

# Financial Inclusion as Enabler for Innovation in Banking

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## Abstract

Using evidence from Spain, this study assesses the readiness of the banking sector of the EU to introduce technological and social innovations to implement the European policy of financial inclusivity. Despite the evident benefits for banks in terms of enhancing legitimacy and improving consumer knowledge and loyalty, mostly banks at present merely comply with the formal aspects of financial inclusion regulation, but are not going further in terms of technical or social innovation, using compliance

to avoid the ‘stick’ of regulation. In contrast, a review of the banks’ own corporate social responsibility strategies shows a higher level of commitment and innovation in terms of financial inclusion. Based on the analysis of institutional factors that determine the involvement of banks in the inclusivity policy, recommendations are proposed for adjusting development strategies in order to combine the efforts of the public and private sectors in the provision of public services.

**Keywords:** financial inclusion; knowledge-intensive services; public policy; innovation; new technologies; strategies; digitalization.

**Paper type:** Research Article

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## Introduction

The present-day banking sector is under pressure from two main factors: on the one hand, it must comply with the legal requirements on financial inclusion (equal access to services for all social groups), while on the other, make sure profits keep growing. To maneuver between these objectives, banks implement complex strategies taking into account many various factors.

In the European Union (EU), universal access to basic payment services, including bank accounts, is seen as a social cohesion condition.<sup>1</sup> Private banks must provide a minimum set of services to all Europeans, regardless of citizenship and place of residence, to overcome the financial exclusion of vulnerable social groups (Gloukoviezoff, 2007). Such services provided on customers' request, without making it conditional on accepting other offers, include basic payment accounts (BPA).

The relevant literature is focused on the relationship between increasing profits and the effectiveness of corporate social responsibility (CSR) strategies. However, specific features of private companies' provision of public benefits have not yet been described in detail (McWilliams, Siegel, 2011). The purpose of this paper is to assess the development of social innovations to make BPA transparent and available, and increase their contribution to the implementation of the European financial inclusion policy.

## Literature Review

The European Commission's priorities in promoting innovation-based growth of financial markets include increasing the availability of services to reduce social stratification (De Serres, Roux, 2006). In the current context, the inability to use bank payment tools makes it impossible to conduct almost any transaction (Storm, 2018; Sawyer, 2014). While the demand for cash to a store of wealth has grown (Goodhart, Ashworth, 2020; Jobst, Stix, 2017), for making payments it is used increasingly rarely, at least in developed countries (Guttman et al., 2021; Arango-Arango, Suarez-Arisa, 2020). For example, in Sweden most payments are made using bank cards, electronic wallets, etc. (Engert et al., 2019). The list of everyday transactions for which the use of cash is prohibited and intermediaries are required in the form of official financial institutions, is expanding. A similar trend exists in all European countries (Lazarus, Luzzi, 2015; Lazarus, 2017).

The availability and security of financial products is becoming a key factor in improving the quality of life (Kear, 2013; Storm, 2018). Financial inclusion implies the productive use of services by all social groups (Anderloni, Carluccio, 2007). That said, low-income clients may be discouraged by high service fees for using bank accounts (Cartwright, 2015; Mendoza, 2011).

## Approaches to Tackling Financial Exclusion

The phenomenon of financial exclusion is primarily addressed by public and "protective" organizations - credit unions and savings banks, which traditionally rely on the equal treatment of all clients ("relational banking") (Delgado et al., 2007; Culpepper, 2002). However, the 2008 economic crisis has significantly affected banks' activities, leading to a reduction in the number of branches. The lower interest rates led to a decrease in profit margins. Barriers have arisen hindering "cross-subsidizing" practices, when revenues from profitable business segments offset losses incurred elsewhere (Froud et al., 2017; Maron, 2013). The need to improve operational performance became more urgent. A new business model has emerged, "flight to quality", enhancing consumer value through customer segmentation (Froud et al., 2017; Molyneux, 2007). However, the supply of cheap banking services has declined, with low-income customer segments finding themselves with a limited ability to use them (Ayadi et al., 2010). The proliferation of digital technologies combined with insufficient user support lead to those without the skills needed to use them being cut off from banking services altogether (Clark, Myers, 2018; Gloukoviezoff, 2007).

