POSITION PAPER

WSBI's Institutional Position to G20 decision-makers

"Building Consensus for Fair and Sustainable Development"

March 2018

"Savings and Retail Banks' Contribution to Fair and Sustainable Development"

WSBI

Context

The G20 is the most significant forum to discuss issues relating to global economic growth and financial market regulation in the aftermath of 2008 financial crisis. Although the G20 possesses no executive powers, nor are its decisions binding, decisions agreed by the heads of state and government in the framework of the G20 have significantly been implemented by its members. A series of action plans are impacting the environment in which WSBI (The World Savings and Retail Banking Institute) member banks operate. Therefore, WSBI has actively been in dialogue with the G20 implementing partners like the IMF, FSB, the World Bank, OECD and the United Nations and taken part in consultations related to new policy initiatives, principles and guidelines managed by the G20 partners.

In addition to WSBI's on-going contribution to global policy debate, WSBI would like to take this opportunity to highlight:

- *The role of locally focused savings and retail banks in building fair and sustainable development;*
- *Some proposals and recommendations on the new priorities led by the G20 Argentinian Presidency that merit consideration;*
- *Recap of key messages to previous presidencies.*

Savings and retail banks' footprint

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, work through extensive distribution networks enabling them to develop proximity services and provide regional outreach, and a socially responsible approach to business and to society. The 110 WSBI members, representing about 7,000 banking institutions, are active in 80 countries throughout the world, in developing and developed countries alike. Assets of WSBI members active in the G20 countries amount to 15.237 billion USD, and they serve more than 1.2 billion customers.

Figures of WSBI members in the G20 countries

Data at the end of 2016 accounting year							
Assets	Loans	Non-bank loans	Deposits	Non-bank deposits	Outlets	Employees	Customers
USD millions							
15 237 720	9 345 066	7 859 363	10 894 385	9 638 550	191 567	2 393 028	1 285 046 451

Role of savings and retail banks in real economy

The G20 Argentinian Presidency is building on the Germany Presidency's work to strengthen the global economy as a whole. WSBI fully supports its view that an inclusive, fair and sustainable financial system that offers all households and companies appropriate access to financial services is a key element for the stability of the financial system and the global economy. In this respect, WSBI would like to highlight that financing the real economy is a core function of WSBI members' business model. Savings and retail banks safeguard deposits and put them to work through effective and responsible lending valued at close to USD 10.9 trillion.

Savings and retail banks: A key part of a diverse banking system

WSBI members have played an essential role in providing a model that is part of a diverse banking system which remains crucial to maintaining the stability of the financial system. Preventing the concentration of economic and financial resources in the hands of the few is paramount to a resilient financial system.

Globalisation, inclusiveness and equality

Globalisation has proven to make the world more prosperous and move society forward, but the issue of greater social exclusion and inequality is emerging. WSBI believes that locally focused savings and retail banks help bring those people in and give them the opportunity to fully participate in the local economy. Close to customers, and in their communities for the long haul, they are ideally placed to help people better navigate their financial future in an inter-connected world. Local banks give citizens a chance to participate in the real economy, to start or expand a business and seek export markets. *The Economist* magazine once noted that SMEs, especially mid-sized firms, hire people regardless of the business cycle. Their approach is different compared to large companies, which oftentimes slash payrolls when times are tough.

Fight against social exclusion and inequality

Globalisation has also had a negative impact such as widening social inequality. In this regard, WSBI believes that national governments, in particular those from developing countries, have put in place some measures to promote social inclusion. Social exclusion, poverty and racism are issues which can cause a vicious cycle for any society. There is a real need to find a breakthrough to improve social stability and harmony. WSBI member banks have been leading the fight against social exclusion via different programmes such as channelling social security payments, providing microloans, e.g. vocational loans, promoting financial education and integrating vulnerable people in communities through financial education.

Leave nobody behind in the digital age

The Argentinian Presidency highlights the importance of unleashing people's potential in the new digital age. Savings and retail banks have advanced to adopt new technologies and incorporate them in their products. However, they also note that not all citizens, senior citizens for example, are able to cope with the digital evolution. For the sake of this, savings and retail banks maintain a close, synergistic relationship with the community as a whole and leave nobody behind.

