Economics at the service of society

Brussels November 2018
“Economics is too important to be left to economists.”
About us

Isadora Duncan Single-parent Foundation

• NGO since 1984 is part of the third sector
• Financial inclusion is part of our aim
• Our Financial education and energy vulnerability programme has been funded by the Health, Customers and Social Services Ministry since 2013
• Last year our programme was awarded best financial education initiative by the Bank of Spain and the CNMV
Financial Education and Energy Poverty programme

Advice service

Face to face
By telephone
By email
Financial Education and Energy Poverty programme

Dissemination
Financial Education and Energy Poverty programme

Workshops and training
Financial inclusion

World Bank: Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way.
After the Directive 92/2014

• Fee-free basic bank account
• How does Spain transpose the directive?
• How does Spain pay the GMI?
• How much does it cost the people?
• Can financial education change that?
Fee-free bank account

- In the UK is a basic bank account that allows you to receive money and pay bills.
  - You can have your wages, benefits and other income paid into your account
  - Pay in money, card and cheques for free
  - Take out money over the counter or from cash machine
  - Pay regular bills by Direct Debt or standing order
  - Check account balances over the counter, at a cash machine, online or on your mobile
  - Use a debit card to pay for things in shops and online
Spain facts

Commission refers Spain to the Court for failure to implement payment accounts rules. 4th October 2017

• The Directive had to enter into force by 18 September 2016 and the Commission had to be informed immediately.
• It would cost 49,000€ per day

Spain is now in the process to transpose the Directive

• Ministry of Economics is now in the last step to transpose all the Directive, except the most important part for the social and financial inclusion.

“Fee-free bank accounts” will have two kinds of products in Spain:

• A basic bank account with 36€ cost per year
• And a real fee-free bank account for the most vulnerable people
General Minimum Incomes (GMI)

Spain has a complex minimum wages system

Isadora focused the report on the regional (GMI) General Minimum Income. Overall, this measure accounts for 1.483 million euro, representing only 6,61% of the total system of social welfare

It’s provided by the 17 Autonomous Communities and the 2 Autonomous cities

All the beneficiaries need a bank account to have their GMI
## Costs

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<th>CCAA y CA</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
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<td>TOTAL EXPENDITURE</td>
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<td><strong>6.748.771.895,23 €</strong></td>
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</table>
How much does it cost the people?

A basic bank account costs 134,06 € per year (4/3% of total income)

This amount would be bigger in most cases

• The fees were collected in 2009 when Spain had a powerful public bank system
• The fees grew in the 2007-2015 period (Llorens et al., 2018)
• Some common practices by banks such as microloans, advance sum of money, etc. Are detected by social workers and includes fees and interest “off market” (APR near off 300%).

Example: The bank loan 200€ as advance, the people pay 15€ as fee, and 25€ in 14 days as interest.
## Costs

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<td>ACCOUNT BASIC PROFILE</td>
<td>134,06 €</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
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<tr>
<td>COST % FEES</td>
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<td>30.021.384,47 €</td>
<td>35.411.130,63 €</td>
<td>42.950.437,60 €</td>
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<td>ACTIVE PROFILE</td>
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<tr>
<td>BASIC PROFILE</td>
<td>134,06 €</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>3%</td>
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<tr>
<td>MEDIUM PROFILE</td>
<td>178,21 €</td>
<td>5%</td>
<td>6%</td>
<td>5%</td>
<td>5%</td>
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<td>PASSIVE PROFILE</td>
<td>104,72 €</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
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<tr>
<td>TOTAL ACTIVE PROFILE</td>
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<td>115.431.279,26 €</td>
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<tr>
<td>TOTAL BASIC PROFILE</td>
<td>255.306.169,49 €</td>
<td>30.021.384,47 €</td>
<td>35.411.130,63 €</td>
<td>42.950.437,60 €</td>
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<td>TOTAL AVERAGE PROFILE</td>
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<td>68.942.734,18 €</td>
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</table>

Source: Data collection for prices of current accounts provided to consumers (2009) Van Dijk Management Consultants in partnership with CEPS
Costs

1. Between the 3% and the 9% of the GMI never comes to vulnerable groups
2. At least 200 M€ were paid during 2011-2015 period to the banks directly
3. Since 2016 the Directive could/should changed that
4. The GMI expenditure has maintained its growth since 2011
5. All the GMI expenditure is only 6% of the total social welfare system
6. Vulnerable people didn’t know the Pay Account Directive, fee-free basic bank account, etc.
Costs now, and in the future

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<tbody>
<tr>
<td>Amount growth</td>
<td>1%</td>
<td>22%</td>
<td>12%</td>
<td>16%</td>
<td>9%</td>
<td>76%</td>
<td>5%</td>
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</table>
Sources:

• Data collection for prices of current accounts provided to consumers. Van Dijk Management Consultants in partnership with Centre for. European Policy Studies. (2009)

“The purpose of studying economics is not to acquire a set of ready-made answers to economic questions, but to learn how to avoid being deceived by economists.”

Joan Robinson
Can financial education change that?

Source: OECD, 2005.
Can financial education change that?

In our own opinion YES

Financial education OECD (2005): is a process where the user of financial services/investors improve their understanding for financial products, notions and risks and on the bases of information, instructions and objective advice develop the skills and confidence in strengthening information about financial risks and occasions, make decisions on the bases of good information, are acquainted with the fact where to find help and take other effective measures for improving their wealth.
How does Isadora plan to help the people?

Offer comprehensive information about the fee-free basic bank accounts
Help the people to open a fee-free bank account when this pay account will be available
Develop workshops and brochures for general information
Our service is available 24 hours a day via our website and five days a week by telephone or in our office
Cooperate with social services in all the country
Report bad practices to our central bank, as collaborator organisation in the Financial Education Plan
Thanks

FFM Isadora Duncan

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