This context prompted EU regulators to take steps to protect vulnerable consumers, including introducing basic payment services (European Commission, 2011a). Sweden, Finland, Denmark, Belgium, and France acted proactively, by enshrining the right to a personal bank account in the law, while the Netherlands prohibited refusing applications to open one (Gómez-Barroso, Marbán-Flores, 2013). European legislation guarantees the right to open a BPA regardless of the clients' employment status, income, credit history, or bankruptcy. Banks are expected to educate the most vulnerable customer groups on responsible financial management. The document aims to support a new social policy which allows for government intervention in the provision of financial services in the event of market failures

<sup>1</sup> European Commission Regulation 2014/92/EU of 23.07.2014. [https://www.wsbi-esbg.org/Positions/Payments/Payment\\_Accounts\\_Directive](https://www.wsbi-esbg.org/Positions/Payments/Payment_Accounts_Directive), accessed on 12.02.2022.

with major social consequences (Gómez-Barroso, Marbán-Flores, 2013). This can negatively affect banks' performance, since they must choose between improving the efficiency of their operations or meeting their social responsibilities (Maudos, De Guevara, 2007). The question arises of which non-commercial motives banks may be guided by in providing basic services, and how their partnership with the state and application of digital technologies contribute to improving social welfare (Adeel et al., 2013).

### **Financial Inclusion**

Non-profit strategies play an important role in managing organizations' institutional and social context (Bonardi et al., 2006). They imply adhering to CSR principles and a focus on public good (Mellahi et al., 2016; Anguinis, Glavas, 2012). Re-orienting business models to create added value for stakeholders, and shifting the focus to social responsibilities have a number of positive effects such as improved reputation, increased consumer loyalty, better relations with stakeholders, easier access to funding, and other important resources (Mellahi et al., 2016; Surroca et al., 2010; Anguinis, Glavas, 2012).

Systemic economic risks arising from banks' activities lead to the introduction of special requirements for their legitimacy (Ülgen, 2018, 2021; Culpepper, 2002). Most banks use public assets (people's savings, etc.). Consequently, they need to generate public good, in particular provide financial inclusion (Roa Garcia, 2016; Morgan, Pontines, 2014; Cull et al., 2021). However, the extent to which banking services are "social" may differ from other public benefits, such as security (Ozili 2020; Gupte et al., 2012). Banks are expected to cover the cost of providing free or inclusive services as part of their business costs, which to some extent may be subsidized by the government (Ozili, 2020). An inclusive approach to providing basic financial services looks like a promising area for joint public-private projects (Ülgen, 2021).

The issue of financial exclusion in developing countries is most often addressed through microfinance, often with government support (Adeel et al., 2013; Hardy et al., 2010). In developed countries, tools to reduce "poverty premium" are applied for this purpose, which arises from the reduced use of banking

services all the way to completely abandoning them ("underbanking" and "unbanking")<sup>2</sup> and from digital isolation.

The above challenges are exacerbated by the proliferation of cashless payments. Digital technologies reduce the cost of basic financial services and improve service quality, but users who do not have the necessary skills face problems (Bielefield et al., 2021). The European Commission expects banks to address the issues with which the market cannot cope.

Given the internal and external incentives for banks to follow the CSR principles, questions arise about whether they simply comply with letter of the law, or try to find innovative approaches to promote an inclusive financial services market, and if so, what is their contribution in this area?

Research on this topic remains scarce, especially regarding customer experience. It is assumed that banks will only benefit from strengthening their own legitimacy, increasing awareness, and strengthening customer loyalty. Therefore filling the existing knowledge gap is critical for banks and regulators alike.

### **Design and Methodology of the Study**

European legislation on payment accounts implies adapting to national standards,<sup>3</sup> so relevant studies must be carried out at the national level. This will eliminate distortions in the conclusions on the implementation of relevant strategies due to country-specific features.

Spain is of interest as an object of study for several reasons. The country's banking sector is a leader in CSR and sustainable development. Five banks are in the top ten in the European Dow Jones Sustainability Index ranking.<sup>4</sup> At the same time, there is the "underbanking" trend among low-income population groups, despite the high total share of account holders. The availability of financial services for this group is comparable to that for the general population, but its members are much less likely to use payment tools such as debit cards due to high service fees.<sup>5</sup> Mandatory criteria for information transparency regarding BPA have been introduced for various communication channels. Special conditions are offered for vulnerable customers,<sup>6</sup> including free BPA.

