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Should Basic Payment Accounts be Extended?

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Abstract

Reducing the ‘unbanked’ is an important part of financial inclusion. For its supporters, access to a bank account is important for reducing the costs faced by those locked out of mainstream banking. Critics worry that financial inclusion ultimately shifts people from the security of the welfare state to the insecurity of financial markets. This paper argues that reducing the unbanked can contribute to both individual empowerment and subjection. Much depends upon how such policies are devised.

Keywords: Unbanked; Basic Payment Account; Financial Inclusion; Financialisation

Word count: 3,125

Introduction

Reducing the ‘unbanked’ - that is those people without access to a bank account – is an important area of policy concern. Boosting the numbers of those with a bank account is seen as a key part of ‘financial inclusion’, that is increasing the access and participation of people within the financial system. Demirgüç-Kunt *et al.* (2018) estimate that there are around 1.7 billion adults around the world that are unbanked. These researchers argue that most of the

unbanked live in the developing world. They say that about half of the unbanked live in seven countries, namely Bangladesh, China, India, Indonesia, Mexico, Nigeria and Pakistan.

Demirgüç-Kunt *et al.* (2018) state that women form the majority (56%) of the unbanked across the world and they say that a lack of money is the most common reason for being unbanked. Demirgüç-Kunt *et al.* (2018) spell out the importance of being banked, and financial inclusion more generally, when they say: ‘Financial services can help drive development. They help people to escape poverty by facilitating investments in their health, education and businesses. And they make it easier to manage financial emergencies – such as job loss or crop failure – that can push families into destitution’ (Demirgüç-Kunt *et al.* 2018, 1).

Concern with the unbanked is not confined to the developing world. Basic payment accounts are also an important part of the European Union’s policy on banking inclusion (European Commission 2014; Gómez-Barroso and Marbán-Flores 2013). The European Union issued a Payment Accounts Directive in 2014 that requires all member states to make available payment accounts with basic features. A payment account is understood to refer to: ‘an account held in the name of one or more payment service users which is used for the execution of payment transactions’ (European Union 2015a, 23). Across the European Union, basic payment accounts allow people to make deposits, withdraw money, receive and carry out payments such as direct debits. However, these accounts do not have to offer overdraft or credit facilities (European Union 2017). The European Union has also issued a ‘Payments Accounts Directive 2’ that makes it easier for consumers to share their account details with third parties online. This move towards ‘open banking’ also makes it easier for third parties to make payments from a bank account as an alternative to credit or debit cards (European Union 2015b). In the UK, Basic Bank Accounts (BBAs) are the main account aimed at the

unbanked (HM Treasury 2015; House of Lords Select Committee on Financial Exclusion 2017; Edmonds 2017). Research from the University of Birmingham suggests that 1.52 million adults in the UK were unbanked in 2015-16 (Rowlingson and McKay 2017). Recent reviews have called for BBAs to be extended (Financial Inclusion Commission 2015; House of Lords Select Committee on Financial Exclusion 2017).

Critics worry though that banking inclusion, and financial inclusion more generally, may merely expose people to the risks associated with the financial system (van der Zwan 2014; Langley 2008; Finlayson 2009; Montgomerie and Tepe-Belfrage 2017; Lai 2017; Santos 2017). During the twentieth century, the welfare state has arisen as a way of protecting people against the risks they face in everyday life such as losing their job, becoming sick or falling into poverty upon retirement. Under a welfare state, the risks associated with providing welfare are spread across society. Although boosting participation in the financial system does not come automatically at the expense of the welfare state, critics nonetheless claim that financial inclusion ultimately involves rolling back the welfare state in favour of individual investment within financial markets. van der Zwan (2014) writes that the: ‘expansion of financial markets has coincided with the retreat of the welfare state in many of the advanced political economies, but particularly in the USA and UK’ (van der Zwan 2014, 113-114).

