

## [8] Access to financial services and over-indebtedness

*Today, many Europeans – especially those who suffer from poverty or live in a precarious situation – cannot access financial services such as deposit and transactional accounts or even, in some cases, essential services such as savings, credit or insurance. Access to these services is vital to the economic and social integration of citizens in today's society. It is also a requirement for employment, economic growth, poverty reduction and social inclusion.*

### ■ Over-indebtedness and financial exclusion – two sides of the same coin

Estimates show that at least 20 million people are over-indebted in Europe. Very often, over-indebtedness is not a consequence of over-borrowing but results rather from a change in personal situation (loss of job, family separation). People living in a precarious situation are all the more likely to face this problem.

Over-indebtedness often leads to exclusion from affordable financial services, withdrawal from social and economic life, and can lead to or aggravate poor health, family problems and even unemployment and homelessness.

Over-indebtedness has significant costs for individuals, creditors and society as a whole. We need to tackle over-indebtedness to meet the EU's commitments to promote equal opportunities for all, to work to end poverty in all its forms, and to build a fairer and more prosperous Europe.

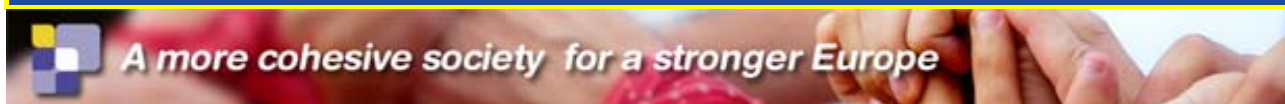
### ■ Who does what in the fight against financial exclusion and over-indebtedness?

Consumer protection and financial education are both promoted within the European Union's policy on financial services. But financial exclusion and over-indebtedness are primarily a responsibility of Member States. There is however a 'European approach' to this issue which is based on concerted and coordinated action from central and local governments, independent regulators, the credit and utility industries, the voluntary sector, consumer groups and individuals.

The European Union adds value through the perspective it gives to the process. Better informed of existing initiatives, good and not-so-good solutions implemented by neighbour countries, Member States are better equipped to define more targeted objectives, more relevant tools and indicators.

Today, thanks largely to the Open Method of Coordination (OMC), prevention and treatment of over-indebtedness and financial exclusion are regarded as a major element of the fight against social exclusion and poverty in the majority of the National Action Plans drawn up by the Member States. It involves multiple factors that include not only physical and economic barriers but also psychological barriers including financial illiteracy and a lack of understanding of low income money management patterns.

However, many Member States already actively implement measures to prevent and combat financial exclusion. Recurrent strategies encompass three main types of activities:



- Information and education programmes;
- Measures aiming at guaranteeing access to a bank account, simplified soft loans and face-to-face counselling;
- Reinforced services for debtor advice and guidance.

## ■ The role of the European Commission

Through the Community Action Programme to combat social exclusion and poverty (2002-2006) and PROGRESS (from 2007), the European Commission intends to better support and coordinate Member States' actions.

Several studies provide material for more efficient policies:

- "Common operational European definition of over-indebtedness": the study provides a database of existing over-indebtedness policies in 19 Member States and a handbook for over-indebtedness monitoring. It also gives an extensive overview of the political, administrative and legal approaches to the phenomenon, and paves the way to a harmonised statistical measurement in the European Union.
- "Financial services provision and prevention of financial exclusion": it identifies the types of people who are most at risk of being excluded from financial services, the barriers they face and the impact of financial exclusion on wider social exclusion. It also analyses the most effective policy measures to promote and guarantee access to financial services and to prevent financial exclusion and over-indebtedness.

The European Commission has also supported the following projects:

- "Financial education and better access to adequate financial services": essential principles and ways forward to develop financial education have been elaborated.
- "From exclusion to inclusion through microfinance": Microcredit is an efficient tool to restore poor people's investment capability (equipment goods) or to allow independent jobs creation. The project has raised knowledge about the different backgrounds of micro-credit in Western and Eastern Europe. It has also drawn recommendations for a more efficient use of micro-credit for social inclusion.

The exchange of best practice has also proved particularly fruitful in the field of over-indebtedness and financial exclusion. Amongst other examples, the Irish approach to the issue has been a source of inspiration for many governments including those of Hungary (creation of a *Consumer Insolvency Act*), Denmark (Bill for debt reduction for cash benefit recipients) and Germany (launch of a feasibility study on Irish and Dutch systems of debt counselling in order to analyse the transferability of components of both systems to the German situation).

## ■ The EU Social Protection & Social Inclusion Process

Through the EU Social Protection and Social Inclusion Process, the European Union coordinates and encourages Member State actions to combat poverty and social exclusion, and to reform their social protection systems on the basis of policy exchanges and mutual learning. As such, it underpins the achievement of the Union's strategic goal of sustained economic growth, more and better jobs, and greater social cohesion by 2010.