<sup>2</sup> In the EU context, 'unbanked' refers generally to "people with no bank at all". 'Underbanked' or 'marginal banked' refers to "people with a deposit account that has no electronic payment facilities and no payment card or cheque book. It can also be people who do have these facilities but make little or no use of them" (Anderloni et al., 2008).

<sup>3</sup> In the case of Spain, according to the Royal Decree 19/2017 of 24.11.2017. <https://www.boe.es/buscar/doc.php?id=BOE-A-2017-13644>, accessed on 22.10.2021.

<sup>4</sup> [https://portal.csa.spglobal.com/survey/documents/DJSIComponentsEurope\\_2020\\_.pdf](https://portal.csa.spglobal.com/survey/documents/DJSIComponentsEurope_2020_.pdf), accessed on 22.10.2021.

<sup>5</sup> <https://www2.cruzroja.es/-/boletin-n-11-sobre-vulnerabilidad-social>, accessed on 12.11.2020.

<sup>6</sup> Regulation ECE/228/2019 or 28.02.2019. <https://www.boe.es/buscar/pdf/2019/BOE-A-2019-3113-consolidado.pdf>, accessed on 14.06.2021.

**Table 1. Requirements for Basic Payment Accounts**

Conditions	RD-law 19/2017	Directive 2014/92 / EU
<b>General duties</b>	- All banking entities shall offer basic payment accounts. - All advertising, information and contractual documentation shall be identified with the name “basic payment account.”	- Enough credit institutions shall offer BPA to guarantee that all consumers have access to them, avoid any type of discrimination, and guarantee free competition. - Non-discrimination or stigmatization regarding the products appearance or the specialization of certain entities.
<b>Beneficiaries</b>	-EU residents, including people without a fixed address, asylum seekers and people without residence permission, whose expulsion is impossible for legal or factual reasons.	
<b>General fees</b>	-Cost according to entity-client negotiation, with a reasonable maximum established by the Ministry of Economic Affairs (Order ECE/228/2019, 28 February): 3€ per month covering a maximum of 120 transactions per year. -Regulation can determine more advantageous conditions for vulnerable consumers (Royal Decree 164/2019, 22 March): Free for vulnerable population. - Entities shall offer information on characteristics, fees or conditions of BPA through any distribution channel.	-Free or reasonable cost. - Advantageous conditions for vulnerable consumers. -Reasonable fees for non-compliance. - Limit maximum amount and duration of overdrafts (if allowed). -Maximum transparency on fees.
<b>Additional fees</b>	-Additional costs may not exceed the average commissions applied by each entity.	- Guarantee essential additional services according to uses of the country, at a reasonable cost.
<b>Personnel training</b>		- Adequate training of the personnel of the banking entities. - Avoid possible conflicts of interest having a negative impact on clients.
<b>Denial to open BPA</b>	- Holders of another account, unless the entity has unilaterally decided to close it. -Denial for failure to provide the information required to assess risks of money laundering or anti-terrorism.	- Holders of an equivalent active payment account in the same member state. - Cases of refusal limited to non-compliance with the regulations on money laundering or anti-terrorism.
<b>Covered services</b>	-Unlimited operations regarding management and payment services, and within the EU.	- Deposits, cash withdrawals, payment card, various payments (without limit), direct debits, debits and transfers (regulated minimum), online banking services. -Do not restrict to online services.
<b>Contracting of additional products</b>	-The contracting of other products or capital participations or similar will be compulsory only if it is unavoidable for all the clients of the entity. -The non-need to contract other products will be showed in the advertising information.	-Clear and understandable information on the right to open and use a BPA. -Adapted to vulnerable consumers. - Highlight the non-need to contract other products.
<b>Promotion</b>	- Ministry of Economic Affairs establishes the measures to inform and advise credit institutions consumers, particularly the most vulnerable people.	-Education, advice and assistance for vulnerable consumers. -Financial and independent training provided by the credit institutions.

Source: own elaboration from the mentioned regulation.

Table 1 compares the main requirements for national banks regarding BPA, with references to relevant European legislation.

