POSITION PAPER

WSBI

WSBI Institutional Positions to the G20 decision-makers

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1. WSBI Institutional Positions to the G20 decision makers – Summary

The World Savings and Retail Banking Institute (WSBI) and its members welcome the ambitious agenda of the G20 under the Chinese Presidency and its focus on an innovative, invigorated, interconnected and inclusive world economy. They are keen to participate in the development of such plans and wish to highlight the potential impact that such policies may have on the activities of the savings and retail banks that constitute the WSBI membership. These institutions are characterised by their responsible approach to business, their close involvement in local communities and their contribution to the real economy.

WSBI agrees with the Chinese Presidency that long-term economic growth is based on innovation and new business models for technological development. WSBI finds that the G20 members have a key role to play in facilitating it. Indeed, WSBI finds that digitisation changes how customers and banks communicate with each other. Keeping pace with the speed of digitisation is a challenge for all banks as well as regulators. For WSBI members, digitisation offers opportunities to increase the customer proximity that has always been a characteristic of the savings and retail banks. Overall, WSBI thinks that promoting digital infrastructures and developing interoperable electronic identification means will further push forward digitisation and enable more consumers to participate in the digital era.

Policymakers, regulators and supervisors worldwide need to keep abreast of digital banking breakthroughs. Their job is to set a regulatory framework that fosters innovation while simultaneously ensuring the security, data and consumer protection essential to preserving trust in the financial system. An enabling regulatory framework promotes transparency and accessibility for all stakeholders, which is at the core of any robust, effective and inclusive digitised banking universe.

Some of the main messages that WSBI members wish to transmit to the G20 Leaders can be summarised as follows:

<u>More effective and efficient governance: building resilient financial institutions</u>

Financial regulation

WSBI welcomes the G20 Chinese Presidency objective of more effective and efficient global economic and financial governance and that the G20 should continue to play a role to keep the momentum of reform.

As regards continuing financial sector reform, WSBI agrees on the overall principle that the G20 needs to continue these reforms in order to implement standards already agreed upon and to further the work on setting standards. In this respect it does, however, have a number of concerns that it would like to highlight as summarised below:

- At this moment in time, it appears clear that the implementation of the Basel III framework still contains a number of matters that ought to be properly calibrated through regulation. In particular, WSBI does not see the necessity of applying the NSFR ratio, for it would delay macroeconomic recovery and create further liquidity shortages.

- Considering the strengthening of national financial regulation, WSBI believes that the requirements for the leverage ratio should not deflect the ratio from its initial purpose as a simple backstop within the Basel III rulebook. Due to its lack of risk weights, WSBI calls for the leverage ratio to be limited to a maximum of 3% and applied only at a group consolidated level so as to avoid an excessive overburden for smaller financial entities, and thus penalising local communities. On RWA (risk-weighted assets), in particular regarding IRB (internal ratings-based) models, the design of the models must be respected, and should not be subject to add-ons based on unquantifiable supervisory judgments.

Green Finance

WSBI acknowledges that global developments regarding green finance and the fight against climate change have an impact on the local banking model of its members, and has even developed guidance in this respect. WSBI members are thus active and work towards identifying ways of adapting themselves and contributing to global, regional and national debates in the numerous issues that the subject of green finance and fight against climate change encompass: integration of environmental risks as systemic risks for banks and their stability, non-financial disclosure, green bonds, climate stress tests, energy efficiency, etc.

Improving International Tax Regime

WSBI members support the on-going worldwide initiatives to address tax avoidance and evasion. We believe that it is imperative to have one system for multilateral automatic exchange of information (AEOI). WSBI therefore calls for the different institutions involved to consider the enormous reporting requirements placed on individual institutions and to coordinate the request for information so as to ensure global standardisation.

<u>Fostering robust international trade and investment</u>

WSBI welcomes the Chinese Presidency goals of fostering robust international trade and investment in the current economic context. We find the Chinese Presidency focus on long-term economic growth aligned with that of savings banks, serving local long term prospects.

Indeed, WSBI believes that SMEs are key to spurring long term growth, and that savings banks are their natural community rooted financing partner. Savings banks are able to integrate developing countries through SMEs in the global value chain. Therefore WSBI calls for the preservation of this relationship to properly finance the real economy. In particular, WSBI disputes the premise in current debates that capital market instruments are a viable alternative to bank loans for micro, small and medium-sized enterprises (MSMEs). Both forms of finance are complementary, and the model chosen should be tailored to the specificities of the borrower, the project and the region in question. WSBI therefore calls for sensitivity on the part of regulators to ensure that the emerging regulation on capital and liquidity requirements does not jeopardise the traditional role of the savings and retail banks that make up the WSBI membership in financing MSMEs and the real economy. In this respect, regulators/legislators in all jurisdictions must be aware that a "one-size-fits-all"-approach (regulation designed for large, global players, but then implemented for the smallest local bank as well) does harm to the vital role of locally rooted banks of supplying funds to MSMEs.

Inclusive and interconnected development: Financial inclusion a key factor for sustainable development

WSBI welcomes the growing consensus that improving financial inclusion is a key step towards global economic development, as witnessed also by the linkage of "financial inclusion" by the G20 Chinese Presidency with the United Nations 2030 Agenda for Sustainable Development. In effect, financial inclusion is considered to be a key element of each country's endeavour to realise sustainable development, and it is one of the key drivers for poverty eradication, which constitutes the top priority of the 2030 Agenda for Sustainable Development.

WSBI and its members have a strong history and tradition of active involvement in financial inclusion. They are convinced that the adoption of a digitized banking universe can help savings and retail banks achieve their longstanding commitment to financial inclusion. Accordingly, WSBI welcomes the Chinese G20 Presidency decision to mandate the Global Partnership for Financial Inclusion (GPFI) to work on a set of high-level principles for action on digital financial inclusion. The latter should guide country-level actions to harness digital financial services and delivery mechanisms to safely expand access and usage of financial services for underserved market segments.

WSBI does, however, wish to emphasise that the digitisation of financial services presents policymakers and regulators with as many challenges as it does for the banking industry. Digital financial services raise specific risk and trust factors and traditional responses may not be adequate in this new world. Accordingly, WSBI calls on stakeholders, policy-makers and regulators to provide an enabling environment that boosts financial inclusion, rather than hampering it. Proportionate regulation is also required in order to enable the various actors involved in financial inclusion to provide access to finance to the masses in a sustainable manner, also in remote areas. Regulatory arbitrage should be eliminated to secure a level playing field.

2. WSBI Institutional Positions to the G20 decision makers

The members of the World Savings and Retail Banking Institute (WSBI) are savings and socially committed retail banks that offer their services mainly to private clients, micro, small and medium sized enterprises and local authorities. They work through extensive distribution networks that enable them to offer proximity services and provide regional outreach. They also pursue a socially responsible approach to business and to society.

Founded in 1924, WSBI brings together savings and retail banks in all continents and represents the interests of circa 6,000 financial institutions in some 80 countries throughout the world, including developing and developed countries. Total assets of WSBI members amount to USD 17 trillion, non-bank loans to USD 8.4 trillion and non-bank deposits to USD 5.5 trillion[i]. They serve some 1.4 billion customers in 180,000 outlets worldwide.