Policy and regulation matter for savings and retail banks' contribution to society

1. THE FUTURE OF WORK: UNLEASHING PEOPLE'S POTENTIAL

Financial education

WSBI welcomes the Argentinian's position on the importance of providing citizens with tools and skills, empowering them to shape their own futures. WSBI and its members recognise the significance of promoting financial education for all citizens worldwide and carrying out a wide range of initiatives aimed at preventing social and economic exclusion, but also providing citizens with a better knowledge of financial issues, enabling them to make informed choices and to gain the adequate skills for full insertion in the labour market. Based on the principle that financial education should be introduced at an early age, WSBI believes that it should be provided to everyone and at any age. Financial education should be a continuous process that constantly adapts to the changing social, financial and political context, and where several actors from different sectors of society shall play a key role in improving its efforts.

The lack of entrepreneurship skills, such as business skills and financial literacy, can be a barrier to success for potential entrepreneurs. Thus, when fostering entrepreneurship, financial education and financial literacy can be a desired objective associated with entrepreneurial skills. WSBI members undertake dedicated financial education initiatives to foster entrepreneurship skills, particularly amongst the youth.

Empowering vulnerable groups via financial education remains one of WSBI's priorities. As such, WSBI members also undertake dedicated initiatives to empower women, in the form of innovative payment solutions, national action plans or financial literacy campaigns to improve their levels of income and livelihoods.

Policymakers should build upon the experience of public banks for the development of financial inclusion policies, for the promotion of an entrepreneurial culture, and to improve the access and the use of financial services by vulnerable populations. By delivering a joint effort, they will be able to influence positively the global situation market.

Policies needed to embrace the opportunities and address the challenges presented by technology

New digital systems and business models can indeed help to boost productivity and lower costs while enhancing customer centricity and financial offerings. Digitalisation has been proven to improve access to financial services and create greater social inclusion.

In emerging countries with high levels of poverty, the focus should be on the promotion of access to broadband but also on the financing of regional economic structures that allow people to progress in the regions where they live and access decent work. Support should also be given to the collaborative and transparent use of "big data" technologies based on common interest, for example to improve access to finance and risk management, to provide insurance against natural catastrophes, to revitalise labour markets, and to smoothen the relations between companies and banks.

WSBI is glad that the G20 Argentinian Presidency continues to put digitalisation high on the agenda and that it shows its willingness to explore the developments in digitalisation, including its possible effects on financial stability and its potential in financial inclusion. WSBI supports the Argentinian G20 presidency's aim to take the first steps towards a secure regulatory setting, in which the benefits of new technological breakthroughs can be fully explored without neglecting the potential risks to the stability of financial systems. Policymakers should take measures to eliminate regulatory arbitrage to secure a level playing field.

- Ensure a level-playing field

A level playing field is of importance: FinTech - "Financial Technology" - describes an activity not a specific entity. FinTech is thus being fostered and used by banks just as much as start-ups, IT companies or third-party providers. Considering FinTech firms as different entities can lead to misjudgement in terms of defining a regulatory approach to FinTech activities. The business models of financial service providers thus need to be respected whilst at the same time ensuring competition law is enacted.

- Ensure correct balance between innovation and risks

  - Legislation should always be written in both a technology-neutral as well as a business model-neutral way.
  - Policymakers should continuously reassess the impact of technological developments on data security and privacy, ensuring that regulations strike an appropriate balance between protecting privacy and security, and effective data use.
  - Ensuring customer protection and privacy while avoiding undue burdens must be kept in mind. The role of policymakers should not be to issue constraining legislation – which would limit innovation to a narrow spectrum of opportunities – but to ensure that innovative solutions always fully comply with the existing regulatory framework, so that technological disruption in the financial sector does not produce negative effects for both consumers, investors and the market itself.
  - Policy-makers should acknowledge that any asymmetry in the capability to apply consumer protection will be to the detriment of consumer confidence and destroy societal value.
  - Differences between countries and between market participants in the accounting and/or prudential treatment of software investment should be remedied in order to avoid strategic and competitive distortions.

