

## THE PROBLEMS OF FINANCIAL EXCLUSION AND PUBLIC COMBAT POLICIES

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### **Rezumat**

*The imbalance created in the evolution of socio-economic, as well as financial and monetary development over the past two decades requires us to study this phenomenon and to clarify ourselves in such situation, to be able to answer the question: why do certain branches developed and why others have remained at the same level of underdevelopment, why some social groups are too rich, while other groups are in a situation of social, financial information exclusion, and, therefore, they are vulnerable groups, hardly to be removed from poverty. The situation in the financial exclusion, of social exclusion is not easy. Romania is the country with the highest level of financial exclusion in the European Union. There are quite complicated problems with the vulnerable groups, with children and young people from poor families, children whose parents work abroad, children separated from their families, Romany people, people with disabilities, single elderly, women. Therefore, in this article we proposed to answer the question: What is financial exclusion? Who is most likely to be excluded from the financial point of view, identifying the causes and consequences of financial exclusion.*

**Key-words:** *financial exclusion, social exclusion, vulnerable groups, fighting against exclusion, public policies*

The current situation, both in the field of financial exclusion and in the one of social exclusion in Romania is not easy at all, which led us to investigate this topic, to investigate any causes of financial exclusion and to recommend measures to combat them. **Romania is the country with the highest level of financial exclusion in the EU<sup>3</sup>**. As regards the mortgage, Romania has 58% compared to 47% in the EU, as regards the consumer loans, Romania has 53% compared to 34% in the EU, at the credit card, Romania has 44% compared to 27% in the EU, at the debit card, Romania has 35% compared to 18% in the EU, while as regards the simple bank account, Romania has 39% compared to the 15% in the EU. Considering the reasons for the financial exclusion in Romania: the lack of identity documents, the high cost of banking services, the lack of necessary knowledge, lack of assets that guarantee the loans. Analysis of the financial exclusion situation concerns the following main issues: the situation of vulnerable groups, causes and consequences of this phenomenon, policies and actions, specialized recommendations for combating the financial exclusions.

### **I. SITUATION OF THE VULNERABLE GROUPS<sup>4</sup>**

Children and young people from poor families. 320.000 children (0-17 years) were living in extreme poverty in 2010. Rural children and Romany children are the most affected. In 2010, the child poverty rate in urban areas was only 3.5 %, while it was 12.4% in rural areas.

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Rates are significantly higher among Romany children: 27.3 % of the Romany children living in urban areas, compared with 2% of the Romanian children and 41.1 % compared to 10.6% in the rural area. Children whose parents work abroad. At the end of 2011, a number of 83,658 children found themselves in this situation.

Children separated from their families. Between 2000 and 2011, the number of children in welfare centers and those abandoned in hospitals almost halved and in December 2011 in reached the number of 23,240. However, the same year 2011 recorded the first increase in the number of institutionalized children in the past 15 years.

Romany people. Two-thirds of Romany people live in poverty and half of them are at risk of extreme poverty. Even if only 619,000 people (3, 2 % of the population) are declared Romany, 38 % of Romany people work as unskilled workers, 32% have skilled jobs (workers, vendors, traders), 9 % are agricultural workers and 13 % deal with the traditional Romany trades.

People with disabilities. In 2011 there were 1,7 million people with disabilities that limit their ability to work or who had restrictions on the labor market. Of this group, there is a highlight of females with disabilities, people aged over 50 years and children with disabilities. 56 % of people with disabilities say they have never worked.

The single elderly. People aged at least 65 years who live alone, represent 4.2% of the population and are considered as a vulnerable group. The risk of poverty among this segment of the population has decreased significantly compared to 2007.

Single parents. About 55 % of single parents are living in urban areas (83 % are women with children, compared to 17 % who are men), in most cases being of Romanian ethnicity.

Women. In Romania, the attitude towards women is still strongly influenced by tradition. This is reflected in labor market participation, in 2011 the activity rate of women being 15 % lower than for men. By age groups, the difference varies between 9.1% (young people between 15 and 24 years) and 20.1 % (for people between 55 and 64 years). The rate of young people who are not professionally employed and who do not attend any education or training program is higher among women than among men (15.9 % for men and 18.8% for women in 2011). Women in Romania are considered to be subject to high levels of domestic violence are disproportionately victims of human trafficking, primarily for sexual exploitation.