Following the 15/16 November 2015 Antalya Summit, where the G20 leaders concluded that they *"commit to work in partnership to strengthen the recovery, enhance resilience and buttress sustainability"*, WSBI commits itself to play its role in achieving stronger, more sustainable and balanced growth in worldwide economies. Based on this, WSBI would like to share with the G20 decision-makers its concerns and its proposals in view of fostering more effective and efficient governance, robust international trade and investment, and inclusive and interconnected development – all of which have been defined as the priorities of the G20 Chinese Presidency.

2.1 WSBI positions and the priorities of the Chinese G20 Presidency – Graph

Innovative, Invigorated, Interconnected and Inclusive World Economy

More Effective and Efficient Governance

For Prudent and Proportionate Reforms

- The leverage ratio should remain a simple backstop, be limited to a maximum of 3% and applied only at consolidated level
- We underline the importance of addressing tax avoidance and evasion as well as having one system for AEOI
- There is no necessity to apply the NSFR as it would delay macroeconomic recovery and create further liquidity shortages

Innovation and digitisation as the game changer

Robust International Trade and Investment

SME Financing: a core business to be promoted

- The regulatory framework should be structured in such a way as to ensure that savings and retail banks can continue providing access to finance to MSMEs; a 'one-size-fits-all'-approach harms the vital role of locally rooted banks of supplying funds to MSMEs.
- Capital market instruments are not a viable alternative to bank loans for MSMEs; rather, both forms of finance are complementary

Inclusive and Interconnected Development

Financial Inclusion a key factor for Sustainable Development

- WSBI commitment to financial inclusion is well illustrated by its pledge to contribute to the Universal Financial Access 2020 Goal.
- WSBI calls on stakeholders, policy makers and regulators to provide an enabling environment that boosts finance inclusion rather than hampering it. Regulatory arbitrage should be eliminated to secure a level playing field.

2.2 Innovation and digitisation as the game changer

WSBI agrees with the Chinese Presidency that long-term economic growth is based on innovation and new business models for technological development. WSBI finds that the G20 members have a key role to play in facilitating it. Indeed, WSBI finds that digitisation changes how customers and banks communicate with each other. Keeping pace with the speed of digitisation is a challenge for all banks as well as regulators. For the WSBI members, digitisation offers opportunities to increase the customer proximity which has always been a characteristic of the savings and retail banks. Overall, WSBI thinks that promoting digital infrastructures and developing interoperable e-identification will further push forward digitisation and enable more consumers to participate in the digital era.

Policymakers, regulators and supervisors worldwide need to keep abreast of digital banking breakthroughs. Their job is to set a regulatory framework that fosters innovation while simultaneously ensuring the security, data and consumer protection essential to preserving trust in the financial system. An enabling regulatory framework promotes transparency and accessibility for all stakeholders, which is at the core of any robust, effective and inclusive digitised banking universe.

With regard to data, for WSBI, the sensitive use and transfer of personal client data is essential. Every day banks deal with vast - and growing - amounts of data. The savings and retail banks are aware of the responsibility put upon them by the consumer who trusts them with their data. Clear rules on data flow can uphold consumer trust as well as boost business opportunities. It is important that data can flow freely within the same company (parent company and subsidiaries), including the specific structures of some savings banks. Third companies, however, should not have access to client data which a company has collected on its own. Regarding data markets, WSBI sees a business potential if a clear legal framework takes away legal uncertainty. As cloud computing develops, there must be transparency as to where data is stored, how it is protected, and how it can be transported. WSBI considers it essential that contracts with cloud providers are negotiable and that cloud service providers do not dictate all terms of an agreement. Contracts on the use of a cloud service need to clearly indicate the conditions of the storage taking into account possible future scenarios (termination, resumption of services, location of data, data portability).

Digital tools such as online platforms or automated financial advice change the ways of communicating and exchanging information. With respect to online platforms, the economy at large is unlikely to benefit from any legislative activity, as legislation in one country or one area may hinder the businesses located there as they have to compete in a global market. Automated financial advice could enable more customers than ever to access financial advisory services. However, those tools needs to be subject to the same supervisory requirements as flesh-and-blood advisers and should be treated as human advice under the relevant applicable legislation.

Another critical building block is electronic identification. Cross-border financial business can be boosted by interoperable e-identity tools. For the savings and retail banks making authentication tools more easily usable for consumers is a key concern. One issue for cross-border sales is that the possibilities in different countries differ very much due to national laws and the interpretation thereof. WSBI finds that a guidance on electronic identification that also includes a study on best practices for identity verification would be key to address the potential risks of digitisation. This study could be conducted by the Global Partnership for Financial Inclusion (GPFI), the Alliance for Financial Inclusion (AFI) or the World Bank for example. We find that such a guidance would foster both financial inclusion and safe financial digitisation, two main pillars of economic sustainability.

As indicated above, with the growing digitisation of services, fighting digital exclusion gains importance. The savings and retail banks follow a socially responsible approach to business and aim at bringing about a return to their societal roots. Most financial education programmes carried out voluntarily by WSBI members consider the digital dimension to help citizens (including customers) to get acquainted with digital tools. Apart from that, WSBI calls on the international institutions to support mechanisms that are needed to avoid financial exclusion e.g. by investing in digital infrastructure, such as high-speed broadband, and by initiating awareness campaigns to promote internet usage.

Last but not least, so called Fintechs are often perceived as accelerators of digitisation. To ensure a level playing field, WSBI considers it essential that the same rules apply to the same business with the same risks. Equal treatment in this sense is key to a healthy competition and to preventing any form of regulatory arbitrage. Currently, banks have to comply with much stricter rules than Fintechs in some areas such as customer identification and lending procedures. At the same time, however, innovation should not be stifled by introducing a too rigid regulatory framework. Indeed, where strong consumer protection and competition laws exist, legislators should sit back for a while and let market players create, test, fail, improve, and deliver.

2.3 More effective and efficient financial governance

2.3.1 Liquidity

In January 2013, the Basel Committee on Banking Supervision (BCBS) published the revision of the **Liquidity Coverage Ratio** (LCR), which mainly consisted of softening the proposal by enlarging the contingent of eligible assets, lowering the outflow rates and postponing the application of the rule. In the EU context, the LCR has been applicable since 1 October 2015.

WSBI welcomes this less strict approach. It firmly supports the recognition of covered bonds and asset-backed securities (ABS) as high quality liquid assets (HQLA) of the best quality, in particular SME loans-based ABS. This measure would, for example, help to build an ABS market in the European Union (EU) that helps SMEs to fund themselves while easing the refinancing of banks.

WSBI is confident that decision-makers will show the same prudence and broadmindedness when deciding on the calibration of the **Net Stable Funding Ratio (NSFR)**. Similarly, taking an unnecessarily harsh approach should be avoided to since it could harm SMEs and economic growth.

