the support of public authorities and the cooperation between a large number of stakeholders are key factors in ensuring their success in terms of continuity, quality, comprehensiveness and outreach.

Panel 2: affordable credit for families

Perrine Lantoine-Rejas, Caisses d'Epargne, France
María García Álvarez, FFM Isadora Duncan, Spain
Pierre Colignon, Walloon Housing Fund, Belgium
Olivier Jérusalmy, European Financial Inclusion Network (EFIN)

Access to credit is important for families in many cases: the purchase of a home or a means of transportation and to make a costly investment such as energy efficiency renovations. Some families, especially the poorest ones, cannot access "traditional" credit. What are the alternatives that exist?

Micro-credit is one of the financial products that can help vulnerable families and families in financial difficulty. A micro-credit is a small loan to people who cannot get it from the "mainstream" banking system and that will help them to gain or regain control of their personal financial situation. A micro-credit is usually a loan of a small amount (for instance between 300 to 5000€ from the Caisse d'Epargne in France), with a low interest rate and with some form of additional guarantees in case of default.

Most importantly, a micro-credit is associated to a close follow up and support of the individual asking for such a loan. Before granting the loan, the individual's situation is thoroughly assessed by local social partners (NGOs such as UNAF in France) and a decision is made whether a micro-credit is the right product or whether the difficulties faced by the applicant can be addressed by other means such as debt mediation or social support. Most micro-credit loans are used for the purchase of a car or another means of transportation for professional reasons (getting a job) and for housing related expenditure.
In France, the effects of micro-credit on a household's overall situation are positive in roughly 50% of cases, neutral in another 50% of cases and worsen the situation of households in a very small number of cases (below 1%).

The CAPIC (Cooperation for Inclusive Affordable Personal Credit) study carried out by EFIN (European Financial Inclusion Network) looked at cooperation in four different countries between public institutions, companies and social enterprises, in order to provide access for vulnerable consumers to micro-credit. The models explored resemble very much the one presented above for France: the first steps for an applicant seeking to get a micro-credit go through a social partner (an NGO, civil society, social services...) that examines the needs of the applicant. Should their demand be accepted, a partner financial institution provides the micro-credit loan. Public authorities have a big role to play: they can help secure the loans by providing guarantees, design micro-credit friendly regulation and help support and collect evidence/publish studies on overindebtedness and micro-credit initiatives.

A lot still needs to be done to help micro-credit develop for the better. Without the strategic involvement of banks, micro-credit initiatives will struggle to further expand and respond to the needs of all vulnerable families. The reputation and public image of the associations engaged in providing micro-credit may also hinder their expansion as they can be seen as only delivering to the most needy which deters people from applying for fear of being stigmatized further. Ongoing reflection is necessary on the level of interest rates, a constructive arrears collection and where micro-credit fits within broader social support policies and actions, and credit provided by “mainstream” banks on the private market.

**Solidarity loans** can provide relief to families in acute financial distress and help them pay for essential expenditure such as rent or utility bills. **Isadora Duncan** (Spain) gives out such solidarity loans which amount to an average of a 1000€. The original idea was to grant these as donations but given the low amount of money available, the organization decided to set up a revolving fund from which a 0% interest loan was granted to single parent families in distress. There repayment was flexible and in many cases, these loans were never repaid. The fund receives the support of members of the city council of León. In exchange for the loan, the families have to agree that Isadora Duncan can follow their financial situation until the loan was repaid. Out of 26.000€, 12.000€ were reimbursed. The rate of non-performing loans is 46%.

