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# **National Traveller Money Advice and Budgeting Service**

## **Response to the Strategy for Financial Inclusion Final Report**

*July 2011*



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## National Traveller MABS

National Traveller MABS welcomes the publication of the Final Report on the Strategy for Financial Inclusion and congratulates those involved.

A leading advocate for the financial inclusion of Travellers in Irish Society, National Traveller MABS has worked to address the issue of financial exclusion since the establishment of the organisation in 2005<sup>1</sup>. The commitment of National Traveller MABS to financial inclusion is evident from its mission statement;

*National Traveller MABS seeks to empower by supporting capacity building within the Traveller community and ensuring equality of access to legal and affordable financial services for all. (Strategic Plan, 2010-2012)*

National Traveller MABS<sup>2</sup> has gathered extensive data on the level of financial exclusion experienced by marginalised groups. It has discussed its main concerns with the IBF and the Financial Regulator and submitted a number of proposals on this issue. In 2003, as part of a joint working group<sup>3</sup>, National Traveller MABS prepared a **Briefing Paper on Financial Exclusion**. This briefing paper was presented to the Irish Bankers Federation, The Financial Regulator, The Department of Justice and the Department of Finance. In 2004, National Traveller MABS presented a **portfolio of case studies** to Department of Finance Money Laundering Steering Committee. The case studies highlighted the widespread exclusion of marginalised groups from financial services. In 2006 as part of a working group<sup>4</sup>, National Traveller MABS prepared and presented an updated **Briefing Paper on Financial Exclusion**.

In 2002, National Traveller MABS<sup>5</sup> published the report, **Hard to Credit it**. This report documented the difficulty many Travellers had in accessing legal and affordable credit facilities, and made recommendations in this regard. This was followed in 2004, by the report **Creditable Alternatives** which examined alternatives to existing financial services in Ireland that could be adapted to suit the needs of the Traveller community. Currently National Traveller MABS are finalising a report on the financial burden of dying within the Traveller community. Access to mainstream financial services, to both plan for and cover the cost of burials, feature prominently in the report.

National Traveller MABS also works with partner organisations to create alternative options to mainstream savings and credit. It assisted the Society of Saint Vincent De Paul in implementing and administering a **Pilot Caravan Loan Scheme** in 2000<sup>6</sup>. This was instrumental in the later establishment of two separate **Caravan**

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<sup>1</sup> Its predecessor, Exchange House MABS was established in 1998 following research which identified the lack of access for many Travellers to legal and affordable savings and credit facilities.

<sup>2</sup> Exchange House MABS prior to 2005

<sup>3</sup> MABSndI, Integrating Ireland, ICCL, Focus Ireland, NALA, INOU, OPEN, Immigrant Council

<sup>4</sup> MABSndI, Integrating Ireland, ICCL, Focus Ireland, NALA, INOU, OPEN, Immigrant Council,

<sup>5</sup> Exchange House MABS prior to 2005

<sup>6</sup> Exchange House MABS prior to 2005

**loan guarantee schemes.** National Traveller MABS works closely with the funders of both caravan loan guarantee schemes and hopes to support the development of other such schemes nationwide. The organisation was instrumental in the development of a **Pilot Trailer Rental Scheme** with the HSE. This extended the private housing rent allowance scheme to cover the rental of caravans in the Dublin area. National Traveller MABS is currently working with Mountjoy Prison, Phibsboro Credit Union and the Financial Regulator on the pilot phase of a **Prison Savings Scheme** in Mountjoy Prison. It is also currently examining the possibility of partnering with a micro finance agency from the USA to establish a **Start Your Own Business** initiative (providing training and access to seed capital) to entrepreneurs within the Traveller community.

Having worked on the issue of financial exclusion for over 10 years National Traveller MABS are cognisant of difficulty many marginalised groups have in accessing bank accounts. National Traveller MABS welcomes the work that has been undertaken by the Financial Inclusion Strategy Committee and welcomes the participation by financial institutions.

## Response from National Traveller MABS

National Traveller MABS welcomes the publication of the Final report on the Strategy for Financial Inclusion and appreciate the opportunity to contribute.

### 1 Access to current financial services

According to the European Commission, *“Financial Exclusion is 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”*<sup>7</sup>.

National Traveller MABS has highlighted on an ongoing basis the issues surrounding exclusion from mainstream banking for marginalised groups, in particular, members of the Traveller community. The organisation has continually noted that the problem was not the lack of availability of financial services or products appropriate to the needs of the excluded, but rather lack of access to existing services and products.

