

# **FINANCIAL VULNERABILITY, DETECTION MECHANISMS AND MEASURES ADOPTED IN FRANCE**

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# 35 YEARS OF BUILDING BANKING INCLUSION THROUGH REGULATORY FRAMEWORK

- 1984 - recognition of the “right to a bank account”
- 1989 - introduction of a specific procedure to handle cases of individual over indebtedness under the Neiertz law
- 2013 - recognition of “financial vulnerability” notion in the law, creation of Observatory for Inclusive Banking
- 2014 - adoption of Inclusive Banking Charter
- 2019 - capping of incidental bank fees for financially vulnerable customers



## CRITERIA FOR FINANCIAL VULNERABILITY (1/3)

- Credit institutions detect financial vulnerability based on 3 types of criteria:

### 1) 'Proven' financial vulnerability

Cases are detected based on regulatory criteria, defined by the law and applied by all banks

- ✓ A client has submitted an admissible over-indebtedness declaration
- Starting from 2020, this client should be considered as 'vulnerable' during the course of all deleveraging measures as decided by the Banque de France, which could last up to 5 years
- ✓ The client is listed in the 'Fichier Central des Chèques' for longer than 3 months



## CRITERIA FOR FINANCIAL VULNERABILITY (2/3)

### 2) 'Modular' financial vulnerability

Cases are detected based on criteria envisaged by the regulation and thresholds are determined by the banks:

- ✓ Repeated incidents related to account functioning (rejected direct debits, payments, transfers, etc.)
- ✓ Level of financial resources credited to the account (cash inflows)

These criteria are assessed on a rolling 3 months basis. Starting from the 1<sup>st</sup> of November 2020, a client is considered financially vulnerable if there were 5 or more account incidents over one month



## CRITERIA FOR FINANCIAL VULNERABILITY (3/3)

### 3) 'Supplementary' financial vulnerability

Cases detected based on supplementary criteria put in place by the bank.

For example internal rating mechanisms, expenses debited from the account (cash outflows), etc.

**→ The objective is to detect financial vulnerability as early as possible in order to prevent the over-indebtedness**



# REPORTING

- Every trimester, banks should report the number of financially vulnerable customers detected during the period as well as the ‘stock’ of vulnerable customers
- Based on the reported information, the Observatory for Inclusive Banking, chaired by the Governor of the Banque de France analyses the total costs incurred by vulnerable customers



# PREDICTIVE DETECTION

- According to the Inclusive Banking and Over-Indebtedness Prevention Charter adopted in 2014 and renewed in 2020, banks are required to implement early detection algorithms in addition to detection mechanisms required by the regulation
- ➔ Allows to consider weak signals such as job loss, divorce etc.
- ➔ Detected customers are not immediately reported to the Observatory for Inclusive Banking, but could be subject to special monitoring



## SPECIFIC OFFER FOR FINANCIALLY VULNERABLE CUSTOMERS

- In case of detection of financial vulnerability, banks are obliged to propose to fragile customers a special offer
  - ❑ **Price:** maximum € 3 per month
  - ❑ **Goals:** help financially vulnerable customers to manage and control their budgets better as well as to limit the fees levied in case of payment incidents or other irregularities with account functioning.
  - ❑ **Banking services include:** all services that allow an individual to have a basic bank account with standard functions (incl. withdrawals, capped fees, account balance checks, systematic authorization card, etc.)





## CAPPING INCIDENT FEES OF BANKS

- From early 2019, banks have been capping their incident fees for financially vulnerable customers:
  - Maximum of € 25 per month for financially vulnerable customers
  - Maximum of € 20 per month and € 200 per year for customers that subscribed to a special offer

Compliance with these measures is monitored by the Observatory for Inclusive Banking and controlled by the Prudential Control and Resolution Authority (ACPR). Fees incurred by the financially vulnerable customers have decreased by 20% in 2 years.



## THE INCLUSION ALERT UNIT

- **In 2020, the Banque de France has established a unit which cooperates with associations and social workers**
  - ✓ They can trace individual cases that were not detected by the banks, despite a difficult situation
  - ✓ They can intervene with banks
  - ✓ They analyse the individual cases and present a yearly report to the Observatory for Inclusive Banking in order for it to take into consideration these concrete cases and to ensure a better financial inclusion of individuals



## MEASURES IN FIGURES

- 3.4 million financially vulnerable customers identified
- 550 000 customers benefitted from the special offer (+57% since end-2017)
- € 255: average annual costs of bank account for financially vulnerable customers in 2019 (-16% compared to 2018)
- € 151: average annual costs of bank account for customers benefitting from the special offer in 2019

**➔ Early detection measures have made it possible to restore purchasing power of financially vulnerable people**



**Thank you for your attention!**

