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Briefing Paper

Basic Bank Accounts in Ireland: Not so much a False Start as a Faulty Start?

December 2014

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Context

Levels of *banking exclusion* - a key dimension of broader financial exclusion[1] - have persistently been high in Ireland by European standards, and impact more on certain groups than others. By 2008 for example, as the Global Financial Crisis hit, a report undertaken by the Economic and Social Research Institute found that:

> *20% of Irish households did not have a bank current account. The level of banking exclusion in Ireland was almost three times higher than the average for the EU15. The proportion without a bank current account rose to 40% among those with low education qualifications, 38% in households in the bottom income quintile, 50% among local authority tenants and 27% among those aged over 55 years.*[2]

[1] Defined as "a process whereby people encounter difficulties accessing and/or using financial services or products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong" (European Commission, 2008). See: http://www.bristol.ac.uk/media-library/sites/geography/migrated/documents/pfrc0806.pdf

[2] Economic and Social Research Institute (2011). See: http://www.esri.ie/news_events/latest_press_releases/financial_exclusion_and_o/index.xml

Within the context of the increasing financialisation of social relations,[3] banking exclusion both prolongs and deepens broader societal exclusion. In response to such concerns, and in recognition of the huge financial support provided by the State to the domestic banking system post-Crisis, in 2011 Irish banks[4] committed - as part of a broader Strategy for Financial Inclusion[5] - to the development of a basic bank account, described initially as a *Basic Payment Account* but which was subsequently piloted as a *"Standard Bank Account"* (SBA) in three locations within Ireland. The Pilot ran for a nine-month period, from July 2012 to March 2013. The thinking was that such accounts would in time act as a gateway to other financial service products (e.g. savings, insurance and credit) thereby furthering financial inclusion within Ireland.

Lessons learned to date

Unfortunately the Pilot has proved to be much less successful than had initially been hoped. In a progress report on the pilot project issued by the Financial Inclusion Working Group in June 2013,[6] a much lower than expected take-up was cited. The Group articulated two primary reasons for this; firstly, that people are unlikely to opt for such an account in the absence of a so-called 'trigger event' (such as a mandated social welfare payment); and secondly, that SBAs could only be opened in certain banks (whereas research suggests a preference among those without bank accounts for more 'social' financial service vehicles,

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[3] Gloukoviezoff, G (2011). See: https://www.tcd.ie/policyinstitute/assets/pdf/BP26_Financial_Exclusion_Gloukoviezoff.pdf
[4] AIB, Bank of Ireland and Permanent TSB.
[5] Steering Group on Financial Inclusion (2011). See: http://oldwww.finance.gov.ie/documents/publications/reports/2011/Fininclusreport2011.pdf
[6] Financial Inclusion Working Group (2013). See: http://www.finance.gov.ie/sites/default/files/SBA%20Report%20FINAL%2029%20Nov%202013.pdf (NB This report was subsequently updated in November 2013).

such as post offices and credit unions[7], neither of which has the facility to operate such accounts at present).

The Working Group thus recommends that the Department of Social Protection –the arm of government responsible for administering social welfare payments - "actively encourage all new benefit recipients to receive their payments into transactional bank accounts" and further, that barriers facing credit unions and post offices in providing SBAs be addressed, for example by way of access to the clearing system. Other recommendations include the need for enhanced co-ordination, better promotion, and the addition of a financial capability element in the form of an appropriate budgeting tool. Interestingly, relatively few issues were identified in terms of the nature of the account itself, although the Group made some pertinent observations around the avoidance of potential cost barriers, and expressed its concern as to the non-uptake of electronic facilities available through the Pilot.

