



## Adapting the Europe 2020 strategy: the growth strategy for a post-crisis Europe.

*A submission from the Community Investment Coalition*

### Does the European Union need a comprehensive and overarching medium-term strategy for growth and jobs for coming years?

Yes. However CIC believes that smart, sustainable and inclusive growth can only be achieved if all individuals and small businesses have access to fair and affordable credit in a competitive and diverse financial market. The European Commission (EC) has highlighted that the EU needs to avoid a return to the 'growth model that predated the financial crisis, which was seen as harmful. In particular negative impacts of this growth model included widening social inequality, a lack of sufficient entrepreneurship and innovation and dysfunctional financial systems'. It also highlighted that access to finance remains a concern in large parts of the EU and varies between member states, pointing to an issue of market fragmentation.

As the EU moves out of recession it remains critical that any strategy for growth continues to focus on driving improvements in this area and ensures that competition, innovation and diversity in the financial services sector results in the provision of accessible and affordable financial products to all adults, households and businesses and is not stifled by regulation and bureaucracy.

### What are the most important and relevant areas to be addressed in order to achieve smart, sustainable and inclusive growth?

CIC believes that there are a number of areas needing to be addressed to ensure that all individuals, businesses and communities of the European Union's member states can fully benefit from smart, sustainable and inclusive growth.

First and foremost, access to fair and affordable finance for all citizens, both within the United Kingdom and the European Union as a whole, is a critical element to the European Commission being able to successfully deliver the Europe 2020 strategy. This means increasing the diversity of financial services providers for consumers; a broader choice of providers will in turn raise availability

of fair and affordable products, as to households, individuals, communities and businesses will be liberated from being restricted to choosing from frequently inappropriate or unattainable products from the major lenders.

Throughout the United Kingdom and the European Union, there is a significant dearth in choice of bank accounts and other basic financial products for individual and business consumers. A wider choice of providers will allow consumers from all communities access to fair and affordable financial products, which will help the EU to meet its target of inclusive growth. For instance, if more small and medium enterprises are able to obtain finance to grow their businesses, they will be able to create new jobs and employment.

In addition, access to a wide range of local financial service providers is a key facet of stimulating sustainable local economic growth. For instance, encouraging the growth of community development finance institutions and credit unions, as well as safeguarding the presence of local bank branches will foster a more efficient distribution of resources within communities.

Moreover, CIC believes that increasing the transparency and public accountability of financial service providers to support consumer choice and allow effective intervention in under-served markets is an important issue that the European Commission must tackle in order to meet its Europe 2020 Strategy aims. It is essential that it is clearly documented where existing and future providers of financial products are lending to ensure that no community is left behind and underserved, so that growth can reach all communities within the European Union.

CIC also believes that by assisting the development of more innovation in the financial services sector, such as the peer-to-peer and crowdfunding models, these too can play their part in ensuring that affordable financial products are delivered accessibly to all communities.

As part of the response to the financial crisis, the EU has focused on enhanced financial supervision and regulation for the financial services sector. It is critical that these approaches not only support competition and diversity in the financial services sector but also support the community finance sector to grow and develop and do not hamper or undermine innovation in the financial services sector or provision targeted at poorer communities that requires state investment for sustainability. (Community Investment means providing credit and other financial services to families, businesses and other organisations who are not adequately served by the high street banks.)

## What new challenges should be taken into account in the future?

There are a number of challenges, which are resulting in significant restrictions in access to fair and affordable credit for households and small and medium sized enterprises throughout the United Kingdom.

First, according to the Department for Work and Pensions, approximately 1.4 million people in the UK do not have a bank account;<sup>i</sup> the figure for the European Union amounts to 30 million people – 7 per cent of the Member State population.<sup>ii</sup> Similarly, 5.4 million UK households have no insurance protection in place<sup>iii</sup>, equating to 56 per cent of the poorest households – a rise of four percentage points since 1999/2000.<sup>iv</sup>

There is also a need for those who are able to obtain a basic bank account to have access to free-of-charge ATMs. Indeed, research by the UK-based Citizens Advice Bureau found that people who were basic bank account holders were more likely to find accessing free cash difficult (8 per cent said so) than those with standard current accounts (4 per cent). Equally, among those who had a basic bank account with a bank that restricts access to cash to its own machines, 12 per cent found accessing cash for free difficult.<sup>v</sup>

This lack of access to basic financial tools has severe detrimental consequences on communities and the economy as a whole, with 14 million reported to be at risk of poverty or social exclusion in the UK in 2011.<sup>vi</sup> With access to basic banking facilities an increasingly essential part of modern life, as employers and government agencies move away from cash and cheques towards electronic payments, communities need access to credit and insurance products to fully participate effectively in the economy. Indeed, it can help people climb out of poverty or get through a crisis or emergency without falling into debt.

