

Erste Bank Social Banking: Working against Poverty

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Study commissioned by Erste Bank shows the effects of social banking on the economy

Focus on basic financial services, micro loans and general financial education

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In Austria, there are more than one million people at risk of poverty. For more than 29% of households, unexpected expenses such as the need to buy a new washing machine pose a problem; every fifth household is unable to take part in everyday economic life. The fall into poverty is usually triggered by low income. Special risk groups include those belonging to the strata of society with low-levels of education, single parent households, and households with migration backgrounds. The responsible use of financial services can counteract poverty and has a positive effect on the overall national economy: these are the findings of the study commissioned by Erste Bank. However, basic financial services in low-income households are rare. More than 150,000 people in Austria do not have a bank account, 21% of low-income households have no household insurance "Many people think that everyone has a bank account and that this is a matter of course. In reality, this is not the case at all," said Peter Bosek Member of the Management Board at Erste Bank Oesterreich for Retail and Corporates.

The findings speak for themselves: What is needed is responsible banking business. "Our founding principles state that financial services should be accessible to everyone," explained Mr. Bosek. These principles have resulted in the establishment of the department "Social Banking" at Erste Bank. The focus is on micro loans, basic financing services and general financial education. Since 2010, Erste Bank has been granting micro loans to unemployed persons in collaboration with the Federal Ministry of Labour Social Affairs and Consumer Protection, and to persons at risk of becoming unemployed. The study shows the success of the project: each new start-up creates two to three new jobs, with most being formerly unemployed persons; micro loans give people another chance, especially women. A share of 44% of the start-ups funded by micro loans are set up by women, which is almost 10% more than in a comparison of start-ups founded by persons that do not belong to the group of unemployed. "The project has achieved a 50% self-financing rate by now by easing the burden on social spending and by the creation of new jobs," stated Mr. Bosek. Since the start of 2012, further savings banks have joined the project "dermikrokredit" and it is now represented in all of Austria.

People who have already lost their bank accounts can also turn to Zweite Sparkasse. Jointly with the debt counselling services of Caritas, over 8,000 customers are provided with basic financial services such as a giro account and a household insurance.

According to the study commissioned by Erste Bank, an account means not only savings of around EUR 315 in transaction costs per year, but having this money to spend on the cost of living. An account makes it easier to find a job, because an account is a job requirement for many employers.

As a measure to prevent poverty, the study recommends general education on financial themes. "General financial education also means knowing how to deal with the money at one's disposal," explained Mr. Bosek. "According to our study, wrong



Peter Bosek, Member of the Management Board at Erste Bank Oesterreich

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decisions due to lack of knowledge contribute, for example in Germany, to a loss of 1% of GDP.” The problem of imparting financial knowledge, however, is that the population does not at all perceive that it has any knowledge deficit. A share of 67% assessed themselves as financially competent in a survey, but in the end, only 27% were able to solve a relevant calculation example. The study shows that general education in financial matters should start with children, because it is a life-long learning process. “Financial education should not be boring, especially for children, and should not be only about calculating figures. Sparefroh TV, for example, shows how to deal with money using games,” explained Mr. Bosek. The third run of the Sparefroh TV series will be broadcast in the autumn and is recommended by the Austrian Federal Ministry for Education, Arts and Culture as instructional material for the first to fourth grade of elementary school. The Social Banking Department of Erste Bank has been holding workshops on the right way to deal with money for fourth to eighth graders since 2011.

“Our Social Banking is not just charity. In the end, customers are able to stand on their own two feet financially,” Mr. Bosek described the work of the Social Banking Department. Further projects are ready to go live and currently in the pilot phase: A managed account is designed to help customers regain control of their financial life and micro loans are intended to help them achieve social improvement.