On 31 October 2014, the BCBS published the final NSFR rules. These final rules have included a few changes with regards to the last NSFR consultative document published in January 2014. The BCBS has included changes that will toughen the treatment of short-term interbank loans (banks shall be required to have at least 10% of such lending in stable funding if the asset is secured with a Level 1 HQLA, and 15% if the loan is secured by a Level 2 or lower HQLA), derivatives and assets posted as an initial margin on derivatives contracts. They have also included some room for discretion to regulators who will be allowed to make exemptions if the asset is clearly linked to a particular funding source.

Furthermore, on 22 June 2015, the Basel Committee published the NSFR final disclosure requirements. Banks must publish this disclosure with the same frequency as, and concurrently with, the publication of their financial statements (i.e. typically quarterly or semi-annually), irrespective of whether the financial statements are audited. In parallel with the implementation of the NSFR standard (in fact, the NSFR is expected to stick to the originally foreseen timeline and will be a mandatory requirement for banks as of 2018), banks will be required to comply with them from the date of the first reporting period after 1 January 2018.

WSBI does not see the necessity of this ratio being applied and considers that it would create further liquidity shortages in the financial markets. Moreover, other concerns still remain, such as the potential imbalances that can lead to deleveraging in the short term, as well as the treatment of covered bonds, reverse repos, derivatives, central counterparties, and non-financial deposits. There is currently a vast shortfall of stable funding and the introduction of the NSFR may delay the macroeconomic recovery since banks will try to adapt to anticipate the implementation of the rule. The NSFR will most likely have a negative impact on the way credit institutions structure their refinancing, especially regarding products with long-term horizons, such as mortgage loans.

With regards to Europe, on 17 December 2015 the European Banking Authority published its report on the impact assessment of the NSFR recommending its introduction. The analysis did not find strong statistical evidence of significant negative impacts of the NSFR yet explained that certain EU specificities should be taken into account. The report will inform the work of the European Commission on legislative proposals on NSFR, which the Commission shall submit by 31 December 2016.

WSBI is of the opinion that the NSFR should be calibrated in a way which will not be detrimental to the "boring" banking business which finances the real economy. Furthermore, we underline the importance of finding the right balance between improving the resilience of the banking sector to liquidity shocks and avoiding excessive restrictions on maturity transformations that discourage long-term financing.

2.3.2 Leverage ratio

The BCBS released the finalised rules for leverage ratio reporting on 12 January 2014, these will enter into force on 1 January 2018. The publication clarified several outstanding items stemming from a consultation on the leverage ratio undertaken by the BCBS during the second half of 2013. That consultation (released on 26 June 2013) presented a common formula that measures tier 1 capital as a percentage of total assets, both on and off the balance sheet, without any adjustment for risk. The finalised rules addressed some question marks on the denominator by improving definitions in relation to the treatment of off-balance sheet items and written credit derivatives amongst others.

In April 2016, the BCBS unexpectedly launched a consultation on proposed revisions to the Basel III leverage ratio framework. These proposed changes to the design and calibration of the leverage ratio framework have been informed by the monitoring process in the parallel run period since 2013, by feedback from market participants and stakeholders and by the frequently asked questions process since the January 2014 release of the standard Basel III leverage ratio framework and disclosure requirements. The deadline for responses to this consultation is 06 July 2016, thereafter, the final design and calibration of the proposals will be informed by a comprehensive quantitative impact study.

WSBI firmly believes that it is imperative that the definition and requirements for the leverage ratio do not deflect the ratio from its original purpose within the Basel III rulebook as a simple backstop. Risk-weighted capital ratios, in particular the CET1 ratio, should remain the most important capital measure as, in contrast to the leverage ratio, the CET1 ratio is based on a risk-sensitive approach.

A higher level of the leverage ratio would excessively penalise financial institutions whose primary business involve low risk and high volume instruments, such as savings and retail banks. Savings and retail banks are also characterised by a community focus which results in a more decentralised structure than, for example, a universal bank. This is why the leverage ratio should be capped at 3% and why it should only be applied at a consolidated level. If the leverage ratio is higher than 3% or applied at entity level, it will encourage banks to move towards riskier assets with higher returns.

Setting the leverage ratio above 3% would inevitably have an impact on the real economy too, for it would distort the ability of WSBI members to provide funding and credit to the MSME segment and penalise the provisioning of financial products that are more secure as the returns on these products might be insufficient to cover the cost of the required regulatory capital.

Although the leverage ratio should serve as a simple measure offering protection against model risks and uncertainties in risk measurement, it would disproportionally impact the lower risk segment as a flat rate capital charge will become binding for products with smaller margins first. WSBI believes that migrating the leverage ratio to Pillar I would bring unintended consequences such as an incentive to switch to riskier business given the same capital base or to specifically penalise low-risk business models.

The requested quarterly disclosure of the leverage ratio is, in WSBI's opinion, excessive; annual disclosure intervals would be more suitable. Furthermore, the disclosure in the annual financial statements proposed is considered as inappropriate. It would be more appropriate to disclose the leverage ratio in combination with the supervisory ratios in the Pillar 3 reports.

WSBI is concerned by recent trends whereby individual nations both in North America and Europe have taken the initiative to set a higher level than the three percent limit proposed by the Basel Committee. Announcements from the US as well as the Dutch and UK regulators which welcome, or in the case of the US have already implemented higher levels of the leverage ratio, are of deep concern to WSBI and its members. We recognise that the US market is characterised by a higher level of securitisation than, for example, the European market and that it may, therefore, be advisable to have a different approach to the leverage ratio in the US as compared to Europe. However, WSBI firmly believes that different leverage ratio levels for countries with similar market structure would lay the foundation for an un-level playing field and would disproportionately punish financial institutions within the higher-rate jurisdictions.

2.3.3 End too-big-to-fail

The Financial Stability Board (FSB) received the mandate from the G20 to develop **more stringent supervisory rules for systemically important financial institutions (SIFIs)**. In an attempt to ensure a more effective Risk Appetite Framework (RAF), the FSB's draft principles contain comprehensive, detailed requirements applicable first and foremost to the frameworks that need to be implemented by SIFIs. WSBI welcomes these draft principles in the respect that we believe it is important to create a common global framework and, in particular, the creation of a common terminology.

On 9 November 2015, the FSB published the final Total Loss-Absorbing Capacity (TLAC) standard for global systemically important banks (G-SIBs), requiring them to meet a minimum TLAC of at least 16% of the resolution group's risk-weighted assets as from 2019 and at least 18% as from 2022. Minimum TLAC must also be at least 6% of the Basel III leverage ratio denominator as from 2019 and 6.75% as from 2022.

Generally speaking, it is WSBI's opinion that the TLAC implementation should be flexible enough to adapt to the already existing resolution framework at national level, taking into account that some jurisdictions have already developed frameworks with similar requirements for the recovery and resolution of credit institutions (this is, for instance, the case for the minimum requirement for own funds and eligible liabilities (MREL) in the EU). Furthermore, WSBI is very concerned about the potential extension of the TLAC framework to institutions that are not G-SIBs as it is likely that, due to market discipline, also non-G-SIBs might be obliged to apply these rules.