Conclusions and observations

Implementation of the Strategy for Financial Inclusion clearly faces a number of obstacles and the slow, somewhat faltering progress that has been made in relation to its centrepiece – the Standard Bank Account – has crystallised these issues. Firstly, although the strategy is in effect a Working Group Report, not all stakeholder members are on the same page in all respects as evidenced by the following "disclaimer' on the strategy document itself:

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[7] Corr, C (2006). See: http://www.combatpoverty.ie/publications/FinancialExclusionInIreland_2006.pdf

The views expressed in this report are those of the Steering Group on Financial Inclusion. The members of the Group support the recommended approach. They do not necessarily agree on all the detailed points made in the report.

Timing is also an issue. The aftermath of the biggest banking crisis in the history of the State is arguably the worst time to be piloting basic bank accounts through mainstream institutions. Public levels of trust in Irish banks are understandably at an all-time low. Further, banks have shed large numbers of staff as part of required re-structuring agreements, are closing numerous local branches,[8] and those employees that remain are presumably under considerable pressure to deal with the problems that still persist, such as substantial mortgage and other loan/credit arrears. That said, much effort has clearly been devoted to the Pilot by participating institutions, which have contributed both in terms of funding (by way of a contribution of €1.6 million to the project), and indirect support (by providing staff training and promoting the initiative).

The State has also has got itself into somewhat of a bind in this regard. If its (Department of Finance-led) financial inclusion strategy is to work, then the consensus is that the transfer of social welfare payments by EFT into financial institutions must be the main trigger. However, the government department that administers these social welfare payments (the Department of Social Protection) clearly has a number of concerns about moving towards mandated payments into SBAs (as articulated in Annex 7 of the progress report). The Department highlights for instance the need to: address issues identified in the pilot with

[8] 'One in four bank branches set to close in massive cull: focus will move to phone and internet banking', *Irish Independent*, 16th July 2012 http://www.independent.ie/business/irish/one-in-four-bank-branches-set-to-close-in-massive-cull-26876273.html

regard to the SBA 'product' itself; provide alternatives for welfare customers for whom SBA may not be their preferred option; address the current preference among many for 'cash' payments; consider potential fraud issues; take into account the dynamic nature of welfare use; and finally, to ensure that welfare is not refused solely on account of an inability to receive it electronically.

These concerns would appear to be fairly major stumbling blocks to any major rollout of the Standard Bank Account in the foreseeable future, and it would appear that implementation of the Strategy itself has largely stalled at the time of writing. A final flaw within the Pilot is that it appears to be centred on a 'premises–based' banking model, a model being gradually withdrawn by the banks themselves, and one which is being somewhat overtaken by technological developments concerning electronic and mobile banking,[9] developments which with appropriate regulation, may be of particular relevance to the provision of financial services for low income consumers.[10]

On the plus side, evaluation of the Pilot threw up many positives, not least the "impressive level of cooperation amongst the stakeholders in funding various elements of the pilot", and the development of "goodwill, enthusiasm and cooperation" between stakeholders in the pilot locations. Finally, some six years into an economic downturn which many believe is likely to have resulted in increased levels of financial - and particularly banking - exclusion in Ireland, we are finally to get more timely data on the extent and nature of the problem as a

[9] 'Survey reveals increasing appetite for mobile banking in Ireland', *Business and Leadership*, 17th October 2013, http://www.businessandleadership.com/business/item/43123-survey-reveals-increasing-a
[10] Klein, M. and Mayer, C. 2011. Mobile Banking and Financial Inclusion: The Regulatory Lessons. http://elibrary.worldbank.org/doi/pdf/10.1596/1813-9450-5664

consequence of post-Pilot collaboration between the Financial Inclusion Working Group and the Central Statistics Office.[11]

Whether any meaningful action will be taken as a consequence of the above developments remains to be seen; the Working Group has apparently not met at all during 2014, which suggests lack of political will and absence of leadership to be *the* major barrier to progress in this important policy domain.

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[11] A question on financial exclusion has been inserted into the 2013 Survey on Income and Living Conditions, and The Central Statistics Office has indicated that the data will be published during 2014.