We analyzed Spanish banks’ BPA strategies in terms of minimum necessary versus excessive (going beyond the basic requirements) compliance with European and national rules. Possible signs of applying social or technological innovations were considered in such areas as meeting information provision requirements<sup>7</sup> (Table 2); information on the services and their costs,<sup>8</sup> free BPA<sup>9</sup> (Table 3); and customer support to open BPA<sup>10</sup> (Table 4). The use of additional criteria allowed us to determine whether sufficient support was provided to users.

**Sample Selection**

The objects for analysis were selected from the total of 199 organizations meeting the Bank of Spain’s standards for offering a BPA. Annual reports available in national financial associations’ databases were studied.<sup>11</sup> Since the BPA can be used to deposit savings and make payments, the amount of deposits was considered to be the best measure of this service’s value. This criterion is preferred to other operations that were not included in the number of basic services guaranteed by law (e.g., the provision of loans). The amount of savings in BPAs is undisclosed. Based on the balance sheets, 15 leading banks were identified in terms of the amount of cus-

<sup>7</sup> Regulation ECE/228/2019, ct. 8.

<sup>8</sup> Regulation ECE/228/2019, ct. 4.

<sup>9</sup> Royal Decree 164/2019 (see above).

<sup>10</sup> Including other services in addition to the minimum set defined by Art. 4 of Regulation ECE/228/2019, and the list of the most common payment account services published by the Bank of Spain (Royal Decree 19/2017, art. 15, see above).

<sup>11</sup> Among them are the Spanish Banking Association, the Spanish Confederation of Savings Banks, and the National Union of Credit Cooperatives.

**Table 2. Duty of Information Indicators (compliance).**

Code	Review question (answer — yes / no)
Website info	Is there information on BPA on the entity's website?
General conditions	Is it specified who can contract the BPA and the conditions to be met?
No-obligation purchasing additional services	Is it indicated that it is not mandatory to contract other services?
Opening procedure and documentation	Does it include information on the opening procedure and the documentation to be provided?
Dispute resolution system	Is the alternative dispute or litigation resolution system mentioned?

Source: own elaboration.

**Table 3. Services and Fees Indicators (compliance)**

Code	Review question (answer — yes / no)
Maximum fee	Does the entity charge the maximum fee for the services described in article 4.2?
Extra fees	Does the entity charge fees when exceeding 120 operations per year (art. 4.2)?
Fees reporting	Does the entity quarterly report to the BdE regarding fees and/or average costs of BPA?
Cash withdrawals' fees reporting	Does the entity report if it charges fees for cash withdrawals from ATMs?
No-cost requirement disclosure	Does the entity disclosure that BPA have not cost for people in situations of vulnerability / risk of financial exclusion?

Source: own elaboration.

**Table 4. Assistance and Additional Services Indicators (over-compliance)**

Code	Review question (answer — yes / no)
Credit card	Is it possible to contract a credit card associated with the BPA?
Credit cash on ATM	Does the BPA allow the withdrawal of cash on credit at ATMs?
Arranged overdrafts	Does the BPA allow arranged overdrafts?
Unarranged overdrafts	Does the BPA allow unarranged overdrafts?
Foreign currency	Does the BPA allow transactions in foreign currency or currency exchange?
Alert service	Is there an alert service (SMS, email) associated with the BPA?
Check negotiation	Does the entity provide check negotiation and clearing services for BPA?
Check return	Does the entity provide return of cheques for BPA?

Source: own elaboration.

**Table 5. Top15 Volume of Deposits**

	Deposits (Millions €)	% Total
TOP15	1 190 691.20	88.6
Total credit institutions	1 343 678.48	100

Source: own elaboration

customer deposits (Tables 5 and 6). The correlation between CSR and performance indicators strengthens as organizations become larger, more visible, and more transparent (Anguinis, Glavas, 2012).

To ensure the sample's homogeneity, two organizations were excluded from it.<sup>12</sup> Accordingly, 13 banks remained, which accounted for 85% of the total national savings deposits (1,144,903.10 million euros) based on data from 2018.

### Financial Inclusion Policies

The inclusion policy status of the banks in the sample was assessed on the basis of their non-financial reports for 2019 and 2020.<sup>13</sup> Summary results are presented in Table 7. About half of the banks in the sample published formal financial inclusion commitments. The rest have outlined the relevant provisions in their "sustainable development matrices", but their priority remains low and they are not mentioned in the CSR strategies.