In Europe, lawmakers adopted the Bank Recovery and Resolution Directive (BRRD) and require banks to meet the MREL, capable of being bailed in if necessary. In fact, the MREL seems to be a more flexible and adaptable tool than the TLAC, which gives the impression of being rather rigid. Moreover, the latter appears to be to the particular benefit of the Anglo-Saxon banking model. Since the TLAC will become a binding law, WSBI is of the opinion that it is of utmost importance that the BRRD and the MREL are taken appropriately into account. In case the MREL does not receive appropriate consideration, affected banks would have two options: first, they could try to change their structures and adapt to the Anglo-Saxon banking model of "bank holding companies". However, this is simply not possible for a great number of banking groups, in particular European banking groups, with regard to their capital and organisational structure. The second option refers to the possible subordination of senior unsecured debt to make them TLAC-eligible. This could lead to the result that affected banks would have to massively issue a new type of subordinated debt, which would be very expensive and would not necessarily include the guarantee of finding investors (maybe except for some hedge funds). Many assets could end up in the non-regulated markets. At any rate, banking institutions would have to reduce their lending activities to the economy, which would have detrimental effects to the current economic situation in many parts of the world. Therefore, it is crucial that the European MREL is recognised as an equivalent tool in the discussions of implementing TLAC and that the level playing field among banks at a global scale is ensured. If the European decision makers intend to combine TLAC and MREL, the framework must be as simple as possible. Additional burdens for the European banking sector need to be avoided (also in view of its competitiveness with other jurisdictions).

Furthermore, WSBI believes that disclosure requirements must be as simple as possible, in order to achieve transparent information to investors while avoiding further burden to financial institutions. They should not be in addition to Basel's Pillar III requirements already in place. Otherwise, banks, in particular small- and medium-sized financial institutions, would be obliged to face an unjustifiable administrative burden due to the implementation of different information disclosure reports for the same purpose. In this sense, it would be a good idea to integrate the TLAC disclosure in Basel's Pillar III.

The introduction of the obligation to submit separate recovery plans and to elaborate resolution planning can be considered, provided that the specific case of smaller institutions with a regional focus is adequately addressed by contemplating less detailed and less burdensome recovery plans/resolution planning for these institutions. Notably, there are supervisory rules in place which already require these types of financial institutions to regularly identify their core businesses, as well as the associated strategic risks, and to prepare action plans for stress situations. This situation has been acknowledged in the European Union in the BRRD when credit institutions are members of an IPS. In addition, WSBI doubts that preparing a recovery plan at every level – i.e. at solo level as well as at group level – is in fact necessary. Recovery plans need to be proportionate and should usually be made at group level.

Generally speaking, not just recovery and resolution schemes, but also prudential regulation in the widest possible range should take the principle of proportionality into account. It would be difficult to comprehend if small savings and retail banks were, for instance, required to apply the same macro-economic modelling statistical techniques as large cross-border players.

Another way of mitigating the too-big-to-fail risk lies in the **separation of activities**.

In the US, the Volcker Rule, which is now a part of the Dodd-Frank Act, came into force on 1 April 2014. The next step was foreseen for July 2015, where the end of the extended conformity period on the Volcker Rule was reached and the deadline to comply with the swaps push-out rules was set. In the US, WSBI's member ICBA has shown its satisfaction with regards to the Volcker Rule as it addresses the excessive risk-taking activities, proprietary trading and the too-big-to-fail problem.

In the European Union, different approaches are under discussion with regards to banking structure reform: In the EU institutions, the proposal for a bank structural reform (point of departure was the Liikanen Report) is being discussed, whereas some European countries are about to establish or consider establishing their own models (France, Germany, Belgium and the UK).

WSBI believes that there is actually no need for further banking regulation since it would be better to wait until the upcoming rules come fully into operation. An eventual structural reform should carefully assess the interaction and overlaps with on-going and upcoming banking rules, the economic situation and the current difficulties faced by some MSMEs to access funding. Indeed, we miss an impact assessment that takes into account the potential cumulative impact of the mentioned reforms. Furthermore, we are seriously concerned by the negative effects for bank lending and for the economy that could come as a result of the application of this proposal, since a future separation of market making activities, securitisation and derivatives trading executed on behalf of clients would significantly reduce liquidity in the markets, increase the cost of lending and subsequently lead to further concentration in the banking sector. This would in fact lead to the opposite effects to those sought by the Commission. WSBI is also of the opinion that the thresholds put forward by the European Commission proposal are extremely low. Moreover, the role of the savings and retail banks in Europe should be carefully considered. They provide a full set of banking services to their customers: individuals and MSMEs.

Risk-based thresholds should remain as indicators in the supervisory toolbox rather than triggers. We are also concerned by the lack of clarity of the proposal which may lead to a further increase in uncertainty in the markets. Moreover, we are especially concerned with how the separation could be applied to the savings banks' business model, in particular, for entities that have an institutional protection scheme (IPS) system. Lastly, we believe that the proposals or laws that already exist at national level are a good way forward, and viable alternatives need to be thoroughly taken into consideration for legislative work. Most of them focus on addressing the risk arising from proprietary trading activities, without separating market-making activities.

Triggers should not only be defined by ratios, but they should also be combined with market data if applicable (e.g. credit spreads). In addition, a mixture of hard triggers and qualitative judgements, which would give the supervisory authority more flexibility in the means of soft triggers, would be welcome.

With regards to the bail-in-able instruments in connection with the potential resolution of institutions, the main objectives do not have to be missed, in particular the fact that the attractiveness of these instruments has to be considered in order to enable adequate funding for the banks. The effect on the interbank market would have to be carefully analysed, as well as the danger of increasing systemic risk, and the interaction with the liquidity requirements should not be neglected. Furthermore, to be implemented properly, bail-in-able instruments should also be adapted to institutions which are not joint stock companies, namely: institutions under public law, institutions without private equity, ownerless institutions, or cooperative groups.

Lastly, confidentiality is imperative especially concerning the recovery and resolution plans as it would undermine the efficiency of the framework put in place.

2.3.4 Risk-weighted assets (RWAs)

Currently, the Basel Committee undertakes various revisions with regard to the calculation of RWA. For instance, in the areas of credit risk and operational risk. Furthermore, the use of internal models (as an alternative to standardised approaches) is being discussed and could eventually be limited.

With regards to Internal Ratings-Based (IRB) models, at global level, the BCBS released a consultative document on potential constraints on the use of internal model approaches. It sets out a proposed set of changes to the Basel framework's advanced internal ratings-based approach (A-IRB) and the foundation internal ratings-based approach (F-IRB). In addition, European authorities have also been working on IRB models: on one side, the EBA launched a discussion on regulatory measures to review IRB models and on the other side, the European Central Bank (ECB) has been working on a Targeted Review of Internal Models (TRIM) in order to restore the credibility, adequacy and appropriateness of approved Pillar 1 internal models used by significant institutions in the Single Supervisory Mechanism (SSM).

WSBI supports any initiative aiming at enhancing the trust in IRB models as a valid tool to measure capital requirements. It seems appropriate and necessary to establish common methodologies for IRB models, which aim to guarantee a level playing field. However, the margin of conservatism must not be considered as a separate measure to achieve a general increase in own funds. The margin of conservatism should be related to weaknesses in the models. The design of the models must be respected, and should not be subject to add-ons based on unquantifiable supervisory judgments. Furthermore, there should not be an increase of administrative burdens for institutions.