CIC acknowledges that the European Commission and the European Parliament have made some progress in tackling this issue. For instance, the new law which ensures anyone legally residing in the EU would have the right to open a basic payment account<sup>vii</sup>, and that no-one could be denied this right on grounds of nationality or place of residence, as well as also ensure that fees and rules for all payment accounts are transparent and comparable and make it easy to switch to another payment account that offers better terms, is welcomed.

However, CIC believes that the European Commission can do more to solidify the work that has already been done. For instance, it must ensure that all Member States are pushed to ensure that this directive is put into practice, so that all individuals have access to a basic bank account and, as such, are able to fully participate in the economy. Indeed, as the European Commission has already noted<sup>viii</sup>, if those 30 million consumers have access to a bank account, they will, in the first instance, be able to benefit from a wider choice of goods and services. But small and medium sized enterprises will also benefit, due to the increased number of citizens who are able to participate in the local economy, and, thus, contribute to local and sustainable economic growth.

### **How could the strategy best be linked to other EU policies?**

Other EU policies should directly and explicitly support this growth strategy. For example policies on business, employment and social rights and technology are all intrinsically linked to the EU's economic growth. It would be useful if every other policy set out how it supports sustainable economic growth and mitigates against unintended consequence of policies that could hamper growth, for example burdensome regulation and bureaucracy.

### **What would improve stakeholder involvement in a post-crisis growth strategy for Europe? What could be done to increase awareness, support and better implementation of this strategy in your country?**

CIC notes that the banking lobby, both within the United Kingdom and the European Union, has a disproportionate influence on the policy making and that its viewpoint is, for the most part, significantly weighted against the consumer. Indeed, this is supported by research that suggests that the financial industry spends more than €120 million per year on lobbying in Brussels and employs more than 1700 lobbyists.<sup>ix</sup> CIC encourages the European Commission to ensure that consumer and civil society groups have parity in time and influence on European Union policy, to ensure that EU institutions are given a more balanced set of evidence during the policy making process. Many of these groups would engage with their own members, customers and partners in doing so, thus ensuring increased awareness and support of this strategy.

## What type of instruments do you think would be more appropriate to use to achieve smart, sustainable and inclusive growth?

Transparency of progress; sharing of good practice; regulation and direction that helps but doesn't hinder innovation and entrepreneurial approaches and targeted investment.

## What would be best done at EU level to ensure that the strategy delivers results? What would best be done at Member State level?

In terms of tackling financial exclusion through better access to financial services and improved financial capability and skills, CIC believes the following factors are key:

Improved transparency: Effective intervention in underserved financial markets is dependent on greater transparency about the degree to which existing markets are or are not serving all communities.

Bank lending data disclosure: In January 2014, the British Bankers' Association (BBA) and the Council for Mortgage Lenders (CML) jointly published aggregated data on bank lending disclosure for the first time in the three main markets: the SME markets, mortgages and personal lending. In March 2014, CIC hosted a discussion roundtable<sup>x</sup> of academics and financial services providers to discuss the progress that can still be made on this issue. CIC believes that the European Commission could benefit all individuals, businesses and communities by creating an EU wide framework for the disclosure of lending data by all significant financial service providers. Europe-wide legislation requiring banks to divulge which communities they are serving will support member states' efforts in directing targeted intervention to tackle financial exclusion.

Access to a basic package of financial tools: There is extensive global support for every adult and business to have access to a basic package of financial tools to enable economic participation and reduce financial exclusion. In June 2014, CIC launched a community banking charter that sets out a basic package of financial tools that every adult and business should have and a road map for delivery in the UK. In discussion with civil society groups operating at the EU level and in other EU member states, this charter has gained significant support. Member states should be encouraged to

adopt something similar for their own countries, with the EU sharing good practice about how the Charter goals can be achieved. You can read the charter [here](#).