**Social mortgage loans** enable vulnerable families to access home ownership. The **Walloon Housing Fund** (Belgium) provides social mortgage loans and 0% personal loans for energy efficiency renovations to vulnerable families with three or more children. Each year the fund lends €140 million with a base interest rate of 1% and which cannot exceed 2.65%. In order to access a social mortgage loan, the applicant family cannot be an owner of another housing property, their income before tax cannot be higher than 58.800€ for the penultimate year before the application and the family must have at least 3 dependent children. A thorough analysis of the financial situation of the family is taken before the loan is granted and the Walloon housing fund carries out a regular follow up and provides support in case of problems.
The housing fund also cooperates with many external partners such as debt mediation services and social services to ensure a proper follow up of the applicants. Given all these precautionary measures, arrears represent only 0.54% of the total outstanding debt. In order to fund its activities, the Walloon housing fund receives financial support from the Walloon Region through a number of ways: the housing fund can borrow from capital markets, and these loans are guaranteed by the Walloon Region, the Walloon Region grants the fund with a capital endowment (subsidy) and finally, the Walloon Region provides the fund with repayable advances, especially with regards to credits for energy efficiency renovations.

The three financial products examined above (social mortgage loans, solidarity loans and micro-credit or personal loans) show that it is possible to serve the poorest categories of society without penalizing them for the higher risk they allegedly present. Certain conditions need to be met such as support from public authorities, broad partnerships between various actors (public authorities, NGOs and civil society, social services, financial service providers...), a thorough analysis of the needs of the applicant which may lead to finding alternative solutions than credit and a continuous follow up and support of the applicant in case of difficulty.

Independent financial guidance and access to affordable credit should therefore be linked: instead of falling in overindebtedness by taking out financial products that are ill-adapted to their needs, then only turning to micro-credit or solidarity credit, vulnerable consumers and families should get independent financial guidance at the outset in order to be redirected to socially responsible credit adapted to their needs or redirected towards other solutions besides credit to solve their problems.

Panel 3: Families in financial distress, arrears and foreclosures

Giorgina Douzeni, Greek Consumers' Association "The Quality of Life" (EKPIZO)
Isolde Vandevelde, Flemish Centre of Debt Mediation (VSC), Belgium
Alin Iacob, Romanian Association of Financial Services Users (AURSF)
Hans Dubois, Eurofound

The financial and economic crisis has left many families in a dire financial situation. While the crisis is an undeniable cause of increased financial hardship, there are also many cases where the seeds of current problems were already planted prior to the crisis. Families and consumers that were sold irresponsible credit and were barely able to service their debts were suddenly unable to repay them as the crisis unfolded.

The statistics analysed by Eurofound in its study on household overindebtedness in the EU paint a picture of growing financial difficulties for citizens and families all over Europe, especially among the most vulnerable. 24% of EU citizens in the bottom income quartile have been in arrears in their utility bills, 24% for consumer loans and 10% for rent. The inability to service utility bills may force families to take out loans to meet their financial obligations which may further deteriorate their financial
situation. But families also turn to other family members in 70% of cases in case of financial difficulties.

This tendency is part of a larger trend to have recourse to "informal credit/loan". While it may help the family on the short run, it also prevents the early detection of debt problems and the intervention of formal services that can help. Informal loans may cause a domino effect of defaults when the family member or relative does not pay back his/her debts. Informal debts of course, are rarely isolated and go hand in hand with other debts such as consumer credit loans or mortgage loans.

In Greece, the consumer organization EKPIZO handled over 10,000 household overindebtedness cases since the crisis hit. Banks in Greece lent at very high interest rates (between 12% and 22%) and encouraged consumers to real purchase property using mortgage credits which in effect created a real estate bubble. With the crisis, many of these consumers have seen their revenues shrink or even lost their sources of revenue altogether. The people most affected by overindebtedness and the crisis were low income pensioners, employees in both the public and private sector and unemployed people between 25 and 55. In response to a growing level of overindebtedness, banks remained inflexible and proposed unrealistic or unviable solutions to defaults or arrears.

The private insolvency law passed in 2010 helped many Greek consumers to get out of overindebtedness by balancing income and debt and return after a set amount of time to a normal life. However, further regulation to protect families from losing their home are still needed (forbidding auctioning for 3 years to avoid foreclosures).

