GPFI Global Partnership for Financial Inclusion

Global Standard-Setting Bodies and Financial Inclusion: The Evolving Landscape
2nd edition of the GPFI White Paper
Draft Consultation Document

Deadline for comments: 29 January 2016, 15:00 GMT time
Comments to be sent to mvalenzuela@worldbank.org

Organisation/Reviewer: WSBI – World Savings and Retail Banking Institute

	Section & Page number	Comment	Resolution
Executive Summary			
		WSBI welcomes the GPFI's second white paper and thanks the GPFI and partners for the opportunity to contribute to the drafting phase. It supports the aim of raising awareness on the changing landscape for financial inclusion and integrating financial inclusion objectives into the standards and guidance emanating from the international standard setting bodies (SSBs). It welcomes in particular the growing consensus on the need for proportionality in the work of the SSBs as well as the increasing relevance of digital financial inclusion since the first GPFI White Paper in 2011. Recognition of the need for cooperation between SSBs as well as a dialogue with industry on these issues is also welcomed. WSBI and its members have a strong history and tradition of active involvement in financial inclusion. WSBI member research[i] suggested back in 2003 that member banks are large providers of financial services to all socio-economic segments, even the very poor, with an estimated 1.1 billion out of 1.4 billion accessible (low cost/low average balance) global savings accounts managed by WSBI members. Throughout the early 2000s, WSBI continued supporting the crucial role that savings banks play in providing accessible financial services worldwide, and a concept was	Close, interactive relationships with the communities served and the financing of the real economy are central the WSBI vocation. WSBI members operate a double bottom line approach to banking by balancing the need for sustainability and a return to society, also in the form of financial inclusion and financial education. It becomes increasingly clear that digitisation is a game-changer for reaching the last mile in financially including the poor and unserved. WSBI members are also rising to the challenges and opportunities presented by digitisation and its Manifesto agreed at the WSBI World Congress in September 2015 Advocates" Taking the digital path, keeping a human touch"

	Section & Page number	Comment	Resolution
		developed which led to the signature of a $20 million grant agreement with the Bill & Melinda Gates Foundation in 2008 with an ambitious target of providing 5-10 million people living on less than $2/day with a savings account by working with ten of WSBI's member banks. The grant's program helped shape and strengthen WSBI's commitment to achieving an account for everyone (WSBI Marrakech Declaration in 2012) and the commitment made in September 2015 to add 400 million new transaction accounts by 2020 as a contribution to the Universal Financial Access (UFA) 2020 goal (announced at 2013 World Bank/IMF Annual Meeting).	
Part I. The Evolving Landscape			
A. Financial Inclusion: Defining the Objective			
		Promoting financial inclusion has become an increasingly accepted goal for financial policymakers in general. This objective is in the DNA of WSBI members, which are characterised by the provision of a broad and diverse range of retail products and services to individuals, households, small and medium- sized businesses and local authorities. A concrete example of WSBI financial inclusion knowledge base has been generated from WSBI's Programme "Working with savings bank in order to double the number of savings accounts in the hands of the poor" (2008-2015). The Programme provided the opportunity to research and gather concrete evidence based findings on the provision of usable, affordable, accessible and sustainable financial services to poorer communities. At present, more than 2 billion adults do not have a bank account or use other formal financial services. This is not only because of the challenges of living in poverty, but also due to barriers such as cost, trust and physical accessibility WSBI has addressed these issues in the programme mentioned above. It has for example identified where and how people cluster and how many locations there are at scale using geographic information system (GIS) data analysis. It quickly became clear how settlement density falls below the level needed to find the sustainable minimum of 5,000 people living within 2 km of a possible agent location.	Access to formal financial services can help people to protect their earnings, weather personal financial crises, send and receive payments, and better manage their farms and small businesses. Looking across WSBI membership in some 80 countries globally, we see that there is no single 'best model' or a one-size-fits-all approach to creating the financial inclusion eco-system in a specific country or region. WSBI therefore recommends that approaches should be defined nationally based on an internationally agreed framework and implemented in a proportionate manner. To this end, WSBI proposes to regulators and policy-makers to observe the accessibility/proximity, affordability and sustainability of the financial services when designing the legal and operating framework in order to create a truly enabling environment for financial inclusion.