## **II. FINANCIAL EXCLUSION. CAUSES AND CONSEQUENCES OF FINANCIAL EXCLUSION**

In literature we have the following definitions of financial exclusion<sup>5</sup>

### **What is the financial exclusion?**

Financial exclusion refers to a process whereby people encounter difficulties accessing and / or using of services and financial products in the market, suitable to their needs and enabling them to lead a normal social life in the society to which they belong. There is a widespread recognition that financial exclusion is part of a much wider social activity of exclusion faced by some groups who lack access to quality essential services such as jobs, housing, education and health care. Financial products will be considered "adequate" when their supply, structure and costs do not allow access to the client without difficulties of use.

### **Who is most likely to be financially excluded?**

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<sup>5</sup> FINANCIAL SERVICES PROVISION AND PREVENTION OF FINANCIAL EXCLUSION, **European Commission**, Directorate-General for Employment, Social Affairs and Equal Opportunities Inclusion, Social Policy Aspects of Migration, Streamlining of Social Policies Executive summary completed in March 2008, **pag. 4-5**

Financial exclusion affects certain groups of people more than others and, in general, similar types of people are disproportionately affected, regardless of the prevailing level of exclusion in their country. In the new Member States, pensioners also have a high level of financial exclusion.

**Financial exclusion is concentrated in certain communities.** In a less-favoured area, it increases the likelihood of being excluded from the financial point of view. This, almost certainly reflects the deficit of supplying financial services in such communities. Finally, previous research has also shown that immigrants and persons who are over-indebted are also likely to be excluded.

**Financial exclusion is closely linked to social exclusion.**

Difficulties of access to bank accounts, payment or credit means can lead to social difficulties and vice versa.

The main policy recommendation with regard to financial exclusion is to fill the gap with respect to information available on the subject in most Member States of the European Union. Research on the impact of financial exclusion aims to better understanding of the financial inclusion matter and its place in the broader framework of social inclusion policy of a country. Interested parties (researchers, NGOs, financial institutions and decision makers) is also needed to increase the finance of research on the subject.

The European Commission, in May 2013, launched the Directive for European standardization of practices on the bank accounts, which includes access to the basic payment account, current account fees transparency and mobility of accounts, whose objective was to facilitate access to the basic payment account, to increase the financial intermediation especially in emerging countries, comparability of fees at bank accounts and increased mobility at the current accounts. Therefore, the situation created in this sector of the excluded groups, as well as the financial and social ones mobilize to develop this strategy of financial exclusion and at an effective and complex national level to overcome the situation of such population groups.

### **III. THE LEVEL OF FINANCIAL EXCLUSION. CAUSES AND CONSEQUENCES OF FINANCIAL EXCLUSION**

According to the Memorandum<sup>6</sup> « Financial exclusion - Ensuring an adequate access to basic financial services », prepared by the *General Directorate for Employment, Social Affairs and Equal Opportunities of the European Commission*.

**Levels of financial exclusion**

In the EU-15 countries, two out of ten adults do not have access to banking transaction facilities; about three out of ten have no savings and four out of ten have no credit facilities, although significantly fewer of them (less than one in ten) say they were denied a credit. Instead, a third of the citizens of the new Member States is financially excluded, more than half do not have a trading account, a similar proportion has no savings and more than three quarters do not have immediate access to a permanent loan.

**Causes and consequences of financial exclusion**

Social causes such as aging, in combination with the technological gap increase the financial exclusion. However, many factors of exclusion depend on supply and demand: the

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<sup>6</sup> «Excluziunea financiară – Asigurarea unui acces adecvat la serviciile financiare de bază», elaborat de *Direcția Generală Ocuparea Forței de Muncă, Afaceri Sociale și Egalitate de Șanse al Comisiei Europene*

refusal of banks to open bank accounts with full trading rights for certain groups of people, lack of accessibility, inadequate design of products, bad delivery of services and the high price related to trading bank accounts preventing people from accessing and/or using these services.

Financial exclusion is closely linked to social exclusion. In fact, access to and use of services for basic financial needs, such as a bank account and simple transactions are decisive for the integration of people into the current European society.

### **Magnitude of national debate**

In half of the countries analyzed (Austria, Belgium, Germany, France, Spain, Italy and the United Kingdom) a national debate over financial exclusion was conducted by various agents (national governments, consumer protection organisations, academia, etc.) , resulting in the implementation of various measures by the Government.

Instead, in the other half of the countries analyzed, the debates on the financial exclusion have been limited or non-existent so far. In only three of these States, the said situation can be justified by the high level of financial inclusion (ES-Spain) or very high (NL- Netherlands and NO- Norway).

The four new Member States covered by the study (BG-Bulgaria, LT- Latvia, PL-Poland and SK-Slovenia) reported unanimously the lack of any national debate on financial exclusion. Such countries currently evolve from a situation where much of the population is not served by financial service providers, which minimizes the adverse consequences of non-serving to a higher financialized society, where the need to tackle the financial exclusion become more critical.