In Romania, consumers faced a similar situation to Greece, where banks lent irresponsibly to consumers before the crisis which led to massive defaults on loans once the crisis hit. Some examples include loans with an introductory low fixed interest but a variable interest rate after 6 to 12 months which was often much higher than the introductory fixed interest rate. More specifically, loans in foreign currency (especially in Swiss francs) were massively pushed on consumers. After the crisis hit, the exchange rates for RON (Romanian Leu) vs CHF (Swiss francs) rose significantly.

The consequences for consumers were disastrous: a sharp increase in monthly installments for credits in foreign currency, a deterioration of standards of living, inability to repay loans, increase of financial exclusion and home repossessions.

The Romanian Association of Financial Services Users (AURSF) is representing 1500 consumers hit by irresponsible lending of Swiss franc loans and is engaged in a collective negotiation process with several Romanian banks.

In many countries, debt mediation and debt collection practices were heavily regulated to avoid abuses by debt collection companies and ensure that viable solutions could be found for overindebted consumers. For instance, debt collection companies in Greece behaved in an extremely unethical way, putting pressure on consumers and causing many psychological problems such as depression or even suicide in some cases.

In Belgium, the government's 1991 consumer credit law resulted in the creation of the Flemish Debt Mediation Center, subsidized by the government, by prohibiting
debt mediation activities for anyone except social services under specific conditions. There are several scenarios possible in case of a consumer defaulting on his debts:

- As long as there is no legal/court decision, the consumer is in a situation of "settlement by agreement". The consumer receives reminders to pay and may be contacted by a debt recovery agency but under strict conditions to avoid abuses.

- If there is a legal/court decision, the debt recovery agency can confiscate part of the income and possessions of the debtor, but under strict conditions (essential goods cannot be confiscated such as a table, a bed,...).

- In case there are no structural financial problems, the debtor can start a debt mediation procedure with the debt mediation service of his/her choice, with or without "budget supervision".

- In case of structural financial problems, the debtor can apply to the court for a "collective debt arrangement". The main objective is to get a repayment plan and allow for the debtor to guarantee nonetheless a dignified existence to the debtor and his/her family.

From the presentations above, it is clear that governments need to act in order to prevent reckless lending in the future and increase consumer protection. Some recommendations include setting up personal insolvency/bankruptcy law, regulating debt collection, support the creation of an independent debt advice service, having the possibility for datio in solutum for mortgage loans, improve responsible lending and better enforce EU law. Far from threatening the profitability of banks or endanger the stability of the financial system, a better protection of consumers with the measures above would help deter banks from lending irresponsibly in the first place, thereby preventing many cases of overindebtedness.

Panel 4: Alternatives to commercial banks

Bernard Bayot, Director Financité/NewB
Joan Ramon Sanchis Palacio, Author of the book "The bank we need"
Enrique Castelló Muñoz, Professor of Business Economics, Universidad Complutense de Madrid
Daniel Sorrosal, European Federation of Ethical and Alternative Banks (FEBEA)

The alternatives to commercial banks are numerous: cooperative banks, savings banks, credit unions, ethical banks, even crowd-funding platforms can be seen as alternatives to commercial banks. But what makes the difference between an "alternative" banking institution and a commercial bank? While there are many different alternatives to commercial banks, as COFACE and as representatives of civil society, we turn our attention to alternatives that live by certain core values which we will explore further below.

According to Daniel Sorrosal from FEBEA, "ethical finance flourishes where citizens engage themselves in improving their society". The most important values to help identify and differentiate ethical finance from other financial institutions are the following:
- **Use of funds**: funds of the financial institution have to be used for social or environmental goals but have to remain financially viable.
- **Inclusion**: the financial institution serves the purpose of financial and social inclusion, providing financial services and products to the most needy/financially excluded.
- **Transparency**: regular reporting on the financial, social and environmental aspects.
- **Territory**: the financial institution operates in a "short circuit" (funds local initiatives and local communities).
- **Governance**: the governance is based on principles of democracy and a broad participation of the citizens (often as shareholders).
- **Origin of funds**: the funds available to the financial institution are provided directly by the citizens and the local community which it serves.
- **Impact**: the impact of its financial activities has to be measurable at local level.