Scaling up the community finance sector: CIC advocates that the European Commission promotes the growth of the community finance sector, in the form of community development finance institutions (CDFIs), credit unions, peer-to-peer lenders or other community finance providers. Community finance (community finance means providing financial services to adults, households who are not well served by mainstream providers) can play a critical role in supporting access to finance in poorer communities, especially those communities that the main high street banks no longer serve. This access to finance can help to stimulate sustainable local economic growth. It is critical that EU regulation and action support this sector to grow and develop rather than create new barriers to its expansion.

Regulating high cost credit sector: the European Commission must be bolder in introducing regulation that restricts the activity of high cost credit providers in the European Union. In the United Kingdom, a typical payday loan in the United Kingdom costs as much as £25 for every £100 borrowed per month, meaning a £300 loan would cost £375 to repay after one month.<sup>xi</sup> Profits made by high cost credit providers are sucked out of communities making sustainable growth harder to achieve. Payday lending is thus causing enormous consumer, as well as wider economic detriment and harm, often to people who are among the most beleaguered and vulnerable in our society. Many payday loans serve only to increase the likelihood of future indebtedness.

A report by the Association of Chartered Certified Accountants (ACCA)<sup>xii</sup> has noted that borrowers spent £900 million on payday loans, half of which were subsequently spent on ‘rollovers’. This money spent on rollovers continues to flow out of the hands of people with a high marginal propensity to consume and into the hands of shareholders, company directors and venture capitalists, all with a much lower propensity to consume. Not only would many payday borrowers have been better off without these loans but our economy would also have been boosted had that money been left in their pockets. The UK is starting to regulate payday lenders (but not all other forms of high cost credit) and is currently consulting on a cap on total costs. It is probable that as a consequence of this, payday lenders will look to identify new markets in other parts of the EU where regulation is less restrictive. An EU wide approach to tackling high cost credit would benefit local economic growth and support financial inclusion, as payday lenders often target low income communities, trapping poorer people into cycles of debt.

Financial capability and skills: Poor financial capability and skills prevent people from tackling control of finances, accessing the right products and services and making appropriate financial decisions. Tackling poor financial capability and skills would help to support financial inclusion as people could make better decisions about financial management. There is a lot of good work going on in different members states to improve financial capability and skills. In the UK, the government has recently introduced financial literacy as a core part of the school curriculum. In 2007, the EU convened an expert group on financial education and this led to a range of measures such as the European Database for Financial Education. But momentum on this work appears to have been lost. It needs to be renewed and reinvigorated to support economic growth.

## How can the strategy encourage Member States to put a stronger policy focus on growth?

No comment.

## Are targets useful? Please explain.

Light touch targets are always useful. They allow countries to measure their own progress against other member states, helps to track trends over time and create transparency for people, businesses and civil society groups. However targets need to be clear, smart and consistent over time to allow measurement of progress. The EU has set a target for the poverty / social inclusion objective of 'at least 20m fewer people in or at risk of poverty'. However this target is not well defined (what measure of poverty is used?) and will provide a different level of challenge to different member states. The member state objectives supporting this goal are, necessarily, very different but because of this can not provide measurable comparative indications of progress over time.

## Would you recommend adding or removing certain targets or the targets in general? Please explain.

No comment.

**What are the most fruitful areas for joint EU-Member State action?**

**What would be the added value?**

No comment.

**Do you have any other comment or suggestion on the Europe 2020 strategy that you would like to share?**

No.

### **For more information**

For more information, please contact Jennifer Tankard, Community Development Foundation (CDF) on 020 7812 5430 or [jennifer.tankard@cdf.org.uk](mailto:jennifer.tankard@cdf.org.uk).

### **About the Community Investment Coalition**

The Community Investment Coalition is a partnership of national organisations including financial providers, charities, trade associations and academic bodies. Our mission is to promote access to affordable finance for families, businesses and communities.

CIC campaigns for:

Increased transparency and public accountability of financial service providers to support consumer choice and allow effective intervention in under-served markets.

Increasing diversity of providers and choice for consumers in the financial services sector, with more providers offering a wider range of fair and affordable products to households, individuals, communities and businesses.

More innovation in the financial services sector so that affordable financial products are delivered accessibly to all communities.