Concerning credit risk determination, we appreciate the re-introduction of external ratings as a factor determining the risk weight of exposures by the Basel Committee as we believe banks should not be a substitute to supervised credit rating agencies and conduct the due diligence they can provide. However, WSBI continues to have serious doubts that the proposed framework would be able to improve comparability and remove unjustified differences in risk weights. Furthermore, the proposed framework seems too prescriptive and simplified to serve as a reference point for risk weight floors and/or when evaluating the risk weights of internationally-active IRB-banks. Apart from this, WSBI considers that the risk weight for SMEs could be a little bit lower, both regarding the corporate and retail exposures classes. Otherwise, the combined effect of higher RWAs and higher capital requirements could significantly reduce the credit availability for SMEs.

Concerning Interest Rate Risk in the Banking Book (IRRBB): WSBI emphasised that the approaches proposed by the Basel Committee were too standardised, and therefore not appropriate for reflecting the actual level of interest rate risk in a banking institution. Instead of introducing a highly-standardised, one-size-fits-all approach, WSBI advocates improving the current framework by using a common set of basic principles that would still allow for different methodological approaches. It is fundamental to take into account the individual specificities of markets, and we consider that a standardised solution to all markets and all banks will not reflect the specific circumstances of different markets and customers. It is positive to note that the Basel Committee did eventually not opt for the Pillar 1 approach.

2.3.5 Tax

WSBI members support the ongoing initiatives to address tax avoidance and evasion, both at a global and EU-level. WSBI recognises that information-sharing in order to combat tax avoidance and tax evasion is inevitable. We are grateful for the opportunity to represent our members in the different forums where these standards are currently being developed such as the Business and Industry Advisory Committee (BIAC), which is an independent international business association devoted to advising government policymakers at the OECD.

We believe that it is imperative to have one system for multilateral automatic exchange of information (AEOI) and ask the different institutions (the OECD, the European institutions, the US Internal Revenue Service) involved to consider the enormous reporting requirement placed on individual institutions, and to coordinate the request for information so that all information can be standardised and provided in the same format worldwide.

With the final publication of the common reporting standards (CRS) by the OECD and the subsequent endorsement by the G20 finance ministers in September last year, we believe that an appropriate global standard has been established. Our fear is that lower-level regulations for the CRS will stray from the original text thus establishing multiple reporting systems worldwide.

We must raise a critical concern regarding the absence of thresholds for individuals' accounts in the new global standard. We are concerned that without thresholds for these accounts the data volumes for reporting entities and tax jurisdictions will become disproportionately high compared to the tax recuperated.

One global standard will ensure that a level playing field is established globally as all jurisdictions participating in the information exchange would be subject to the same requirements. It will also ensure that smaller institutions such as savings banks are not subjected to a disproportionately large reporting requirement putting them at a competitive disadvantage to larger and more diversified financial institutions.

2.3.6 How to make capital markets more accessible in particular to SMEs (securitisation, prospectus)?

Regarding SME financing, even though traditional bank financing is crucial, it can be usefully complemented by non-bank financing instruments such as asset-based finance, alternative debt, crowdfunding and hybrid instruments. In addition, the resurgence of a functioning securitisation market can be supported provided that criteria for identifying simple, transparent and standardised securitisations are developed. However, an important part of the securitisation market which is necessary for the banking system to place parts of their credit risk exposure to professional investors should not be neglected: synthetic securitisation. Furthermore, access to the SME growth market should be as flexible as possible due to the particularities of SMEs and companies with small market capitalisation; imposing a rigid format (even if it is simplified) could be burdensome for these kinds of companies. As a possible solution and in order to maintain the balance between flexibility and investor protection, a set of principles (less onerous) could be set up covering the information to be requested in those markets. This, for instance, is the objective of the review of the Prospectus Directive in the European Union.

2.3.7 Green and climate finance, an area of increasing focus

Locally-focused WSBI member banks are committed to promoting green finance and urge G20 leaders to integrate retail and local banks within the international negotiation on aspects of financing, in particular due to their role in SME financing.

For the record, climate change brought two important challenges:

- to take into account the new risks linked to climate change;
- in order to fight against global warming, to participate fully in the transition to a low-carbon economy agreed in Paris which implies promoting the development of "green finance" and supporting "green economy", keeping in mind that sustainable finance goes much beyond low-carbon emissions.

The game changer is the unprofitability of oil production which will lead to a low-carbon/green economy. The G20 acknowledged this evolution and made this topic a first priority on its agenda.

The international agreement in Paris at the meeting of the COP 21 in December 2015 has delivered the goal, the strategy and the agenda for a transition to a low-carbon economy which has a very strong financial component. Huge and long-term investments (according to Bloomberg new energy finance, 320 billion dollars in 2015 and 12,000 billion dollars needed worldwide by 2040, i.e. 485 billion dollars per year in a voluntarist scenario) are needed in renewable energy, transport and energy infrastructure, buildings, industrial processes and new technologies. Given the constraints on public finance in many countries in the world, the largest part of these investments will have to be financed by the private sector although the public sector can help through selective fiscal incentives and public guarantees (for instance, in Europe, the Juncker Plan in the EU will make at least 30% of its commitment in the "green sector"). This challenging goal, as stated by Governor Carney in his speech "Breaking the Tragedy of the Horizon - climate change and stability" on 29 September 2015, could be intended to be achieved through the cooperation of the public/private sector under the impetus of the G20. Regulators and supervisors will also have their role to play in order to organise the transition to a green economy, together with the local ecosystem composed of banks, SMEs, municipalities, etc.

In a nutshell, WSBI would recommend reflecting along the following lines:

- Local banks should be integrated in the international negotiations on green finance; a dedicated task force or at least a specific session should be dedicated to them.
- The priority should be given to a low-carbon/green economy through the angle of SMEs which create most of the growth and employment; for this purpose, local banks should be encouraged to contribute to the financing of SMEs. Several tools could be promoted such as: reduction in risk weights linked to SME exposures (known as the SME supporting factor in the EU); development of banks refinancing in cooperation with regions; refinancing through investment or central banks which cover several jurisdictions.
- The incentives given to local banks should be accompanied by the promotion of credit lines linked to energy efficiency for local enterprises.
- The regional low-carbon/green market could be complemented at local level by protocols for small investors regarding diffuse emissions.

2.4 Fostering robust international trade and investment

2.4.1 Long-term financing

One of the underlying premises in the current debate on long-term (LT)-financing is the shift toward a reduction in bank lending. This focus does not, however, take into account the current situation of the real economy in which bank lending is a fundamental source of LT-financing, which is not totally replaceable, especially for the MSME-sector. Contrary to the opinion that there has been a paradigm shift, the reduction in bank lending witnessed currently is relative, to a large extent, and can be attributed to four cyclical causes: deleveraging of credit institutions, expectation of even more restrictive prudential rules, shortage of "good risk" to invest in, and a decrease in the demand for lending because of the difficult economic situation. Moreover, some governments in difficult financial situations are taking a large part of the available funding.