The Criminal Justice Act, 1994, placed an obligation on financial institutions to “take reasonable measures to establish the identity of any person for whom it proposes to provide a service”. Guidelines detailing acceptable forms of identification clearly laid out alternatives to the standard forms of ID. This was to ensure access to all. However the failure of many financial service providers to implement these guidelines, led to the widespread exclusion of many, to financial services over the past decade.

The current guidelines, as noted in the report<sup>8</sup>, are sufficient to allow access to existing services and products. While we welcome the acknowledgement of the Department of the need for access to financial services for all, we caution on the development of a separate product for the financially excluded.

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<sup>7</sup> The Strategy for Financial Inclusion, Final Report (1.5)

## **Recommendation 1 - Access for all to existing basic banking services.**

The Bank Recapitalisation Scheme (2008) commits the recapitalised banks to providing basic bank accounts to those currently excluded from financial institutions. National Traveller MABS recommends that rather than creating a two tiered system, access is provided for all to existing basic banking services. National Traveller MABS are concerned that the establishment of a Basic Payment Account (BPA), exclusive to those on low income, may lead to exclusion within inclusion, and may be seen as a “poor man’s bank account”.

Allowing access to basic banking in the forms of existing banking accounts will;

- 1 Eliminate the danger of creating a poor man’s bank account.
- 2 Avoid the creation of a two tiered system which may lead to further exclusion within the system.
- 3 Ensure easier access to other financial products should the financial circumstances of the individual improve.

## **2 Cost of operating a BPA**

The report notes the costs associated with holding a bank account and proposes that the new BPA will not harbour such costs. National Traveller MABS welcomes this.

However while many existing bank accounts do carry considerable charges relating to minimum balance, overdraft, electronic payments etc., there are accounts in existence that can be operated without charges, for example, Permanent TSB and Ulster Bank. Such accounts do not allow overdraft facilities and do not charge for direct debits. Customers are however liable for the annual stamp duty charge associated with holding a debit card and will be charged for unmet direct debits, and unauthorised overdrafts. Stamp duty and costs associated with unmet direct debits and overdrafts would undoubtedly cause concern for those on low income, (as noted in the review, 6.7, 6.10).

### **Recommendation 2 – Exemption for those on low income to existing basic banking costs**

National Traveller MABS recommends that people with income below a certain level should be exempt from bank charges. Such exemptions could be based on the criteria proposed to determine eligibility for access to BPA. For example receipt of jobseekers allowance could exempt people from stamp duty charges.

## **3 Demand for BPA/ Needs of User**

The introduction of the BPA is part of government policy following the bank re-capitalisation scheme announced in 2008, and adheres to the European Commission recommendation on the provision of BPA’s in all member states. Ensuring citizens have access to a bank account will:

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<sup>8</sup> The Strategy for Financial Inclusion, Final Report (6.13)

- 1 Serve the needs of creditors, most especially utility companies and service providers, who favour electronic payments.
- 2 Yield significant benefits to the state by progressing the efficient and cost effective National Payments Strategy<sup>9</sup>.

To ensure the success of the BPA the needs of the target group must remain to the fore in the development of all services and products<sup>10</sup>. According to the report, the BPA, “has been designed to meet the needs of the financially excluded” (1.12). Certainly, for the user, it is well documented that having a bank account;

- 1 Reduces the costs of utility bills
- 2 Allows for easier transition into the workforce, as a payment method is already established.

However, the report also states that, “persuading the financially excluded to open a BPA will pose significant challenges” (5.8). It recommends a “strong incentive be put in place” (1.20 -1.21) to encourage participation. An incentive is something that encourages a person. However the report proposes that such an incentive “is likely to be provided by the initiative to move all public sector payments to an electronic basis” (1.21). Rather than encouraging people to participate, this move towards electronic payments will force people to manage their income and outgoings through a bank account.

Managing in a non cash environment is very difficult for people with limited resources and could cause further hardship for those already struggling on a low income. This may be compounded when literacy and language difficulties exist. According to Caroline Corr, people are choosing to operate in cash as it allows greater control of money. They are choosing not to use current accounts due to the “lack of control” and because it is “unnecessary to manage on a low income”<sup>11</sup>. Similarly, research carried out by the National Consumer Council in the UK, reported the attitude of one low income householder towards a bank account; “What is the point of putting it in (the bank) and then having to walk there the next day to take it out again”<sup>12</sup>.