The strategy provides for digital, functional (for the disabled), and territorial (remote areas) accessibility. No special attention is paid to "unbanked" and "underbanked" people, or to low-income customers. Such services are mainly focused on lending (micro-loans, mortgage terms revision). However, certain globally operating banks offer, on the basis of technological and social innovations, tailored payment options for markets with a high level of financial exclusion.

References to the BPA are limited to a compliance declaration, but advisory user support and active promotion of the services in question are not part of the inclusion strategy. The most advanced initiatives have been developed by international banks for countries with a high level of financial exclusion. In particular, these include a scalable strategy based on a multi-product portfolio of low-cost innovative digital solutions. Big data mining is becoming increasingly important in the implementation of new social initiatives.

### Data Collection

Data was collected at the end of 2019. At the first stage, information published on websites of the banks in the sample and of the Bank of Spain was analyzed. Banks were considered to be complying with the requirements if all the information provided in official documents was available on their web-

<sup>12</sup> ING Bank provides mainly online services, while our study focused on customer service at bank branches. Banca March targets the wealthy segment of individual users and corporate clients.

<sup>13</sup> Sometimes they are referred to as "sustainability reports". Must be presented according to Regulation 2014/95/EU of 10/22/2014 (<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0095>, accessed 19.12.2021 ) They are used by shareholders and other stakeholders who respond to CSR by favorably assessing the company and its services, which strengthens its reputation (Anguinis, Glavas, 2012).

**Table 6. TOP15 Credit Institutions**

EUR CODE	Name	Deposits (Millions €)
ES0049	Banco Santander	240 693.37
ES2100	CaixaBank	195 196.47
ES0182	BBVA	192 419.20
ES2038	Bankia	130 084.65
ES0081	Banco de Sabadell	106 907.37
ES0128	Bankinter	48 982.33
ES2103	Unicaja Banco	43 708.87
ES2080	Abanca Corporación	37 380.94
ES2095	Kutxabank	35 638.41
ES2085	Ibercaja Banco	35 493.37
ES1465	ING Bank	35 317.19
ES2048	Liberbank	30 828.58
ES3058	Cajamar Caja Rural	27 948.09
ES3035	Caja Laboral Popular	19 621.47
ES0061	Banca March	10 470.91
TOTAL DEPOSITS		1 190 691.20

*Source:* own elaboration.

**Table 7. Analysis of Financial Inclusion Policies (share of involved banks, %)**

Indicator	2019	2020
Financial inclusion strategy	53.85	53.85
• not just territorial inclusion	46.15	46.15
Address unbanking/underbanking	7.69	15.38
Services for low-income customers	15.38	30.77
Refers to the BPA	15.38	7.69
Refers to technological innovation in business	100.00	100.00

*Source:* own elaboration based on non-financial reporting.

sites. At the second stage, field research was carried out using the “mystery shopping” method, which is quite common, but still rarely applied in the banking sector (Wilson, 1998; Pinar et al., 2009; Tarantola et al., 2012; Kaffenberger, Sobol, 2017). One branch of each bank in the sample was visited in three cities: Madrid, Bilbao, and Valencia. The branches were randomly selected based on location in the lowest income areas.<sup>14</sup> A specially trained group of three “mystery shoppers” assessed how complete the information available on information stands and obtained from the branch staff was. To avoid distortions in data analysis, standardized criteria were

applied. All bank websites were studied by the same expert. The survey results were aggregated, and the assessments were checked with the respondents (the “mystery shoppers”).

## Results and Discussion

### *Analysis of Open Source Data*

Banks generally comply with the minimum requirements for informing customers about BPAs, clearly describe contract terms, and do not pressure customers into procuring additional products (Table 8). Only in a few cases was the displayed information incomplete. Most banks do not try to facilitate opening a BPA online. A little more than a third of the banks provide complete information about the regulations and the necessary documents. Banks seem to be trying to improve performance by targeting the “core customer segment” for CSR reasons (Mellahi et al., 2016) and BPA users do not belong in it. Low marketing activity in promoting BPAs compared to other services offered by the same banks seems to confirm this. This option is not even mentioned on the banks’ websites among “other payment accounts”.