To allow bank lending to return to adequate levels, it must be ensured that bank lending activities are not penalised by future regulations when the economy recovers. However, WSBI foresees that some Basel III requirements, and in particular the liquidity rules, such as the NSFR, have the potential to create a funding gap that will need to be filled. WSBI is nevertheless confident that banks will be indispensable actors in filling this gap.

Some examples of long-term financing of the economy by WSBI members around the world include:

- Maghreb Securitization, part of the Caisse de Dépôt et de Gestion (CDG) Group, has had a strong input in the development of structured funding, leading it to be a key player in upgrading Morocco's economy.
- NABARD (National Bank for Agricultural and Rural Development) has provided India's primary sector with the financial means necessary to improve farmers' working conditions and has increased their net result overall.
- BANSEFI (Banco del Ahorro Nacional y Servicios Financieros), WSBI's member in Mexico, is playing a major role in the transformation of the financial sector by providing the training and technical assistance necessary to develop the economy.
- The Government Savings Bank of Thailand (GSB) is also committed to raising living and financial standards in its country by promoting environment-friendly initiatives that will produce revenues for local economies in the years to come.
- WSBI's Vietnamese member Lien Viet Post Bank participates in numerous infrastructure projects. For instance, it co-finances the modernisation and maintenance of both highways (Hanoi – Bac Giang section, USD 174mn, 2014-2016) and overland roads (USD 250mn, 2014-2020).
- Fedecrédito (El Salvador) is involved in the long-term financing of public municipal infrastructure projects. Additionally, it participates in other long-term financing mechanisms, such as funding programmes from the El Salvador Development Bank (BANDESAL), the Central American Bank for Economic Integration (CABEI) and other multilateral programmes.
- Natixis, a subsidiary of our French member Groupe BPCE, is conducting numerous infrastructure financing projects and has managed the first European project bond to finance digital infrastructure in France.
- The Postal Savings Bank of China has focussed on financing agricultural development, rural areas and farming households. Thereby it has promoted financial inclusion and long term financing in sectors where financial services were scarce.
- The German Sparkassen-Finanzgruppe (Savings Banks Finance Group) is committed to long-term financing projects through the strong relationship it has with MSMEs. In particular, debt

financing is predominant in Germany where recent studies show that capital market instruments are used six times less often than bank loans for MSMEs, implying that German MSMEs strongly rely on banks and especially on savings banks to support their long-term financing needs.

- Banque et Caisse d' Epargne de l'Etat, Luxembourg, is largely involved in the long-term financing of infrastructure projects in Luxembourg, particularly in the sectors of education, health, transport and energy.

WSBI does not agree with the approach which consists of encouraging one model against another – capital market funding vs. bank funding – to address the issue of the decrease in bank lending. This is not acceptable as it is not in the interest of the economy. The role of banks is to provide LT financing and to protect depositors. The role of other intermediaries (such as asset managers) is to provide returns and not to protect depositors. Thus, if the banks are not taking the risk for the transformation of deposits into long-term investments, it is the saver who is directly taking the risks. The role of banks is to assess the risks, and this is something that institutional investors are not able to do currently. The capability of banks to fund the real economy has been adversely impacted by the new regulations under Basel III, and therefore WSBI supports an assessment of the appropriateness of the banking regulatory requirements for long-term financing and their review with the aim of enabling and incentivising lending to the real economy (in particular to private households and MSMEs). The relevance of certain other regulations under consideration – such as the bank structural reform and the financial transaction tax in Europe – should also be strongly questioned as they will have a further negative material impact on corporates and investors.

This being said, WSBI acknowledges that investments and infrastructure projects can no longer be financed through bank loans alone. Until 2008, most infrastructure projects in Europe were financed via bank loans. As a result of the high number of investments needed for infrastructures (USD 57tn estimated to be needed to finance infrastructure development around the world through 2030 according to a report from consultant McKinsey & Co; in Europe estimated at between EUR 1,500bn and EUR 1,800bn between 2012 and 2020 according to the European Commission) it appears essential to develop the use of private financing. In other words, economic and regulatory changes have generated the need for new financing models in order to fill the gap between available bank capital and the multi-trillion medium-term investment programmes. To do so, partnerships between banks and institutional investors should be incentivised to benefit from the know-how of banks and the investment capacity of institutional investors. In this context, more transparency would be welcome by standardising and processing transactions, and by making the information available for instance through gathering and collation in databases.

2.4.2 MSMEs' access to finance

MSMEs are the backbone of economies throughout the world and are a key source of economic growth, dynamism and flexibility. MSMEs not only contribute to economic output but also to the creation of jobs and other social objectives. They account for around 99% of all enterprises in the world and are the largest source of employment in the world.

WSBI welcomes the G20 initiative to focus on SME development and employment. WSBI supports Principle 2 of the G20/OECD high-level principles on SME financing that calls for a strengthening of SME access to traditional bank financing. Policy makers should take measures to reinforce current credit guarantee schemes, to allow for the development of a high-quality securitisation framework and to provide an environment for adequately provisioning for loan losses. Regarding Principle 3 on enabling SMEs to access diverse non-traditional bank financing instruments and channels, alternative sources of finance such as capital market instruments, in a broad sense, may be useful for some SMEs in some stages of their life cycle, but should come as a complement to bank lending. MSMEs are generally too small to benefit from these products (for instance, in Europe 90% of MSMEs have less than 5 employees). The financial inclusion policies presented in Principle 4 are strongly supported by WSBI. In response to the World Bank Universal Financial Access 2020, WSBI is striving to reach out to a large number of SMEs and reduce informality through the design of innovative and affordable financial products. WSBI is in favour of policy makers designing regulation that supports SME Financing (Principle 5).

As mentioned above, MSMEs are best served by banks, as banks have the deposits that can be transformed into adequate lending, also as a result of their knowledge of and contact with local communities. The bank's intermediary role may, however, accompany this evolution through, for instance, the development of high-quality securitisation; this way, depositors are protected and the contact with local communities is maintained. Banks will continue to be the main point of contact as, when any problem arises, the customer will come to its local bank that provides loans. In this securitisation process, banks will keep their role of customer care, and thanks to the securitisation, the bank will receive fresh money that it will be able to reinvest.

WSBI members are traditionally natural business partners of MSMEs and follow their business development throughout their lifecycle. Important factors for the close relationship between savings and retail banks and businesses are the savings and retail banks' local presence and their clear focus on retail banking. It is for that reason that MSMEs are very important for savings and retail banks due to their importance in the real economy and in the development of the local economy. Savings and retail banks are also in adequate positions to thoroughly assess credit risk due to their well-established regional network and their in-depth knowledge of their MSME clients. Moreover, in developing countries where a majority of the population still relies on the physical banking network to do the financial transactions we think it is essential that conventional banking services, banking network expansion and technological application be carried out at the same time.

This focus on the real economy and, more concretely, on MSMEs is demonstrated by the fact that non-bank loans awarded by WSBI's European members during 2013 amounted to around 80% of the total loans awarded. They were destined to individuals, corporates and governments. The loans were distributed as follows: in terms of total amount, 54% were for individuals (consumer loans, housing loans, etc.), 40% for companies (60% for MSMEs and 40% for large corporations) and 6% for governments and public authorities. Hence, MSMEs are an essential segment of clients for savings and retail banks. Since loans to MSMEs are smaller than loans to bigger corporates, this means that the number of loans awarded to MSMEs is much higher than the number of loans to big corporates.