	Section & Page number	Comment	Resolution
B. The G20, the GPFI, the SSBs, the World Bank Group, IMF, and Financial Inclusion			
		WSBI welcomes the growing consensus that improving financial inclusion is a key step towards global economic development and stands ready to support the action plans taken by policy-makers, regulators and other stakeholders to achieve the World Bank Group's goal of Universal Financial Access by 2020. As mentioned above WSBI has committed to add 400 million new transaction accounts by 2020 as a contribution to this goal.	WSBI believes that the business case for financial inclusion is achievable, but that the support of national and international policy-makers, regulators, standard setters and other stakeholders is needed to create an enabling regulatory and operational environment to be able to provide financial services that are accessible, affordable and usable.
C. Greater Recognition of Three High-Level Themes			
		WSBI welcomes the recognition of the different levels and nature of risks arising from the evolving landscape and market players, and the attention drawn to the capacity in some low-income countries policymakers to cope with the evolving environment provided by the digitization of financial services.	
D. Proportionality and the Linkages among Financial Inclusion, Stability, Integrity, and Consumer Protection			
		As an enabler for financial inclusion and as a complement to effective consumer protection, regulation and supervision, WSBI and its members continue their commitment to financial education for both private individuals and micro- and small enterprises (MSMEs). The objective is to increase the financial literacy and capacity of the population and to encourage the development of a long-term savings behaviour that contributes to global economic recovery and growth. Accordingly, WSBI welcomes the important linkages between consumer protection, financial education and financial inclusion highlighted in the G20 Principles for Innovative Financial Inclusion, the ongoing work of the G20/OECD Task Force on the development of Effective Approaches to the G 20 High-Level Principles on Financial Consumer Protection and the implementing tools to improve financial literacy developed by the OECD/INFE and the World Bank.	Compatibility of the objectives of financial inclusion with integrity and stability of financial systems combined with consumer protection are all very important. But it must also not be forgotten that banks need to manage and maintain a feasible business case in order for financial inclusion to be sustainable. WSBI therefore calls for a level playing field, an enabling environment and proportionate regulation that enables the various actors involved in financial inclusion to provide access to finance to the masses in a sustainable manner, also in remote areas.
E. Digital Financial Inclusion: Increasing the Stakes, and the Opportunities, for Collaboration among SSBs			
		WSBI fully supports the recognition of the rapid scaling in multiple markets of innovative digital approaches to reaching excluded and underserved	

	Section & Page number	Comment	Resolution
		households and MSMEs, and the shifting risk picture this triggers.. Likewise, it agrees that this results in many cross-cutting issues that calls for collective reactiveness and engagement as well as cooperation between SSBs Digitization of financial services presents policymakers and regulators with as many challenges as it does for the banking industry. And traditional responses may not be adequate in this new world. WSBI believe that policymakers, regulators and supervisors worldwide have the responsibility to create and apply a regulatory framework that allows and fosters innovation, but simultaneously ensures the security, data and consumer protection that is key to preserving trust in the financial system.	WSBI calls on stakeholders, policy-makers and regulators to provide a regulatory and operational enabling environment that boosts financial inclusion also with the aid of innovation and technological solutions rather than hampering it. A reasonable, proportional framework is also required, thereby stimulating diversity of financial services.
F. Progress in Numbers, but Old and New Challenges Accompany New Opportunities: a Call For New Collaboration			
		WSBI calls on stakeholders, policy-makers and regulators to provide a regulatory and operational enabling environment that boosts innovation and technological solutions rather than hampering them. It agrees that cooperation between SSBs as well as a dialogue with industry is a necessary prerequisite for this.	
Part II. Financial Inclusion and the work of the Standard- Setting Bodies			
		WSBI welcomes the fact that international standard-setting bodies (SSBs) (such as the Financial Action Task Force, the Basel Committee on Banking Supervision and the Committee on Payments and Market Infrastructures) are taking an interest in financial inclusion and that the G 20 Leaders and the Global Partnership for Financial Inclusion (GPFI) are actively encouraging the SSBs to embed the principle of proportionate regulation and supervision, which is so critical to financial inclusion, in SBB standards, guidance and thinking.	
A. Financial Stability Board			
		On the specific point of shadow banking for example, it appears that measures under consideration could in fact hamper financial inclusion rather than support it, due to the definitions of what constitute non-bank financial institutions, and the detailed application in some countries of rules on capital, liquidity and leverage ratios and their potential impact on MSME funding.	