Individual investment products linked to market performance expose individuals to significant risks. For example, a state pension might provide financial security in retirement. An alternative to this is to encourage private saving into a defined contribution scheme. But, people are then exposed to a risk that their pension investments may perform poorly (Hacker 2008; Standing 2011). People are not only exposed to poor investment performance but also

high charges which impact significantly the size of entitlements, particularly when returns are poor. Standing (2011) argues that financial institutions were mainly responsible for the global financial crisis of 2007-2008 and this had a direct effect on pensioners because it depleted the size of final pension pots after the crisis. He writes that:

Savers have done nothing wrong, except to follow the urgings of successive governments over two decades. The International Monetary Fund, World Bank and Organisation for Economic Co-operation and Development (OECD) had all eulogised ‘private savings accounts’ and defined contribution private pensions. Now those who took their advice were penalised (Standing 2011, 13).

People might also be exposed to more systemic risks within the banking system. Mis-selling scandals occur when financial institutions provide misleading information on goods or services, such as hidden payment protection insurance charges on loans in the UK. In the United States, a ‘subprime mortgage’ crisis involved banks and other financial institutions encouraging low income individuals and households to overextend themselves and take unsustainable levels of personal debt. Problems in this sub-prime mortgage market was one of the triggers for the global financial crisis of 2007-2008 (Ferran 2012; Garratt, Mahadeva and Sviridzenka 2014; Halan and Sane 2017; Kotarski and Brkic 2017).

Should basic payment accounts be extended? This paper argues that basic payment accounts have the potential to deepen both individual subjection and agency. Much depends upon how the policy is designed. This paper outlines some of the theoretical controversies with this agenda and considers some policy directions.

Subjects or Agents?

The literature on financialisation is the main source of scholarly criticism of financial inclusion. Many of these critics treat financial inclusion as a cultural project to turn people into subjects. Much of this work draws upon ideas within sociology, especially Foucault's notion of governmentality (van der Zwan 2014; Langley 2008; Finlayson 2009; Montgomerie and Tepe-Belfrage 2017; Lai 2017; Santos 2017). Lai (2017) writes that the: 'Foucauldian notion of governmentality has been particularly influential in financialisation studies regarding how states regulate behaviour 'at a distance' through discourses of 'personal responsibility' and 'self-sufficiency'' (Lai 2017, 916). For Foucault (2007), the individual is subject to general forces that control their life. The state has developed various means that allow them to observe and control each person. When applied to financial inclusion, this means that government uses this agenda to mould people into accepting the demands of financial markets.

The stress placed upon subjection may be seen above all in the figure of the 'investor-subject' that stalks this literature (Langley 2008; Finlayson 2009; Montgomerie and Tepe-Belfrage 2017; Lai 2017; Santos 2017). An investor-subject is required to make investments for their own welfare. But, in making these investments people are thereby subject to the risks associated with financial markets, namely that people may make poor investment choices or any investments they do make perform poorly because of factors beyond their control. People might also be subject to the systemic risks such as bank mis-selling scandals.

Supporters of financial inclusion claim that this agenda is important for individual empowerment or independence (Johnson and Sherraden 2007; McQuaid and Edgell 2010; Klapper and Singer 2014; Demirgüç-Kunt *et al.* 2018). This view recognises that decisions

about money are important for everyday living. People need to pay bills, heat the home, pay for accommodation and so on in most welfare systems. People usually need access to the financial system to make the necessary decisions about money. Access to a bank account is particularly important as a bank account is usually a gateway to other financial services such as mainstream credit (Financial Inclusion Commission 2015; House of Lords Select Committee on Financial Exclusion 2017; Demirgüç-Kunt *et al.* 2018). Lack of a bank account imposes various costs on individuals. For example, employers in high income countries usually prefer paying wages directly into a bank account. Being unbanked creates a barrier for gaining paid employment, and this can then limit individual independence and opportunity. Other cash transfers such as benefits may also be made more difficult without access to a bank account.

Reducing the unbanked has the potential both to boost individual empowerment as well as expose increasing numbers of people to the risks associated with banking. This recognises that being a subject and an agent are not mutually exclusive categories and people might be both subjects and agents. Financial inclusion policies might have varied and complex effects and help support empowerment in some areas but fashion subjection in other areas. Much depends then upon how any reforms are designed. The section below sketches out some general directions, although the detail will vary inevitably between different countries.