To give an example of how our members promote SMEs, the German Savings Banks Association accounts for 42.6% of the market share amongst SMEs in Germany. 53% of Spanish SMEs are CaixaBank customers. Lloyds Banking Group has a 31% market share amongst SMEs in the UK, and Groupe BPCE is the No. 1 for SMEs in France, with a 38% penetration rate.

Belarusbank takes many steps to help MSMEs in Belarus. It actively participates in workshops which improve the financial awareness of people and MSMEs in particular. It issues loans to MSMEs on regular terms, and provides them with microloans with a simplified issuance procedure which requires a minimal set of documents. Belarusbank uses trade finance schemes to ease the financial burden of MSMEs, and takes part in investment projects carried out by MSMEs with the support of the state, creating new jobs.

However, MSMEs are facing a global problem when trying to access financing. Indeed, MSMEs could be involuntarily excluded from the credit market because of an excessive lending risk profile (worsened by the economic crisis that made the rate of non-performing ratios increase) or due to government or market imperfections (poor information environment, agent problems e.g. moral hazard and adverse practices).

Moreover, recent observations confirm the issue is essentially not one of supply, but rather the fact that the demand for loans has been dropping significantly in the last few years, due to a more careful entrepreneurial approach from MSMEs. A reinforcement of their equity base and a tendency to finance investments from internal resources may be the driving force behind the reduction in bank loans, probably complementing supply reasons. In addition, a survey jointly undertaken by the European Commission and the ECB (September 2014) on the access to finance of enterprises in the euro area highlights that bank-related products remain the favourite source of external financing for MSMEs. Thus, 61% of MSMEs consider bank loans as the most relevant way of financing their activities. For these reasons and because they are particularly appropriate for MSMEs (especially the small ones) bank loans should be further encouraged.

Although WSBI acknowledges that supranational organisations and governments are undertaking support measures, it considers that more initiatives should be put in place. More in detail:

- In Asia, although the measures put in place, such as public credit guarantees, are contributing to enhance MSME bankability and reduce the gap, other initiatives should include:
    - Improving financial infrastructure, including the development of credit reporting infrastructures such as collateral registries;
    - The development of reliable financial reporting standards for MSMEs that balance transparency and simplicity. The IFRS for MSMEs would provide a good starting point in this respect.
    - Institutional reform to reduce dependence on government support and promote the offer of finance products on market–based conditions in Vietnam, for example.
    - Collaborating with governmental agencies for capacity building programs for MSMEs;
    - Government agencies easing conditions for MSMEs to receive all the necessary documentation for getting a bank loan;
    - Improving access to finance for individuals, households and MSMEs by diversifying the electronic payment products which can be used through the expanding networks of relatively low-cost access point such as ATMs, point of sale terminals, non-bank correspondent agents and mobile phones, in Vietnam, for example.
    - Providing financial education, financial management for SMEs and MSMEs. This is, by nature, the weaknesses of SMEs and MSMEs, which leads to suboptimal utilisation of the funding sources.
    - Supporting capacity building for small financial institutions. The capacity should focus on key issues such as risk management, technological ability, etc. with financial inclusion as an end goal.
- In Africa, improving access to credit is essential in order to allow MSMEs to grow. So national governments should put in place more government-backed programmes that complement bank loans, such as public loan guarantees and other risk sharing mechanisms. Other measures should be focused toward the financial literacy and training of entrepreneurs (focused on elaboration of business plans, accounting practices, exchange of experience…).

- In Latin America, many initiatives are taken at national level, so the focus should be put more on the horizontal coordination of these policies (given the interaction and complementarities between them) and governments should make sure that the tools reach all intended beneficiaries. Access to finance is one of the problems that, when removed, should boost the economy of the region. In El Salvador, for example, the regulator, at the behest of the consumer defence organisation, has put in place restrictions on fees and imposed maximum interest rate levels according to loan categories. This can have an impact on access to the formal financial sector for certain segments of the population. Also the isolation of SMEs is a problem that could be addressed by targeted policies.

- In Europe, programmes in place are proving successful. Loan guarantees and risk-sharing facilities are an important part of EU financing going forward. However, excessive administrative burden and budgetary rules can sometimes impact their attractiveness.

In the EU context, the capital charges to SME lending was an important discussion during the negotiation of the Capital Requirements Directive IV/Capital Requirements Regulation (CRD IV/CRR) package since capital consumption is one of the main obstacles for banks to provide enough lending to SMEs. Finally, a preferential treatment for lending to SMEs was granted, the so-called SME supporting factor (SF) which involves a capital reduction factor of 0.7619 to SME loans fulfilling certain eligibility criteria, such as being inferior to 1.5 million. The Commission shall report to the Parliament and Council on the impact of own funds requirements on lending to SMEs by 28 June 2016. In March 2016, the EBA released its final report on the SF recommending its maintenance. In April 2016, Commissioner Jonathan Hill announced that the Commission will keep the SF and examine whether to raise the threshold under which the SF can apply. WSBI welcomes the Commissioner announcement that the supporting factor should be kept, since SMEs' recovery has been partial and fragile. Removing the supporting factor will have a negative effect just when the economic conditions are improving and the first hints of a relevant growth are emerging. We consider that raising or even removing the threshold can only have a positive impact, not a negative one, on SME lending and therefore encourage it.

On the basis of the aforementioned assessment, WSBI welcomes most of the initiatives designed to foster access to finance for MSMEs, in particular public loan guarantees (for instance for start-ups) and risk-sharing facilities, which will facilitate access to finance for MSMEs through the easiest and cheapest way: the banks. This will help the economies of the different regions to grow. Despite the adverse conditions of the market, WSBI members are very committed to offering the necessary amount of lending to MSMEs despite their capital and liquidity constraints.

Moreover, WSBI is also supportive of education and training possibilities for entrepreneurs, for example through training grants, which can also contribute significantly to the advancement of MSMEs.

Additional possible steps to create favourable legal and financial environments for MSMEs include creating non-profit business incubators to encourage start-ups and offer premises at a low rent or free of charge; creating agencies to protect the interests of small business on the governmental level and provide financial and counselling services to entrepreneurs; instituting preferential tax regimes for MSMEs, such as a "first year bonus" (where tax is imposed on only half of the eligible amount); or instituting tax relief for MSMEs, specifically a reduction in taxes for a certain period, for example, a reduced income tax or tax on the invested share of profit.

Finally, the setting up of a MSME information sharing system/MSME database could be helpful. With the help of reliable corporate information, investors could become more interested in providing financial means to MSMEs. This could be a useful complement to credit provision through banks.

2.5 Inclusive and interconnected development

2.5.1 Financial inclusion a key factor for sustainable development

WSBI welcomes the growing consensus that improving financial inclusion is a key step towards global economic development, as witnessed also by the linkage of "financial inclusion" with the United Nations 2030 Agenda for Sustainable Development by the G20 Chinese Presidency. Financial inclusion is considered to be a key element of each country's endeavour to realise sustainable development, and it is one of the key drivers for poverty eradication, which constitutes the top priority of the 2030 Agenda for Sustainable Development.