## **IV. EUROPEAN PLATFORM FOR FIGHTING AGAINST POVERTY AND SOCIAL EXCLUSION<sup>7</sup>**

Combating poverty and social exclusion should be based on economic growth and employment, but also on modern and efficient social protection. In addition, the innovative social protection intervention must be combined with an extensive set of social policies, including targeted education, social welfare, housing and health insurance, reconciliation of family life with the active one and family-oriented policies, all areas where social welfare systems have tried so far to intervene through residual programs.

European Platform against Poverty and Social Exclusion represents the EU contribution to approaching these challenges within Europe 2020 strategy. The commission has identified the following areas:

- achieving actions across the whole policy spectrum;
- use in a greater and more effective degree of EU funds to support social inclusion;
- promoting social innovation based on real evidence;
- working in partnership and capitalization of the social economy potential;
- improved political coordination between the Member States;

Governments should develop clear indicators of the magnitude of the social exclusion matter and to be able to assess the effectiveness of the measures implemented and their impact on financial exclusion.

Policies to ensure the financial capacity of the banking institutions, consumer protection, transparent relations between financial service providers and clients will take into account the

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<sup>7</sup> *Comunicarea Comisiei către Parlamentul European, Consiliu,Comitetul Economic și Social European și Comitetul Regiunilor Platforma europeană de combatere a sărăciei și a excluziunii sociale: un cadru european pentru coeziunea socială și teritorială*, Luxemburg: Oficiul pentru Publicații al Uniunii Europene, 2011  
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circumstances and needs of vulnerable groups. Over-indebted persons should be guaranteed access to basic banking services. Education and financial counseling should be developed. Social responsibility of financial institutions should be encouraged and monitored.

### **The complexity of phenomena in the society and in the current economic systems**

The complexity of phenomena in the society and in the current economic system which includes the banking system and the labor market requires an interdisciplinary approach in the research of monetary financial and social phenomena and for these reasons, in the stage of studying the origin of financial and social exclusion phenomena, we focused on the phenomenon of value management, management of values in the bio- material system that also includes human and material values, in this case, the financial ones. This led us to study the value philosophy, value physics, **value economics**<sup>8</sup>, where we propose to enclose the financial, employment, social welfare, public administration, nongovernmental organizations management, local government management.

Living bodies maintain life if they attract and convert low entropy of the primary elements of the matter from the environment: substance, free energy, information.

Integrated into the natural matter circuit, the living human system is the beneficiary of an enormous potential for low entropy, created by living and non-living systems in nature. This potential allows it to exist even if the processes triggered by it in the society and economy are very wasteful.

Living systems feed with such an energy preserved in these elements. This energy appears as an energy potential.

**The potential** represents the level of organization owned by a simple or complex system, which level of organization makes it attractive in order to be "consumed" by a living system. The level of organization resulting from the economic processes of transformation - conservation - transfer from the system, involved in getting the value is a physical support for value.

Systems involved in solving the financial exclusion matters are related to the fact that such groups are also part of other exclusion groups, namely: social exclusion, information exclusion, they are excluded from other activities of social, cultural, economic life, let alone the financial – monetary one, which is actually a luxury for many.

Therefore, the potential losses arises from various systems such as the labor market system and employment policy system, education system and public finance system, social policy system, as well as other systems.

*The individual, not involved in the economic, social, cultural and other activities that would generate income from the active life in the society living system, gets into the situation of social, economic, informational, cultural and financial exclusion.*

### **The basic elements of money communication process<sup>9</sup>**

Communication as a process involves the transfer of information from a source of information to a receiver, by means of some signs. Achieving this process is possible with the participation of agents or persons involved in the direct and intermediate knowledge and other elements synthesized by the science of semiotics.

These characteristic features of the communicative process, generally set for human language, are also met in the communicative process through money, money communication being related to the process of producing value and knowledge of the economical value through value information gives the communicative process elements an adequate content with specific features of economic and monetary processes.

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<sup>8</sup> Paul Bran, *Economica valorii*, Editura Economica, București 1996

<sup>9</sup> Paul Bran, Ionela Costică, *Comunicarea Financiară*, Editura ASE București, 2004

*Thus, through money communicative process, the signified phenomenon or referent is represented by the value generating process.*

## **V. RECOMMENDATIONS FOR PREPARATION OF PUBLIC POLICIES TO COMBAT FINANCIAL EXCLUSION. FINANCIAL INCLUSION POLICIES AND ACTIONS**

International experience provide us with a range of best practices on implementation<sup>10</sup>, delivery of bank account services, basic transactions or alternative payment mechanisms for people who are not entitled to a checkbook or a credit card. For self-regulation of the banking sector through legislation, following successful components shall be taken into account:

1. Identifying obstacles, both in terms of access and use by key stakeholders, of the financial and banking instruments.
2. Identifying the best possible solutions taking into account local conditions.