Contrary to the opinions expressed by certain researchers (Brenkert, 1998; etc.), focusing marketing on vulnerable social groups produces varied effects for banks. In particular, it increases the number of BPA holders. One bank transferred all clients receiving social inclusion benefits to free accounts (presumably BPAs). An analysis of CSR reports published by the banks in the sample revealed only a few references to BPAs and only for vulnerable consumers. The fact that any client who meets the relevant requirements can open a such an account was not mentioned. Some banks offer enhanced options or lower prices for customers signing up online. However, many potential users of this service, especially elderly ones, may find themselves in digital isolation due to lack of access to mobile communications or the internet, and insufficient skills to confidently use it (Clark, Myers, 2018). To ensure their inclusion, banks will need to rethink the balance between their commercial interests and focusing on the public good.

All banks comply with the maximum monthly fee for BPAs, which is in line with the financial inclusion policy. Price regulation is considered justified only when there is a risk of financial exclusion.<sup>15</sup> However, most banks do charge extra for over-the-limit transactions.

<sup>14</sup> [https://www.ine.es/experimental/atlas/exp\\_atlas\\_tab.htm](https://www.ine.es/experimental/atlas/exp_atlas_tab.htm), accessed 27.10.2019.

<sup>15</sup> <http://www.ebf-fbe.eu/uploads/EBF%20Key%20Information%20Document%20on%20Bank%20Accounts.pdf>, accessed 12.01.2021.

Table 8. Analysis of compliance based on information disclosed on the webs

Indicators	Compliant entities	
	number	%
<b>Duty of information</b>		
Website info	13	100
General Conditions	13	100
No-obligation purchasing additional services	13	100
Opening procedure and documentation	5	38.46
Dispute resolution system	3	23.08
<b>Services and fees</b>		
Maximum fee	13	100
Extra fees	9	69.23
Fees reporting	11	84.62
Cash withdrawals' fees reporting	13	100
No-cost conditions disclosure	13	100
<b>Assistance and additional services</b>		
Credit card	4	30.77
Credit cash on ATM	4	30.77
Arranged overdrafts	0	0.00
Unarranged overdrafts	4	30.77
Foreign currency	8	61.54
Alert service	11	84.62
Check negotiation	12	92.31
Check return	12	92.31

Source: own elaboration.

Banks do not apply any service fee innovations that could be considered part of a CSR strategy. For example, personalized pricing based on big data analytics (Yeoman, 2016) could better match rates to different customer profiles, within set limits. One bank offers financial solutions at reduced costs in developing countries based on new digital technologies. Only less than a third of the banks allow for linking credit cards to BPAs; the rest follow the rules and limit their offerings to debit or prepaid cards. Overdrafts (authorized or unauthorized) are usually not allowed, which indicates the desire to radically reduce the risks associated with opening BPAs. However, big data technologies help with personalized credit risk modeling and, accordingly, with risk management (Vassakis et al., 2018). Inclusion strategies implemented by international banks in countries with high levels of financial exclusion sometimes provide for lending and other “risky” services (one bank specializes in microloans).

Table 9. Analysis of compliance based on visits and interviews

Indicators	Compliant entities	
	number	%
<b>Visibility of the information in the branch</b>		
On the notice board	3	23.08
Specific brochure	7	53.85
<b>Service accessibility</b>		
Usefulness of the information and provision of contract forms	6	46.15
<b>Quality perception of the branch assistance</b>		
Known product/ adequate assistance	1	7.69

Source: own elaboration.

### Field Research

During visits to bank branches the availability of BPA information<sup>16</sup> on bulletin boards and in booklets was assessed, along with the staff’s willingness to communicate at least the minimum amount of necessary information and offer to open BPAs for customers. The aggregated results are presented in Table 9.

The staff did provide information to the “mystery shoppers”, but due to their limited knowledge of BPAs, they constantly had to turn to corporate information resources for assistance. This state of affairs leads to most customers remaining unaware of this service, so demand for it stays low. Consumer organizations also remain sceptical, believing that only a small share of potential users actually open BPAs due to the low competitiveness of the product compared to other kinds of low-cost online accounts.<sup>17</sup> Unlike the European legislation, Spanish national regulations do not require training bank staff in the use of BPAs. There is no evidence that banks arrange such training themselves either. Still, some of the surveyed banks did improve their staff’s skills in working with vulnerable client groups.