WSBI and its members have a strong history and tradition of active involvement in financial inclusion. More recently, in September 2015, WSBI and its members pledged to contribute 1.7 billion customers and 400 million new transaction accounts to the World Bank's Universal Financial Access (UFA) 2020 goal, based on the current membership by the end of 2020. This commitment reconfirms the aims of its 2012 Marrakech Declaration– "an account for everyone". To date WSBI and its members have exceeded their projections achieving 117 million new clients and 244 million new transaction accounts in 2015. These figures represent annual growth rates of 8.2% and 11.7% respectively.

In light of the above, WSBI welcomes the Chinese G20 Presidency decision to mandate the Global Partnership for Financial Inclusion (GPFI) to work on a set of high-level principles for action on digital financial inclusion. Digitisation is undoubtedly a very useful tool in overcoming obstacles to inclusion. Digitisation can help to reduce the high cost challenge of financial inclusion. It can, in particular, be a delivery mechanism that permits banks to provide financial access beyond branches and agent networks in rural areas – i.e. reaching the last mile- in a sustainable manner. Digitisation in the form of small data and big data analytics can also enable banks to be more customer centric.

WSBI and its members are convinced that the adoption of a digitized banking universe can help the savings and retail banks that constitute the WSBI membership to achieve their longstanding commitment to financial inclusion. In parallel, they continue to maintain their long-standing tradition of adopting new technologies and incorporating them in their product and service offer.

Within this global wave of digitisation, it should however be clear that digitisation is not an end in itself and that the human factor, including the ability to promote and sustain trust in the formal financial services system, should not be neglected. WSBI does not believe retail banks will become pure "online banks". The long-term trust that is the cornerstone of our proximity relationship is our key strength in a digitised world. The importance of this for WSBI and its members is witnessed by the Declaration "Taking the digital path, keeping a human touch" adopted by the WSBI World Congress in September 2015.

In this regard, WSBI also wishes to stress the importance of postal networks to foster financial inclusion. Postal networks, which roughly account for about a fourth of WSBI membership, can be key stakeholders and central players in promoting financial inclusion given their large network in rural areas where there is a higher unbanked rate. Postal financial service providers are however facing challenging times in terms of a rapidly changing environment and competitive pressures. This applies in particular to the postal financial institutions in West Africa where they face restrictions to offer a full range of financial services, on the one hand and weak governance and lack of financial autonomy, on the other. There is therefore a need for a radical overhaul of culture and organisations to understand customers and place them at the centre of their business.

The digitisation of financial services presents policymakers and regulators with as many challenges as it does for the banking industry. Digital financial services raise specific risk and trust factors and traditional responses may not be adequate in this new world. WSBI believes that policymakers, regulators and supervisors worldwide have the responsibility to guarantee that all financial services providers, whatever the distribution channel they use, operate in a level playing-field, to ensure that the relevant prudential and supervisory measures are in place to guarantee the security of transactions and the soundness of the institutions involved and to make sure that long term trust and protection of financial customers is specifically addressed.

Accordingly, 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 G20 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 SSB standards, guidance and thinking. Nevertheless, it is our impression that greater sensitivity is still needed amongst these bodies towards the challenges of financial inclusion in order to avoid any potential unintended consequences that could arise as a result of their initiatives and policies. Examples include shadow banking, where 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. Another example is the de-risking of some activities by banks, including those in relation to Money Transfer Operators (MTOs) that provide international remittance services.

In conclusion, WSBI would like to stress that 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.

Accordingly, WSBI calls on stakeholders, policy-makers and regulators to provide an enabling environment that boosts financial inclusion, also with the aid of innovation and technological solutions, rather than hampering it. Proportionate regulation is also required in order to enable the various actors involved in financial inclusion to provide access to finance to the masses in a sustainable manner, also in remote areas. Regulatory arbitrage should be eliminated to secure a level playing field.

WSBI also wishes to highlight the following policy support that is required to advance financial inclusion commitments:

- Strengthen the role of government, in terms of policy guidance and incentives, to promote and accelerate the building of a financial inclusion ecosystem and providing an enabling environment for innovation in financial inclusion.
- Lack of infrastructure, including financial infrastructure and also physical infrastructure (including internet and mobile coverage, interconnectivity and transportation) should be addressed by the government. Coordination should also be enhanced at national level, to make sure that central banks, ministers of finance and banking supervisors work hand in hand with national authorities and bodies in charge of non-financial areas, which play a crucial role in achieving financial inclusion. The latter are relevant, either because they work with the targeted groups of unserved people (e.g. social welfare, migration etc.), or in business sectors for which specific financial services are needed (e.g. agriculture, health etc.), or on the infrastructure aspects (e.g. telecommunications).

- Financial education in emerging and developing economies should be directly connected to the debate on access to finance. The lack of knowledge on money issues and some possible misconceptions on the role of banks, including the development of the vital trust factor, could be a serious deterrent to financial inclusion. Accordingly, the development of a comprehensive national strategy, adoption of a multi-stakeholder approach and development of life-long learning programmes with a specific focus on children and youth is of crucial importance.

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[i] The WSBI member banks in G20 countries are: Caixa Econômica Federal do Brasil, Postal Savings Bank of China, Caixa Economica Postal de Macau, Groupe BPCE (France), Fédération Nationale des Caisses d'Epargne (FNCE) (France), Deutscher Sparkassen- und Giroverband (DSGV) (Germany), NABARD (India), National Savings Institute (India), P.T. Bank Tabungan Negara (Persero) (Indonesia), Associazione di Fondazioni e di Casse di Risparmio(ACRI) (Italy), BANSEFI (Mexico), Postbank (South Africa), Korea Federation of Savings Banks (KFSB) (Republic of Korea), Dongbu Savings Bank (Republic of Korea), Korea Post (Republic of Korea), Şekerbank (Turkey), Lloyds Banking Group (UK), ICBA (USA), Wells Fargo (USA).

About WSBI (World Savings and Retail Banking Institute)

WSBI – The Global Voice of Savings and Retail Banking

WSBI brings together savings and retail banks in all continents and represents the interest of circa 6,000 financial institutions with total assets of USD 17 trillion and serving some 1.4 billion customers in 80 countries worldwide (2014 figures). As a global institution, WSBI focuses on international regulatory issues that affect the savings and retail banking industry. It supports the aims of the G20 in achieving sustainable, inclusive and balanced growth and job creation around the world, whether in industrialised or less developed countries. WSBI favours an inclusive form of globalization that is just and fair, supporting international efforts to advance financial access and financial usage for everyone. It supports a diversified range of financial services that meet customers' transaction, savings and borrowing needs responsibly. To these ends, WBI recognizes that there are always lessons to be learned from savings and retail banks from different environments and economic circumstances. It therefore fosters the exchange of experience and best practices among its members and supports their advancement as sound, well-governed and inclusive financial institutions.

World Savings and Retail Banking Institute - aisbl
Rue Marie-Thérèse, 11 ■ B-1000 Brussels ■ Tel: +32 2 211 11 11 ■ Fax : +32 2 211 11 99
Info@wsbi-esbg.org ■ www.wsbi.org

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