B. Basel Committee on Banking Supervision (BCBS)			
		Regulation is an important enabler or inhibiter for banks facing the challenges of this digital revolution that we are experiencing. For savings and retail banking, the principle of proportionality basic idea is that organizations that share the same risks should share the same rules. Or in other words, that regulation should be proportionate to the risks presented by an activity or an organization. Regulators and supervisors should thus make sure that the regulatory and supervisory framework that is still being put in place is adapted to the risk of a specific banking sector and that this framework does not hamper economic growth and innovation. In the particular case of the BCBS 'Revisions to the Standardised Approach for credit risk - second consultative document', it might be that the BCBS proposal leads to an unwanted, disproportionate impact on own funds of smaller and less complex banking institutions with a traditional focus on SME lending. In other words, the revised framework could have a disproportionate impact on those banks, and as a consequence also on SMEs that would suffer from a more restricted access to financing." Specifically on risk assessment, WSBI would like to stress the point that regulators and policymakers should make sure that the credit decision continues to be owned by the credit provider in the new landscape, in the understanding that the latter must appreciate the credit position it's getting into to mitigate risk appropriately.	
C. Committee on Payments and Market Infrastructures			
		WSBI welcomes the work of the Committee on Payments and Market Infrastructures on the payment aspects of financial inclusion and the new working group on retail payments. It does however urge for regular dialogue and consultation with the industry on these issues that are evolving and expanding very rapidly.	
D. Financial Action Task Force			
		In 2010, WSBI (as a representative on the FATF RBA project group) successfully intervened with the Financial Action Task Force (FATF) to convince them to adapt their original anti-money laundering/combating the financing of terrorism (AML/CFT) rules to a more adapted risk based approach (RBA) based on the national context and to risks posed by transactions. The aim was to avoid an increased know-your-customer	Some measures to mitigate FT risks of MVTS providers: • KYC documentation compliance and keeping the support documentation.

		(KYC) verification resulting in unintended barriers to reaching low income people and to promote the goal of financial inclusion.
		WSBI has also contributed to the FATF's Draft Guidance on the Risk Based Approach (RBA) for Money or Value Transfer Services (MVTS) launched in 2015. Specifically on the financial transaction (FT) risks of MVTS providers, WSBI suggests that the specific FT activities/behaviours that could be carried on with an MVTS provider should be more detailed.
			• Formal identification of both the issuer and the beneficiary of transactions.
			• Keep the documents regarding each transaction.
			• Name, address, transaction purpose, text included in the transaction and any data of a financial product that supports the transaction (debit card, electronic money –phone number- and the bank account, if so) should be known to be able to track the funds.
			• Whenever a NGO takes part:
			  ○ Formal identification of both the NGO and the beneficial owners.
			  ○ Being aware of the projects that the NGO carries out to verify the consistency with the countries/jurisdictions to which the transactions are issued.
			  ○ Having information regarding the principal donors.

Part III. Evolving Topics of Relevance to Multiple Standard- Setting Bodies			
A. Digital Financial Inclusion – Opportunities and Risks			
		As Bill Gates once stated, If we were to build a financial system from scratch now, it would be done in a digital platform. Digitisation is universal, affecting everyone around the globe, shaping the personal and professional life of each individual. It goes far beyond merely improving existing processes: it changes the way things are done and our interactions with other people and objects.	Taking the digital path, keeping a human touch Close to their customers and deeply-rooted in their region and society, savings and retail banks witness and share in the massive changes underway: they too are affected by the digital revolution and will play an active

		Keeping pace with the accelerating speed of digitisation is a challenge for all banks and regulators. But it offers an unparalleled opportunity to fulfil our mission even more effectively. It is not just seizing opportunities enabled by new technologies. Digitisation provides more choices for people and companies and creates new open spaces for action. It offers new ways to connect, creating deeper client relationships. It is a catalyst for social innovation, which will change how people live and work together. Overcoming the challenges and seizing the opportunities of digitisation is not just about buying the latest ground-breaking technology: it is closely linked to our human resources and the way we organise creating value for society. WSBI appreciates digitisation as an opportunity to reinforce its profound commitment to customer proximity. And digitisation is indeed an essential support in reaching out to the 2 billion people worldwide, who currently have little or no access to financial services.	role in it, maintaining their long-standing tradition of adopting new technologies and incorporating them in the products they offer. As digitisation changes how customers and banks communicate with each other, physical branches will become less essential to processing customer transactions. But their importance will increase as they become the centres of an intensified high-quality customer advisory service. We do not believe retail banks will become pure "online banks". Our task is to extend the trust that is the cornerstone of our proximity relationship into the digitised world. WSBI will continue to invest in staffing our branches with highly-trained people. Shifting transaction banking more and more onto digital platforms will free-up resources to strengthen relationships with existing clients. An opportunity for us to reinforce our profound commitment to customer proximity, digitalisation allows us to reach out to new customers, especially to those with inadequate access to financial services. To be stable, reliable partners during the digital shift, savings and retail banks must continue treating their clients as people, not digital data.
B. Frontiers in Inclusive Financial Consumer Protection			
		WSBI believes that a strong commitment towards fair treatment of customers[ii] is a very important tool for establishing long-term banking relationships. It is especially true in the aftermath of the global financial crisis, when in many countries the trust and confidence of the general public in the banking sector is low. Consumer protection is also an important public policy objective, contributing to public confidence and keeping inflation under check.	WSBI is convinced that an efficient consumer policy should be based on two main pillars: financial education and efficient information on one side, and competition on the other. These aspects are central to foster the confidence of customers and help them make informed financial decisions and select the

