WSBI statement on Covid-19: united efforts to overcome the crisis are indispensable

Dear Sir, dear Madam,

Due to Covid-19, the financial industry will face an unprecedented challenge, and this may last for quite some time. A health pandemic was not on the cards and banks need to work together with authorities to avoid the collapse of the economic system, as the Covid-19 will generate vast economic damage.

Our first priorities are to save as many lives as possible, have the coronavirus pandemic eradicated and support, as we always have, the most vulnerable within our society, through our social welfare programmes while ensuring that the so-called "real economy" suffers as little as possible. We stand ready to provide financial support to individuals, the self-employed and SMEs. They are all facing extraordinarily challenging times and must not be left alone in this time of crisis. We welcome the very strong support measures offered in many countries to help them, as well as to larger, heavily affected industries such as the services sector at large and, in particular, manufacturing, transport and tourism

It is clear that all stakeholders from the public and private sectors will need to work together to overcome this difficult period. Economic, financial, fiscal and social measures need to be designed and implemented straightaway. What is more, this is a moment in which international cooperation is of utmost importance. The world needs to face the coronavirus crisis with decisive actions in a united and well-coordinated manner.

Our savings and retail banks are fully committed to supporting their customers – individuals, families, small and medium-sized companies (SMEs), institutions, young people, the elderly and society in general who live in urban as well as in rural areas. We aim to figure out the best, sustainable solutions. Locally rooted savings and retail banks have a crucial stabilising function in times of crisis with their infrastructure, closer relationship with customers and continuous lending. They help SMEs and other companies overcome liquidity bottlenecks and provide stability. For this to succeed, everything possible should be done in regulatory and macroprudential terms to maintain the liquidity and credit supply.

In the current coronavirus crisis, banks play an essential part of the solution. The past decade has seen major financial reforms, making banks safer, more stable and more resilient in the face of shocks. WSBI members' inclusive and socially committed approach to banking remains vital and it will not change in challenging times like these. Clients of savings and retail banks can continue to rely on their banks as partners that do their utmost to mitigate the effects of this critical situation. Now, more than ever, we will stand strong to provide confidence, comfort and trust when customers and communities need it most.

What has been done so far?

WSBI members welcome the measures already taken to support the economy in these tough times:

We appreciate that the Federal Reserve (FED) made it plainly clear that it is prepared to use its full range of tools to support the flow of credit to households and businesses, by increasing holdings of Treasury securities and agency mortgage-backed securities. Moreover, US authorities recently struck a USD2 trillion deal to provide economic relief to taxpayers and businesses amid the coronavirus crisis.

At the European level, the European Central Bank (ECB) announced plans for extra asset purchases of up to 750 billion euros, which is another very useful measure to support the real economy and the public sector. Furthermore, the ECB stated it will ease some regulatory requirements including the conditions for targeted longer-term refinancing operations (TLTRO), which provides bank lending support to those affected most by the spread of the coronavirus. WSBI members also appreciate that the ECB Banking Supervision provides temporary capital and operational relief in reaction to the coronavirus as well as additional flexibility regarding the treatment of non-performing loans to ensure banks can continue to fulfil their role to fund the real economy.

Furthermore, WSBI members appreciate that other central banks around the globe, such as the People's Bank of China – the Chinese Central Bank – Reserve Bank of India, the Bank of Japan and the South Korea Central Bank are putting efforts into keeping their currencies stable and are using different liquidity tools at their disposal. WSBI members also welcome that the Central Bank of West African States has taken several decisions to help the real economy and the banking sector, such as easing the access to central bank refinancing.

In addition, WSBI applauds the World Bank Group for making available an initial package of USD12 billion in immediate support, to assist countries coping with the health and economic impacts of the global outbreak. The IMF's early March announcement of providing some USD50 billion through its rapid-disbursing emergency financing facilities for low-income and emerging market countries is also highly valued by WSBI members.

All of these measures are much needed, and will help support economic activity, employment, price and social stability.

What remains to be done?

Savings and retail banks believe that some additional measures would be appropriate at this time, to give banks enough flexibility to continue supporting their customers. Some steps already taken need additional guidance and extended scope to achieve their objectives.

WSBI members call on central banks and supervisors to temporarily relax the rules when it comes to capital and liquidity buffers, increase monitoring, develop contingency plans, and provide additional support for the most hard-hit sectors – tourism, transportation and the hospitality industry – by easing the tax burden for certain much-affected firms in vulnerable regions.