### **To cope with the access difficulties, the following are required:**

3. Ensuring the rights of all citizens to a bank account and defining the conditions for access to at least a minimum package of basic package of banking services for each individual.
4. Creating an external control agency, responsible for monitoring the implementation of the provision of services on a regular basis.
5. Implementing an effective complaint procedure, specially designed to be also accessible for people at risk of financial exclusion;
6. Implementing an effective advertising of the service provided to individuals and governmental, as well as non-governmental organizations dealing with people at risk of financial and social exclusion.

### **To cope with the usage difficulties:**

7. A clear definition of the range of services to be provided to profile targeted clients when considering providing the design services and products.
8. Educational campaigns and programs to present the advantages of banking services and how to use them.

Here are some implementation methods:

- Promotion (*by incentives or tax exemptions*) of the Corporate Social Responsibility in Mass providers;
- Promoting and encouraging the development of commercial-oriented social providers, who, in many cases, develop an appropriate response, such as cooperatives and bank savings;
- Promoting, developing and supporting pilot-projects for consumer credits within partnerships (*public, private and NGOs*) to identify the best practices;
- Interest rate limit: the limit must be taken into account carefully in order not to be too low and it should apply to the total credit cost;
- Credit Reports to implement a national registry information both with negative and positive information (credit information commitments held by the population), as well as obligation of lenders to report information;
- Obligation to consult the loan lenders on relevant information in order to verify the borrower's ability to pay before granting a credit;

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<sup>10</sup> FINANCIAL SERVICES PROVISION AND PREVENTION OF FINANCIAL EXCLUSION, **European Commission**, Directorate-General for Employment, Social Affairs and Equal Opportunities Inclusion, Social Policy Aspects of Migration, Streamlining of Social Policies Executive summary completed in March 2008, **pag. 8- 14**

- Obligation of creditors to contribute to the compensation fund in proportion to credit arrears.
- It is necessary to develop new criteria for the credit risk analysis to meet the demands of excluded persons

However, for the most excluded persons, the mission of maintaining an appropriate offer is a political concern, the adequacy and effectiveness of a certain type of policy response largely depends, on the national level, on the market structure and cultural environment. Among the possible variables to measure and evaluate financial exclusion, we need at least the following indicators to be collected nationally and internationally:

1. The number and list of legal and administrative requirements to access a bank current account;
2. Percentage or number of people over 18 years of age who do not meet the requirements to open a current bank account;
3. The percentage or number of persons over 18 years of age holding at least one current bank account. These indicators help to distinguish the exclusion of causes related to the legal framework and of those related to banking behaviors in order that the Governments prepare their policies, as appropriate.
4. Percentage or number of people over 18 years of age who do not meet the requirements for access to commercial credits ( group A);
5. Percentage or number of people over 18 years of age, holding at least one commercial credit; Percentage or number of people over 18 years of age belonging to A group, who would like to contract a commercial credit, but failed in being granted it;
6. The percentage or number of persons over 18 years of age belonging to the A group, who requested a commercial credit.

## CONCLUSIONS

In order to solve these financial exclusion problems, it is necessary to take certain measures at national, regional and group levels.

- Identifying ways to mitigate the financial and social exclusion, by promoting the sustainable and ethical dimension of banking and financial activity. It is required a comprehensive analysis of the financial exclusion situation in Romania (*at national and regional levels*);
- Studying the links between the financial and social exclusion. Studying the links between the financial exclusion and over-indebtedness;
- Evaluation of measures of streamlining the national policies implemented in the field of financial inclusion. Study of European and international best practices in the field;
- Quantifying the financial and social exclusion indicators;
- Assessment and adoption of common definitions for EU countries on financial and social exclusion indicators, for a common approach;
- Analysis of activity for non-governmental organizations in the field of sustainable, socially- responsible or ethical business in the field of finance and banking;
- Inventory of NGOs and their grouping by activity developed in the social field and especially in the field of social inclusion;
- Developing the methodology for the identification of potential financially and/or socially excluded individuals in the labour market, at national and regional levels. Identification of opportunities to enable people in distress and elaboration of proposals and measures for activating them. Development of a training framework for financial education oriented to people in distress.

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