One incentive for the financial sector to offer inclusive services is legal pressure (Jeucken, Bouma, 1999; Matten, Moon, 2008). In an effort to pre-emptively respond to it, a major Spanish bank developed guidelines for serving vulnerable customers and preventing the accumulation of excessive debt.<sup>18</sup>

<sup>16</sup> Regulation ECE/228/2019 of 28.02.2019 (see above).

<sup>17</sup> <https://www.ocu.org/dinero/cuenta-bancaria/noticias/cuentas-basicas>, accessed 24.02.2021.

<sup>18</sup> <https://www.santander.com/content/dam/santander-com/en/documentos/informe-anual/2020/ia-2020-annual-report-en.pdf>, accessed 04.02.2022.

Thus, financial inclusion policies should not be limited to meeting the minimum mandatory requirements in order to avoid punishment. They can promote social innovation, which will help banks strengthen their reputation and institutional legitimacy, and develop human resources. Tools that can help one accomplish this include artificial intelligence (Yeoman, 2016), training sessions, and public-private partnerships to design digital solutions (Özili, 2020).

## Conclusion

With regard to BPAs, Spanish banks seem to be limiting their efforts to comply with minimum requirements set by law. No innovation was discovered aimed either at improving free services (permitted and recommended by EU legislation) or personalizing BPA service fees. Despite the fact that the banking sector belongs in the knowledge-intensive services segment and therefore has significant innovation potential (Xiao, Zhao, 2012; Yip, Bocken, 2018), innovation in this area concerns processes rather than products (Gopalakrishnan, Damanpour, 2000). The analyzed reports revealed efforts to digitize services. BPAs require personalized attention to customers, which goes against the low-cost innovative digital services model. Since banks have no motivation to promote BPAs (Jeucken, Bouma, 1999), this service is offered only nominally due to legal pressure and forces not connected to the market.

On the contrary, banks actively use other financial inclusion formats in the framework of their CSR strategies (Jeucken, Bouma, 1999). This strengthens their reputation and institutional legitimacy, helps improve qualifications and motivation of the staff, and attracts resources for development. Targeting vulnerable customer groups in regions where the supply of banking services is insufficient, despite involving social obligations, has a fundamentally commercial motivation (Mulgan, 2006). That is the area where banks show the highest level of innovation activity.

This study offers a number of recommendations to improve financial inclusion policies, of which the BPA is a key tool. The goal is to make sure “no one is left without access to basic banking services”.<sup>19</sup> The effectiveness of the strategy can be improved

by deeply integrating BPAs into a bank’s CSR model. Precise wording should be used to promote BPAs, the bank’s website must be easy to search, and effective marketing campaigns should be implemented (Corrado, Corrado, 2015). Social innovation in financial inclusion can be promoted by training bank staff to work with vulnerable groups and using artificial intelligence technologies to advise customers. Given the downward trend in banks’ profit margins, which is projected to continue for at least a few more years, cross-subsidizing (Froud et al., 2017) does not appear to be a compelling incentive to implement the above recommendations. Assessing BPAs’ effects can present a difficult dilemma for bank management and government officials alike. Promoting public-private partnerships to provide basic services may be the solution.

Tax incentives and subsidies for providing particular banking services and developing technologies to serve vulnerable social groups could play an important role in co-creating customer value (Özili, 2020). Equally important is setting up working groups to share knowledge and experience in financial inclusion and related topics, involving representatives of non-profit organizations and social services.

The paper has certain limitations. Sufficient amounts of data for analysis were accumulated only from bank reports presented to the regulatory authorities. Difficulties arose in collecting data on the practical implementation of inclusion policies. The “mystery shopping” method is highly resource-intensive and the resulting sample was insufficient for effective application. For ethical reasons, interviews with bank employees were not recorded. The available statistics on the number of opened BPAs is limited for objective reasons. Due to these factors, it turned out to be impossible to properly use quantitative analytical methods, so the study was based on descriptive data. However, the “mystery shopping” method proved to be effective for analyzing other knowledge-intensive services.

Further research in other EU countries will allow one to more accurately assess the impact of BPA policies and their possible synergy with technological solutions and CSR strategies. This will lead to a better understanding of the overall dynamics of public-private partnerships in the provision of social benefits and ways to improve their effectiveness.

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<sup>19</sup> Paraphrasing the motto from the UN’s 2030 agenda, “No one left behind”. <https://www.undp.org/sustainable-development-goals>, accessed 11.02.2022.



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