A plan to recover economic activity and production of goods and services and to stimulate consumption should be in place as well to prevent the economy from recession. In addition, public authorities should free up additional capital and provide loan guarantees.

When public moratoria on payments have been implemented, supervisors should allow for flexibility on the asset quality assessment of loans. This would also strengthen banks in temporarily supporting solvent clients facing liquidity difficulties. Moreover, the implementation of the IFRS 9 accounting standard for the recognition of loan loss provisions should take into account the disruptive Covid-19 crisis. It is crucial that banks are granted enough manoeuvring room to modify the payment schedule of the affected borrowers without affecting their accounting provisions nor their solvency; (that is, avoiding the increase in non-performing assets that would derive from the current regulations).

How to address the increasing unemployment rate is another question that must be given consideration. Linked to this, the member states of the African Union recently recalled the urgent need to support the private sector and protect more than 30 million jobs in this African region alone. Authorities must act now, but also in those regions of the world that have been hit later than others by the pandemic.

As indicated above, global coordination and relief measures are much needed. Coordination across different policy makers in the respective countries is essential as well, particularly in view of cross-border economic interdependence. Where possible, countries need to share the capacities available to them as much as possible – nationally and regionally. If countries have capacities in a particular area, they can and should support their neighbours. Regional communities and unions should coordinate the matching of needs and capacities. Regions like South America, Central America and the Caribbean, where the number of coronavirus cases has not reached European proportions yet, should learn from other countries' delayed actions and act immediately to have a greater chance to flatten the contagion curve.

Countries whose financial stability depends on external funding and loans should benefit from less stringent financial conditions on their loans as well as from a reinforced global safety net to prevent and manage adverse shocks. Furthermore, authorities should consider using the distribution networks of regionally well-implemented entities like financial institutions with extensive networks to educate people with regards to the use of digital tools to facilitate access to finance. Financial service providers should also cooperate with other market stakeholders like telecommunication and local fintech companies to encourage the use of digital and mobile phones for their operations.

Regional development banks should also play an important role mitigating the impact of the coronavirus crisis by supporting the public health system of those countries hit especially hard and whose health sector has been running low on financial means. Such actions will have to go hand in hand with large allocations of resources by governments to their respective health systems.

At a global level, the G20 is expected to continue playing a leading role in the recovery of the global economy. WSBI calls on the G20 to prioritise global financial stability, a sustainable and swift recovery and a balanced development as common goals. As the Asian Development Bank recently stated, the interdependence of global value chains and financial systems calls for much broader participation of the G20 to take actions that are effective and credible.

All jurisdictions should lower tariffs and non-tariff barriers to cross-border trade of medical goods and services. In addition, G20 countries should contribute to ease the tensions in oil markets. By doing so, global cooperation in the fight against Covid-19 would be strengthened.

The recent G7 leaders' commitment to do 'whatever is necessary' to support the global economy is a very well received first step. It is important that future decisions regarding interpretation, adjustments, and tailoring of regulations be properly coordinated at global level. Such a coordination will reinforce the work of global standard setters such as the Financial Stability Board, the Basel Committee, the International Organization of Securities Commissions and the International Association of Insurance Supervisors. The IMF has also underlined the need for global coordination in its recent paper on policy.

What happens next?

Regulatory authorities should ask themselves if new regulatory requirements that are planned to be implemented in 2020-2022 are critical, or, if there is a possibility, that they can be delayed by 1-2 years, depending on how the crisis further develops. Even if only a part of the upcoming regulation could be delayed this would certainly help banks, and other players, to focus their resources on critical immediate action.

On the other hand, WSBI members devote more than USD1,4 billion annually to social welfare programs. We remain fully committed to continue with this contribution to society and adapt to the new scenario caused by the Covid-19 pandemic.

Once the emergency has been overcome and the situation is stable, it may be useful to carry out an impact assessment in order to see what measures should be taken to ensure that the global economy is still growing. If we all act together, we will make it possible to reduce the effects of Covid-19 on the economy. Measures need to be taken now, at once, instead of gradually. By acting immediately, we may manage to endure this crisis.

We at WSBI remain at your disposal in case you would like to discuss these points in greater detail. It is of utmost importance that a good dialogue between public authorities as well as the industry is maintained in these challenging times. We stand ready to help navigate through the crisis, supporting particularly the most vulnerable actors of the economy, namely households and SMEs.

Yours sincerely,

I. Fainé

Chris De Noose
Managing Director

Isidro Fainé
President