			products best suited to their needs. Reaching this objective requires a responsible attitude from both parties, financial services providers who will assist consumers in making good financial decisions, and consumers themselves, who will provide accurate and comprehensive information on their personal situation. Competition is the other important dimension of consumer policy, with a positive impact on prices, quality of service, and choice of products. However, end consumers will fully benefit from competition provided that all financial players can operate in an open and fair competitive environment. Besides, fostering competition should be a driver for market innovation and improvement of service, and should not come at a disproportionate or undue cost for financial service providers.
C. Competition and Interoperability			
		The new digital era in banking is emerging at a time when banks face many other challenges, such as the enormous efforts required to comply with regulation, and competition from new players.	WSBI supports the promotion of competition on banking markets, provided that all service providers operate in a level playing field. The bottom line should be same risk, same rules for all including the new market entrants..
D. Customer Identity and Privacy			
		WSBI fully support legislation that protects customer privacy. But we also expect regulators not to place incumbent savings and retail banks at a competitive disadvantage by constraining them with more onerous data protection obligations, for example, than those applicable to other, essentially non-bank players. Clarity and stability of legislation is essential in this field too. Big data, for example, brings the opportunity of translating all the non-financial data into reliable information that can be used to expand access to credit and other financial products. Savings and retail banks are strongly	The big challenge is how to strike the balance between consumer protection and using in-house and big data to data to improve the customer experience on all customer touch points in an Omni-channel approach. Linked with this is the big threat of cyber security, which is one of the largest challenges that banks, governments and other industries have to tackle today.

		committed to treating all digital data as strictly confidential, whether entrusted to them by customers or acquired via data mining. They stress the particular responsibility of policy-makers, regulators and supervisors worldwide to create and apply a regulatory framework that allows and fosters innovation, but simultaneously ensures the security, data and consumer protection that is key to preserving trust in the financial system. Yet we note a worrying tendency by some policy-makers to adopt light-touch regulation for new digital competitors in financial services, whilst leaving incumbent savings and retail banks burdened by heavy regulation.	
E. Crowd-funding – Bypassing Traditional Financial Intermediaries			
		Although crowdfunding still remains very small in comparison to global bank lending and stock exchange turnover, crowdfunding may be an attractive route for start-ups. Equity-based crowdfunding may be a viable alternative to raising capital for start-ups and small businesses, for example, as well as individuals. As most start-up projects are innovative and must be considered as risky, they may have difficulty in attracting traditional bank financing. This does not however necessarily mean that banks should not have a role to play in this new industry.	The participation of banks in this sector could well assist in the consolidation of the business and the enhancement of its potential, as banks could, for example, set up a platform for bringing potential fundraisers and investors together to promote and finance local projects. Mixed financing opportunities might emerge, as banks could, for example, agree to finance a percentage of such projects with the remainder of the funding coming from local investors; therefore benefiting from the "collective intelligence" of the crowd as a measurement of a project's potential and would also contribute to sharing the risk. On the other hand, banks could bring in their expertise and play a role in the identification of fundraisers (KYC) as “local” partners of crowdfunding platforms, therefore significantly reducing fraud risks. As a positive side-effect, banks would have the opportunity of remaining the primary point of contact for start-ups, even without providing funding to these projects. This assessment of fundraisers could be