Policy directions

Research suggests that lack of money is the most common reason for being unbanked (Demirgüç-Kunt *et al.* 2018). Accordingly, policy might aim to address directly this reason for being unbanked. Basic payment accounts might be linked with policies aimed at encouraging saving among low income individuals. Sherraden (1991) crafts an Individual

Development Account scheme that allows public or private agencies to match personal savings made into a special account that is dedicated for personal development, such as investing in training, starting a business or putting a deposit for a home. Trials of matched savings accounts have occurred in places such as Uganda (Karimli, Ssewamala and Neilands 2014). In the UK, the government recently introduced a Help to Save policy available to those 3.5 million adults in receipt of Working Tax Credit or Universal Credit with minimum weekly household earnings equivalent to 16 hours at the National Living Wage. There is a 50% government bonus paid after two years on savings of up to £50 a month into the Help to Save account. Therefore, personal savings of £2,400 would attract a £1,200 government bonus (HM Treasury 2016).

Government might also tie basic payment accounts to credit policies that are well-suited to those on low incomes. One way of doing this is for government to support credit unions as a way of providing basic payment accounts. Credit unions are cooperative organisations that usually reduce the barriers that low income people and households face in accessing credit services. The House of Lords Select Committee on Financial Exclusion states that: ‘Credit unions had traditionally obtained their deposits from their members, who were by definition the same, generally low-income customer base as the cohort to whom they would lend’ (House of Lords Select Committee on Financial Exclusion 2017, 83). Credit unions are admittedly small-scale in places such as the UK but linking basic payment accounts to credit unions might be a way of encouraging account holders to use their bank account while also giving them access to a suitable level of credit.

One current challenge is to boost the use of bank accounts. One way of trying to encourage greater use, particularly in the developing world, is to digitise utility payments such as

electricity or water. Demirgüç-Kunt *et al.* (2018) say that: ‘Arguably the single best way to increase account use would be to more fully digitize payments for water, electricity, and other utility bills’ (Demirgüç-Kunt *et al.* 2017, 103). They say that in 2017, 81% of account holders in Egypt pay utility bills in cash and in both Brazil and Indonesia around 25 million women with an account use cash to pay utility bills. They also propose that linking mobile phone technology with bank accounts as well as formalising savings may be practical steps for encouraging greater use of bank accounts. In fact paying for utility bills is one of the most common arguments made for reducing the unbanked in high income countries. Utility bills form a greater proportion of the budget of low income than high income households. Lack of a bank account means that the unbanked are unable to take advantage of cheaper deals that are usually available to those that can pay by direct debit (Hills 2012). Klapper and Singer (2014) argue that digitising payments can boost female economic empowerment because unlike cash transfers digital payments are often private information that thereby give women greater control over money rather than having to surrender cash to males within the household. Open banking offers the prospect to advance digital payments, although it should also be acknowledged that there are risks associated with cyber security such as accounts being hacked and the theft of personal data (Edmonds 2018).

Conclusion

Basic payment accounts are a key policy for reducing the unbanked. For its supporters, these accounts are particularly important as they are a gateway to the financial system and can support individual empowerment as making decisions about money is a part of everyday life. For its critics, these accounts expose people to the risks associated with the banking or financial system such as poor investment performance or more systematic risks such as mis-selling.

This paper suggests that basic payment accounts have the potential to advance both subjection as well as agency, and so much depends on how such policies are designed. There should be neither blanket support nor criticism of these accounts. Basic payment are likely to vary in different countries but this paper has sketched out how these accounts might be embedded with other financial services. A key challenge is to boost engagement with such accounts, and policies should be suitable for those on low incomes. This paper has pointed to how basic payment accounts might be combined with matched savings accounts as well as credit unions. However, it should also be acknowledged that there are risks such as the possibility that specific savings or credit policies are mis-sold. Proper regulation is likely to be crucial for any extension of basic payment accounts.

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