The latest tracker index from the Irish League of Credit Unions<sup>13</sup> indicates that 47% of Irish people are late paying at least one bill per month. The index also revealed that 82% of those with less than 5% of their income left after essentials believe that with any further changes to social welfare/ income tax, they will no longer be able to cope. Such figures do not reflect the impact of the July ECB rate increases nor the impending introduction of charges for water and housing and the expected increases in the cost of domestic utilities.

Use of a bank account for money management can undermine previously successful cash based money management strategies. Research carried out by Toynbee Hall found that low income consumers with bank accounts have higher level of borrowing and arrears than their unbanked counterparts<sup>14</sup>.

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<sup>9</sup> The National Payment Strategy promotes the wider use of electronic payments and discourage the use of cash and cheques for payments

<sup>10</sup> Toynbee Hall Think Tank: November 2005

<sup>11</sup> Preliminary findings from research study: Managing on a Low Income Within the Electronic Economy: March 2011

<sup>12</sup> Basic Banking factsheet; Delivering Financial Inclusion: National consumer Council: 2006

<sup>13</sup> “What’s Left” Disposable Income Tracker Index 18-7-2011) [www.creditunion.ie](http://www.creditunion.ie)

<sup>14</sup> Toynbee Hall Think Tank: November 2005

National Traveller MABS welcomes the recognition in the report that monthly and bi monthly electronic payments, such as direct debits or standing orders, may be unmanageable for customers who are paid weekly and pay bills weekly. It welcomes the recommendation that electronic payment methods and their regularity and timing should be adapted to suit the needs of the user (8.19).

### **Recommendation 3 – Ensure that new initiatives are meeting needs of the user**

Financial inclusion must be based on the principle that people can make informed choices between different forms of savings, credit and payment methods and get the necessary support and help to do so. While National Traveller MABS welcomes the move towards universal bank access and the efforts being taken to ensure the inclusion of all, it recommends;

- 1 Prior to implementation a comprehensive consultation is undertaken with all stakeholders to determine the real needs of the user.
- 2 A comprehensive promotion and education programme for new customers is undertaken by financial institutions prior to the implementation of the BPA.

## **4 Savings and Credit Provision**

National Traveller MABS works towards empowering the Traveller Community in accessing legal and affordable savings and credit. Savings are important for low income households as they give flexibility in dealing with large of unexpected payments, while affordable credit can play a useful role in covering unexpected expenses or paying bills<sup>15</sup>.

National Traveller MABS welcomes the proposals laid down in the report in relation to savings and credit and the acknowledgement that the “design, promotion and support of the BPA must meet the real identified needs of the financially excluded” (1.13.)

The proposals for the BPA to develop and incorporate savings element, such as “virtual jam jars”, are welcomed (7.2). Equally welcomed is the proposal to include the post office and credit union in the development of the BPA (9.3). National Traveller MABS welcomes the recommendation that credit unions consider their role in tackling the area of credit exclusion in the state. The review of credit unions will present an opportunity examine this and incorporate a social lending element into the strategy for financial inclusion.

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<sup>15</sup> Corr, C. 2006. Financial Exclusion in Ireland: An Exploratory Study and Policy Review. Dublin: Combat Poverty Agency.

## Recommendation 4 – State savings used to promote savings and credit initiatives

National Traveller MABS recommend that

- 1 As every BPA opened will result in significant cash savings for the state, consideration should be given at the onset to allocate such savings back into a saving incentive scheme for participants. This would not only act as an incentive but would also establish the essential savings feature into the BPA. Individual saving incentive accounts could be operated by the banks, Post Office or credit unions.
- 2 Further investigation is undertaken into the possibility of offering a credit element to the BPA. This too could be funded by the state from the significant cash savings associated with the introduction of the BPA.
  - The credit element could be a joint initiative with the government, similar to the interest free loans provided by the UK's Social Fund<sup>16</sup>, or Scotcash<sup>17</sup> in Scotland.
  - An expansion of the Household Budget Scheme, which deducts income at source and is currently available in Ireland for the payment of utility bills, is recommended.
  - Similarly a credit initiative could operate in conjunction with the credit union movement. The Special Budget Accounts, operated by many credit unions in conjunction with MABS could be expanded to include the repayment of loans. Lough Credit union in Cork currently facilitates individuals in repaying loans and paying bills. Their methodology could be examined and adapted to suit the needs of both suppliers and users.