The **added value** of ethical banks as opposed to commercial banks is linked directly to the points listed above:

- Customers can directly influence and weigh in decisions regarding their bank via participatory mechanisms, transparency and democracy.
- As shareholders, citizens get a moderate return from their investments in exchange for high social impact in their community.
- Since the bank is disconnected from global financial markets, it is potentially much more resilient to financial crisis.

Among the many examples of ethical banks and their activities, we can mention:

- The "**Banque alternative Suisse**" which provides mortgage loans at an interest rate that depends on the level of sustainability of your home.
- "**Fiare Banca Etica**" which finances Spanish civil society and social economy enterprises active in organic agriculture, renewable energy, social economy and inclusion and social-cultural activities.

Many ethical banks adhere to a **charter** or set of core values explicitly, such as FEEBA members who subscribe to an "ethical charter" that commits to place the economy at the service of the citizens, contribute to sustainable development, solidarity and social cohesion, pursue social impact as well as financial profit and support innovative projects (social and/or environmental). This helps citizens in identifying ethical banks as it provides them a certain "guarantee" for quality of service and values.

What is the situation of ethical/alternative banks in Europe?

The situation is very diverse depending on the country. In Spain for instance, many alternative/ethical banks did not survive the financial and economic crisis and had to close down. **Joan Ramon Sanchis Palacio**, in his book entitled "The Bank We Need", explains the effects of the crisis. When Spain received the €41 billion bailout package for Spanish banks, it was given under the condition of a restructuring of the banking sectors and many banks had to close. Bigger banks often had to close down branch offices in smaller villages, leaving the people with no bank to withdraw cash or carry out basic banking operations! The leading banks in Spain control almost 90% of all deposits as many savings banks disappeared. The crisis in effect lead to even more concentration of the banking sector.
But this new "vacuum" after the crisis, the gaps that were created in the financial services market, also lead to the development of new alternative banks and financial services or the success of the surviving ones: cooperative banks which are often the main sources of funding for farmers, local "caixa" banks such as the "Caixa popular".

The cooperative bank Caixa popular is a larger cooperative bank which has also a system of shareholders that can participate in the bank's decision process and governance. They have a very professional management and have been able to balance economic sustainability and competing in the market with a social return and a social purpose (high degree of solvency).

Among the new alternatives that emerged from the crisis, we find: crowd funding, time banks, business angels, self-funded communities, social funds, local community development banks...

Still, as Enrique Castelló Muñoz underlined, alternatives to commercial banks suffer from the mistrust of financial institutions as a whole after the financial crisis. Citizens do not trust financial institutions, often regardless of whether they are "ethical" or not.

And citizens' skepticism is not the only obstacle to the continued existence and development of alternatives to commercial banks. Regulation and public authorities/regulators can greatly impact both existing ethical banks and their development.

In Belgium for instance, Bernard Bayot is leading the creation of a new cooperative/ethical bank called NewB, which already has over 48,000 individual supporters and about 130 civil society organizations as partners. A survey carried out to "test the waters" showed that between 15 to 33% of the population is open for participation in an ethical bank, a transparent bank, a low risk bank or a cooperative bank.

With Triodos being the only significant ethical bank in Belgium, NewB aimed at filling a gap in the market, with core values in line with the principles above: savings in the real economy, ethical investment and insurance products, payment products, credits to the real economy oriented to more social and ecological goals, funding for SMEs, individuals, cooperatives and the social/ecological economy. Any customer effectively becomes a shareholder by paying a minimum of 20€, which also grant him voting rights to weigh in during the General Assembly.

Despite the fact that all the necessary requirements for the bank to start its operations have been met, the former governor of the National Bank of Belgium (NBB) was of the opinion that Belgium already had too many banks which effectively stalled the procedure for a time! An opinion which was quite odd given that 4 banks carve up 80% of the market in Belgium (incidentally, 3 of those banks required State funds to be kept afloat during the crisis). At present, the NBB is due to prepare a License demand at the European Central Bank.