			completed before or after filing a project, but in any case before any fund transfer. Banks will most certainly also contribute in providing secure and reliable payments systems, and they might act as trustee and as depositary bank for securities.
F. De-Risking and Financial Exclusion			
		Regarding the termination of business relationships in relation to corresponding banking, the local regulator should be able to regulate the cases in which a bank, among other measures, can ask the Money or Value Transfer Services (MVTS) provider to provide some documentation (even regarding clients). Banks that maintain business relationships with a MVTS provider/agent should have access to a register which contains the regulated institutions which are involved in suspicious transaction notifications.	In view of an enhanced due diligence, the following additional documentation should be accessible to verify the activity of the MVTS provider: o Independent external expert's report. o Detailed list of agents, verifying that they comply with all administrative and formal obligations. o Informative statements sent to third parties to verify the alignment with the operating history. Additionally, MVTS provider should provide additional information regarding their clients in case a higher risk than average is noted, in order to mitigate those risks.
G. Emerging Issues in Supervision and Financial Inclusion			
		WSBI welcomes the efforts being made by policymakers and regulators to tackle the challenges posed by new technologies, new participants, and the new risks these may bring moving forward. It has even been suggested that financial inclusion places an enormous burden on banking authorities to master new skills and activities. Therefore, regulators must reinvent themselves for financial inclusion.	WSBI stands ready to contribute with its expertise[iii] in financial inclusion and access gained over the years, and commits to continue collaborating with SSBs in the form of position papers, meetings or dialogues as appropriate.

Part V. Observations and Recommendations			
A. General Observations and Recommendations			
		WSBI and its members have a strong history and tradition of active involvement in financial inclusion. As a group, WSBI members are the largest providers of accounts to low income segments worldwide. WSBI members demonstrated their commitment clearly when they announced a goal of 'An Account for Everyone', in the WSBI's 2012 Marrakech Declaration. WSBI is also one of the Coalition of Partners that has committed to contribute to the achievement of the World Bank Group's strategic goal of Universal Financial Access by 2020, as announced during a flagship event at the World Bank Spring meetings in April 2015. WSBI members are also key actors in the financing of MSMEs. Nevertheless, with 2 billion unbanked people in the world, the challenge is not insignificant. There is a trend in some countries towards the introduction of legislation to promote a right to a basic bank account. But the fact of the matter is that, empirically, there is no clear correlation between the existence of a legal obligation to provide access and the number of account holders in any given country. (Germany/Sweden 98%; France/UK 97%; Mexico 27%; ...) Accordingly, WSBI is not in favour of prescriptive approaches but rather would like to encourage regulators to help create conducive environments where banks can take advantage of the tremendous potential that un(der)banked communities offer. To be sustainable banks should only be required to extend branch and agent networks to rural areas where a feasible business case can be obtained. Where this is not achievable, banks should be permitted to engage with other more sustainable delivery mechanisms, which today means digital. A breakthrough can only come when financial sectors recognise the market potential of delivering sustainable financial services to the under-served and unbanked. These may include solutions such as agent banking, linking with village savings and loan groups and partnerships with mobile operators. More research and pilot projects are needed on innovative models that achieve this result. WSBI has gathered some evidence in this field through a pilot project consisting of the analysis of (big) data coming from mobile telephone transactions for	In conclusion, compatibility of the objectives of financial inclusion with integrity and stability of financial systems combined with consumer protection are all very important. But it must also not be forgotten that banks need to manage and maintain a feasible business case in order for financial inclusion to be sustainable. WSBI therefore calls for a level playing field, an enabling environment and proportionate regulation that enables the various actors involved in financial inclusion to provide access to finance to the masses in a sustainable manner, also in remote areas.

		customer segmentation purposes and the development of customer propensity models on this basis. This project is currently at proof of concept stage. Furthermore support is still needed to remove obstacles to partnership models, e.g. between banks and mobile money operators (MMOs) or via agency models. WSBI membership has good examples of financial inclusion initiatives with a particular impact on social cohesion and the level of welfare of people and families, especially among the most vulnerable groups in society. More information can be found on WSBI- ESBG's CSR database: http://www.savings-banks-events.org/csr/	

[i] Two studies on Access to Finance commissioned by WSBI from Oxford Policy Management entitled "Access to Finance-What Does it Mean and How do Savings Banks Foster Access". The second study which focused on the contribution of savings banks to Access to Finance found that some 1.4 billion accounts exist at institutions with an explicit mission to foster access and that savings banks were the largest suppliers of these accounts.

[ii] The principle of fair and clear relations with customers is an integral part of the WSBI Charter on Responsible Business. It reflects the commitments of WSBI members to build long-standing relationships with clients and to secure customer confidence and satisfaction.

[iii] WSBI has acquired extensive knowledge and expertise in the field gained from hands-on experience over more than 20 years in managing and delivering multi-country financial inclusion programmes and projects to banks in over 70 countries aimed at, e.g., promoting savings accounts for the 'poor', extending outreach of migrant remittances to rural areas, as well as various policy, infrastructure and microfinance initiatives.