## 5 Financial Education

National Traveller MABS welcomes the value placed on financial education and advice in the report (7.14-7.17).

National Traveller MABS places huge importance on community education as a method of debt prevention and a means of empowerment. The education strategy of National Traveller MABS is designed to ensure the development of culturally appropriate education programmes focused on the financial inclusion of Travellers in Society.

The delivery of appropriate financial education and advice is critical to ensure the success of the Strategy for Financial Inclusion. National Traveller MABS would be happy to incorporate information and advice on new developments in banking into its existing work plan. However as an organisation we have limited resources.

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<sup>16</sup> [www.adviceguide.org.uk](http://www.adviceguide.org.uk)

<sup>17</sup> Stephen Naysmith, "Help you can bank on; Making the money go around" The Herald, May 31, 2011

## **Recommendation 5 – Financial services sector fund national financial awareness programme**

Therefore National Traveller MABS recommends that the in accordance with Section 45 of the Credit Institutions (Financial Support) Scheme 2008<sup>18</sup>, the banking industry fund the development and implementation of a comprehensive financial awareness programme designed to meet the needs of the most marginalised. The programme could be developed and delivered with the support of organisations such as National Traveller MABS, MABSndI and NGO's and groups representing the financially excluded.

## **6 Gateway to Financial Inclusion**

Access to a basic bank account is one path to financial inclusion. However throughout the world new developments in financial products are proving that traditional bank accounts are no longer the sole gateway to financial inclusion.

In certain states in the USA, including California, state benefits are being loaded onto individual debit cards<sup>19</sup>. Such cards operate in a similar fashion to pre-paid phone cards and users can pay for goods and services with them.

In South Africa low cost, cash based, “off the shelf” insurances products are being offered by the retail chain, PEP.<sup>20</sup> The products can be activated and paid for regularly at any of the retail outlets.

Worldwide, mobile phones have transformed systems of money transfers. Mobile banking has probably had the greatest impact on the financially excluded worldwide in recent years. Paying utilities, bills and sending money to family members, is a regular occurrence for many millions of people living in Africa, Asia and Latin America.

## **Recommendation 6 – Immediate investigation into insurance, savings and credit initiatives operating in other jurisdictions**

National Traveller MABS welcomes the recommendation in the review that the BPA will be an access point to other products, such as insurance, savings and credit (7.18, 8.37). We recommend that investigation into options begins immediately and is not pushed out.

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<sup>18</sup> Section 45 of the Credit Institutions (Financial Support) Scheme 2008, specifies that “..... The Irish Banking Federation, on behalf of all covered institutions, submits a bi-annual report to the Minister on goals and targets laid down by the Minister in relation to Corporate Social responsibility, including the goals and targets with respect to .....the development of financial education...”

<sup>19</sup> Orange County Register (October 6, 2010) Unemployment checks go plastic

<sup>20</sup> Napier, M (2010) New Money, New Frontiers: Case Studies of Financial Innovation in Africa.



## 7 Ensuring and Measuring Success

National Traveller MABS welcomes much of the detail in the report regarding the development of the BPA, particularly;

- The commitment to carry out thorough evaluations at all stages of implementation, particularly at the end of the pilot stage (8.31).
- The suggestion to establish an NGO coordination group (8.7)
- The recommendation to train all frontline staff
- The indicators proposed to measure success

However in relation to measuring success, the take up rate within the Traveller Community will be difficult to ascertain, as the community itself is not covered by the National Household Surveys such as the Annual Survey of Income and Living Conditions (SILC).

### **Recommendation 7 –Clear indicators developed to ensure success can be measuredl**

National Traveller MABS recommends that in order to ensure that financial inclusion extends to all marginalised groups.

- That consideration is given to determining an indicator to measure the impact of BPA on marginalised groupings such as the Traveller community
- The NGO coordination group is established immediately
- National Traveller MABS is part of the NGO coordination group.
- Diversity awareness training is provided to all bank officials, most especially frontline staff.
- That Travellers as a community are invited to participate in the pilot phase of the BPA

National Traveller MABS is grateful for the opportunity to respond to the final report on the Strategy for Financial Inclusion. As an organisation we will continue to work to build financial capability within the Traveller community while simultaneously pressing for an accessible and equality based financial services sector. National Traveller MABS look forward to assisting with the successful implementation of the Strategy for Financial Inclusion.