For existing ethical banks, European and National regulation can have a disastrous consequence on their profitability. Some small banks for instance cannot compensate their losses with other activities (insurance...) so the end effect may be their disappearance.
With regards to the *Capital Requirements Regulation and Directive*, while the initial proposal included a *proportionality principle*, the EU Commission has adopted a "one size fits all" approach which has a potentially bad impact for small banks that have to make huge efforts to comply and shoulder the very expensive cost compliance which may reduce their profitability. At the same time, other regulations and norms such as Basel include the proportionality principle.

Many NGOs and associations have engaged in lobbying to secure the implementation of the principle of proportionality but to no effect so far.

**Panel 5: The role of civil society and alternative financial institutions in policy making**

*Katarzyna Hanula Bobbitt, Finance Watch
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The fire power of the lobbyists representing the financial industry has been documented in the past and is being continuously monitored by such organizations as *Finance Watch*. Here are a few key figures to help paint the grim picture of the situation:

- There are **1700** financial sector lobbyists working at an EU level, which amounts to four lobbyists for every one financial civil servant!

- 75% of advisers who sit on European Commission Expert Groups and advise on legislation have **direct links to the financial sector**.

- The financial sector spends more than **€120 million** lobbying the EU institutions which is over 30 times more than what trade unions, consumer groups and NGOs spend combined!

They also adopt many different strategies, such as having a lobbyist that represents their interests in many different decision making bodies and expert groups in order for their message to be heard. The more their message is repeated, the more credible it becomes.

At the *European level*, therefore, legislation is heavily influenced by lobbyists representing commercial banks and does not take into account the needs of alternative financial institutions.

On the *National level*, the picture depends on the openness of the government, public authorities and members of parliament and whether the alternative financial institutions manage to make their voice heard.
ADICAE, a Spanish consumer organization, has firsthand experience in the difficulties they face when confronting the interests of consumers with those of the financial industry. In Spain, the government has sided with the banking industry and has denied consumers their rights. Very often, consumers are only invited to expert groups and consultative processes to serve a "tick box" exercise, to be able to say that "consumer were consulted" with no real change as to the content of the policy or regulation.

At the European level, the picture is very much the same. Consumer representatives are either absent altogether from expert groups or they are a very small minority with no real power to influence the policy making process. Their mere presence is being sometimes instrumentalized by policy makers to safely confirm that the "consumers' voice was heard".

In the UK, Credit Unions are fully regulated by regulatory authorities and protected by the deposit guarantee scheme (FSCS). In financial terms, credit unions have increased their lending capacity and their membership in the last 10 years while at the same time, the number of credit unions dropped. This is because of consolidation and mergers.

The government in the UK did provide support for credit unions in the past, especially the Labour government, with its "Financial Inclusion Growth Fund" of £175 million and more recently, from the coalition government, via a capital investment called the "Coalition's Credit Union Expansion Project" of £38 million. Credit unions cooperate very closely with local authorities as well to get their support and their recognition for the social role they play within their community.

The regulation that applies to credit unions is proportionate and appropriate and protects them from EU and international regulation. This is possible via a clear definition in law that sets credit unions apart from other financial institutions thereby securing their differentiated treatment. For instance, credit unions are exempt from tax on the profits they make. The protection of this model stems from the UK ministers' support in ensuring that at EU Council meetings, the interests of credit unions are safeguarded.

Lessons learned from the credit union experience can point to some strategies to ensure "friendly" regulation:

- **Linking to the policy agenda** of the government in power: financial inclusion and welfare reform (left wing government), banking competition and payday lending (right wing government).
- **Develop a narrative** that exemplifies the difference you can make - for instance from anti-poverty initiatives to sustainable financial cooperatives.
- **Utilize international experience** (World Council of Credit Unions where you can inspire yourself from experiences in other countries).
- **Appeal to political sympathies**: social justice on the left, self-help and mutualism on the right.
- **Build a coalition of supporters** (network of stakeholders and supporters, including all political groups and even the rest of the financial industry given their lobbying power!).

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