

Financial Services as a Public Need – The Age of Access

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By Udo Reifner, Hamburg

In the rapidly extending market economy money has become the key to almost all resources. While in the long run work remains the key to income, financial services have become an indispensable intermediary between labour, income and expenditure. The credit society gives access to future and past income by bridging life cycles with financial resources through credit, investment and insurance: It enables participation in economic development even by small savers investing in shares and other commercial instruments. It helps people to cope with increased risks through insurance and other funds and it offers a cheap and effective means of the transfer of money through a payment system based upon the bank account.

Money gives access to wealth. Financial services give access to the effective and productive use of money. Access to financial services has thus become a central issue in modern society.

In his latest book on new technologies Jeremy Rifkin, a well-known theoretician and US-presidential adviser on bio-technology, has called the 21st century “the age of access”. Access means participation, the ability to use facilities, resources and it means to be part of economic, social and cultural life. Rifkin asks whether it will be a century of increased access to the sources of wealth and development for all, or a century with increased denial of access to those who lack the means to participate.

Privatisation of what were public assets creates more and qualitatively better goods but it also distributes them less evenly. Information takes the form of intellectual property; medical treatments are derived from the payment of royalties to the owners of intellectual property relating to genes; economic exchanges take place through private money networks; risk is managed through insurance and pension contributions. All of these attract capital and open new horizons for the wealth of nations. But they all also exclude those who cannot afford them.

In the USA, equal access to credit and other banking services, especially for lower income consumers, are of major concern to legislators and banking authorities. The British Labour government has created a government commission to look into access to financial services. The ILO and the OECD, various general departments of the European Union, as well as some European governments have created task forces to address access to credit for start-up enterprises. Affordable finance for home purchase by those on a low income is part of a general political move towards broader participation in the economy. Micro-lending for the self-employed has been

developed in France, Italy, the USA, the UK and Poland after its enormous success in job creation in many development countries. Legislation in France has guaranteed access for all to a basic bank account. Such access has been unanimously recommended by banking associations in Germany and there has been political pressure for it in Britain. There is to be serious consideration of whether legislation is required to compel the banks to open their books to show whether there is discrimination against particular communities or on the basis of income, gender, age and nationality, or whether self-regulation and greater social awareness on the part of consumers will suffice.

Financial services give access to the effective and productive use of money

If, as is presently the case in the industrialized nations, the question of access to financial services is left overwhelmingly to the private sector, the ability of the private sector to cope with this challenge must be taken into account.

Financial services are a commodity which will be sold only if there is the expectation of an adequate profit margin and if the costs are manageable. There must also be sufficient trust in borrowers' ability to repay loans. These are central tenets of all financial services. Finally, consumers must have sufficient sophistication and skills in the electronic age to take advantage of these services.

There is considerable doubt as to whether these pre-conditions can be met, especially by poorer communities under conditions of increased competition in a globalized economy. Poor consumers and small businesses as well as home owners on low income require transactions which are too small-scale and which involve excessive costs in terms of personal advice and support, compared with the enormous profits to be made from the administration of substantial sums. The trend in the last few decades towards the "indebted society" has given rise to concern about the trustworthiness of overcommitted debtors. The sophistication of packaged financial services has opened the door to irresponsible service providers, which have created a grey market in those countries which have allowed them to do so. Finally the pace of the electronic age has left behind those who have neither the computers nor the skills required to manage electronic banking facilities.

Most governments have reacted to some of the problems of creating debt advice and personal bankruptcy schemes by restoring the economic capacity of overindebted individuals and giving them a second chance. Others have favoured alternative banking institutions which sometimes show that specialization in social banking can overcome certain difficulties in terms of costs and trust. Some countries rely on a public or a subsidized banking sector. The banks themselves are, however, presently in a period of near total restructuring with a view to greater efficiency and greater focus on profitable units and they have started to participate in the discussion of how a more equal distribution of financial services might be achieved.

Two main alternatives divide the private sector as well as NGOs and governments. If freed from all restrictions which increase the costs burden in banking in the retail and small business sectors, will the market provide access to all at reasonable cost? Or can the State play an important role? Should a welfare state based on distribution be

replaced by a welfare state based on regulation imposing social responsibility upon the private economy just as ecological responsibility has impinged upon free competition in the marketplace?

Will the market alone provide access to all at reasonable cost?

The promulgators of a liberal market solution must address the problem that those financial products which a free market will offer to the poor may do more harm than good if they are overpriced and of poor quality. The promulgators of state regulation or state action have to take into account the adverse effect of the State on general market conditions. The additional costs burden and social bureaucracy may undermine its aims. Advocates of alternative banking may be criticized for creating cosy niches which look good but which are used more as a public relations exercise than as a tool for the amelioration of general market conditions on behalf of their target group.

These questions will be raised by leading experts representing private business, politics, social organisations and science from all over the world at a conference organised by the Institute For Financial Services (IFF), Hamburg/Germany. The event is entitled “Access to Financial Services” and will take place on 22 and 23 September in Göteborg, Sweden. It is financed mainly by the European Commission and the Swedish Government but it is also sponsored also by financial institutions and other private organisations.

International conference in Göteborg will explore shortfalls in access

The list of main speakers includes Prof. Norbert Walter from Deutsche Bank Research, Lars Eric Loevden from the Swedish Ministry of Finance and Robin Fellgett, Deputy Director Financial Services, British Government. In panel discussions leading representatives of banks, consumer organisations and social investment institutions will concentrate on several aspects of the issue of access. Among these institutions are the Personal Finance Research Centre at the University of Bristol (Elaine Kempson), Social Policy and City Development Unit at the University of California at Los Angeles (Prof. Neal Richman), Bank of Scotland (Susan Rice), University of Helsinki (Prof. Thomas Wilhelmsson), the New Economics Foundation (Pat Conaty) and Eindhoven University of Technology, Prof. Leo Verhoef.

All conference abstracts will be distributed on the Internet as they become available at www.iff-hamburg.de including the three national reports from the UK, Germany and France prepared specifically for this conference by leading research institutions.

In the run up to the conference two practical competitions will take place: one for best practice in products or procedures specially designed to facilitate access to financial services for excluded groups and one for worst practice in this area. All financial institutions and consumer organisations are welcome to participate.

Information about the conference and the competitions is available on www.iff-hamburg.de and can also be requested from stefanie.jack@iff-hamburg.de

About IFF: The Institute For Financial Services is an independent research centre. Helping to organise payment flows so that funds might become available where this is at the most efficient level possible to individuals, businesses and society in general is the task that the Institute set itself from the date of its foundation in 1987. IFF's know-how is based on the resources of its interdisciplinary team of economists and lawyers, its international perspective and its specialist financial services database. A further factor is its close relationship with consumer organisations and educational institutions.

ACCESS TO FINANCIAL SERVICES

-5th International Conference -

22/23 September 2000

University of Göteborg

Attendance/Discounted fee for early booking (bookings by 15 June):

Non-Profit-Organisations 150/120 Euros, Commercial Participants 300/250 Euros

Information and Enrolment at

www.iff-hamburg.de or email stefanie.jack@iff-hamburg.de

or by Fax on +49-40-309691-22