Sustainable local economic growth with a greater share of locally generated income remaining within communities.


Improvements in financial literacy for all sections of the community.


We do this by:

- Collecting and sharing evidence and knowledge through research, conferences and dialogue;
- Campaigning for a regulatory system which helps not hinders community investment;
- Speaking with a unified voice on issues facing the sector; and
- Building the capacity of the Community Investment Sector through infrastructure and collaboration.

Partners include the following organisations:

 The Centre for Responsible Credit (CfRC) is a dedicated unit established within the Centre for Economic and Social Inclusion to: monitor the development of credit markets; research models of responsible provision and promote policy responses which protect the long term interests of households.

 The New Economics Foundation (nef) is an independent think-and-do tank that inspires and demonstrates real economic well-being. We aim to improve quality of life by promoting innovative solutions that challenge mainstream thinking on economic, environment and social issues. We work in partnership and put people and the planet first.

 CCLA manages money for more charities than any other fund manager in the UK and we are owned by our not-for-profit clients. We engage with the banking sector every day on behalf of our charity and local authority clients, who are concerned with issues that may affect shareholder value, but also wish to see account taken of their ethical investment concerns. CCLA is ranked top manager of ethical and responsible investment funds in the UK by assets under management.



Local Trust delivers the Big Local programme with an investment of over £200m from the Big Lottery Fund. Big Local is happening in 150 communities across England over the next 15 years. It provides residents in each community with at least £1m and a range of other support and funding to develop ways of making their areas even better places to live.



CDFA's mission is to support the development of thriving and sustainable community development finance (CDFI) sector that provides finance for disadvantaged and underserved communities and, as a consequence, contribute to the increasing prosperity of these communities.



The Community Development Foundation (CDF) is a social enterprise passionate about helping communities. We have unique expertise in using community development to strengthen local voices, improve people's lives and create better places to live. Our vision is for successful lives in flourishing communities.

<sup>i</sup> <http://webarchive.nationalarchives.gov.uk/20130102224139/http://www.dwp.gov.uk/docs/credit-union-feasibility-study-report.pdf>

<sup>ii</sup> [http://ec.europa.eu/internal\\_market/finservices-retail/docs/inclusion/sec\\_2011\\_907\\_en.pdf](http://ec.europa.eu/internal_market/finservices-retail/docs/inclusion/sec_2011_907_en.pdf)

<sup>iii</sup> [http://media.shelter.org.uk/home/press\\_releases/over\\_five\\_million\\_households\\_in\\_the\\_uk\\_have\\_no\\_home\\_insurance](http://media.shelter.org.uk/home/press_releases/over_five_million_households_in_the_uk_have_no_home_insurance)

<sup>iv</sup> <http://www.poverty.org.uk/74/index.shtml>

<sup>v</sup> [http://www.link.co.uk/SiteCollectionDocuments/CAB\\_Access\\_to\\_cash.pdf](http://www.link.co.uk/SiteCollectionDocuments/CAB_Access_to_cash.pdf)

<sup>vi</sup> [http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-02-13-238/EN/KS-02-13-238-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-02-13-238/EN/KS-02-13-238-EN.PDF)

<sup>vii</sup> <http://www.europarl.europa.eu/news/en/news-room/content/20140411IPR43466/html/Basic-bank-accounts-for-all>

<sup>viii</sup> [http://ec.europa.eu/internal\\_market/finservices-retail/docs/inclusion/sec\\_2011\\_907\\_en.pdf](http://ec.europa.eu/internal_market/finservices-retail/docs/inclusion/sec_2011_907_en.pdf)

<sup>ix</sup> [http://corporateeurope.org/sites/default/files/attachments/financial\\_lobby\\_report.pdf](http://corporateeurope.org/sites/default/files/attachments/financial_lobby_report.pdf)

<sup>x</sup> <http://www.communityinvestment.org.uk/wp-content/uploads/2014/03/Disclosure-Roundtable-Notes.pdf>

<sup>xi</sup> <http://www.which.co.uk/money/credit-cards-and-loans/guides/payday-loans/payday-loans-how-they-work/>

<sup>xii</sup> <http://www.accaglobal.com/content/dam/acca/global/PDF-technical/other-PDFs/pol-tp-pdfab-payday-lending.pdf>