- Drive consistency across jurisdictions on data protection, data localisation, cyber security, investor protection, e-identity

More comprehensive action is still required regarding the needed new regulatory framework for digitalised finance. This framework should, on the one hand, create the right environment for innovation in the financial sector and, on the other hand, protect both companies and customers in the light of new regulatory challenges regarding digital. Regulation on digitalised finance should particularly act on:

  - Data protection: providing harmonised clarification on the use of consumer data by regulated and supervised institutions, making a clear distinction between raw data and the handling of processed data (possibly anonymised/pseudonymised);
  - E-identity: Legislators need to make sure that everyone has a valid identification document, and a low-cost, accessible means for customers to be authenticated. Policy should support the industry when onboarding people digitally. This will involve the Financial Action Task Force (FATF) and other institutions in the Know Your Customer (KYC), Anti-Money Laundering (AML) and electronic identification (e-ID) sphere.
  - Cloud computing: providing for legal certainty and harmonisation in using cloud service providers cross-border, and for clarity and harmonisation of the supervisory requirements applicable to banks in this respect;

- Cyber security: It has to be borne in mind that aiming for and maintaining cybersecurity is a shared responsibility among all stakeholders in society, with governments and authorities leading and facilitating, enabling those players to exchange critical information, in real time, standardising incident reporting formats and setting up (per country) a single point of contact to deal with these;
- Platforms: Platforms should be subject to the same transparency requirements.
- Effective enforcement of rules is crucial (in particular considering the cross-border nature of platforms), and principle-based self-regulatory and co-regulatory measures including industry tools for ensuring application of legal requirements and appropriate monitoring mechanisms can play a role.
- Automated financial advice: equal treatment across regulatory channels is paramount to an effective framework which promotes innovation while protecting all types of customers. With respect to completely new technology (such as distributed ledger technology), legislations (or parts thereof) which at present are not technologically neutral would need to be revised in order to erase this deficiency with respect to the required neutrality.

Promoting the development of inclusive finance and contributing to the sustainability of inclusive finance

Policy support is also required to advance financial inclusion commitments, in terms of policy guidance and incentives, to promote and accelerate the building of social credit schemes. Developing infrastructure, including financial infrastructure and physical infrastructure – mobile networks, transportation, among others – should be addressed. Coordination should be enhanced at national level to make sure that central banks, finance ministers and banking supervisors work hand in hand with national authorities and bodies in charge of non-financial areas.

Credit identification is critical for substituting collaterals, reducing the risk and cost of inclusive finance, and solving the problem of information asymmetry. Government sectors are expected to introduce unified data standards and formats as soon as possible to facilitate normalised data fusion, break "information islands" among data resource departments, integrate credit information resources scattered in financial institutions, judiciary, industry and commerce, taxation, public utilities and other departments, form a unified information sharing platform, lay a solid foundation for a society-wide credit reporting system, and enhance the risk control capability of banks with big data. Information exchange in the digital age has gone beyond the boundaries of industries and fields, which blurs the bounds of finance and non-finance and thus increases the difficulty of financial supervision. Meanwhile, weak and flawed regulation also poses great risks for low-income people who lack financial knowledge about risk identification. A regulatory system keeping pace with the times should be able to find the optimal equilibrium among stabilising financial system, protecting consumers' interests and encouraging innovation.

Policy makers should enact legislations that favour business models that contribute to social inclusion and reduce inequalities, especially by promoting entrepreneurial spirit, micro, small and medium enterprises and access to assets that allow people to remain out of poverty. Linking companies and banks with local initiatives and development groups could prove to be a good solution.

Developing digital skills

Digital technologies, systems and processes have a massive impact on daily life in general and the labour market specifically, and on the type of skills needed in the economy and society. By way of example, the structure of employment is changing, leading to the automation of "routine" tasks and to the creation of new, different types of jobs. There is a need for digital skills for nearly all jobs where ICT complements existing tasks. Careers such as engineering, accountancy, nursing, medicine, art, architecture, and many more require increasing levels of digital skills. Every citizen needs at least basic digital skills in order to live, work, learn and participate in the modern society. Job seekers and employers are connected in new innovative ways.

Ensuring that everyone has the right skills for an increasingly digital and globalised world is essential to promote inclusive labour markets and spur innovation, productivity and growth. The industry can play a role here. WSBI particularly welcomes initiatives to enhance digital skills of the youth, such as the Digital Opportunity initiative, launched by the European Commission, aimed at boosting digital skills on a cross-border basis through internships. These initiatives, bringing together countries, companies, social partners, non-profit organisations and education providers, are crucial to address the mismatch between the skills of job seekers and the needs of the labour market.

Digitalisation also opens new opportunities for innovation in learning infrastructure. Examples such as MOOCs (massive open online courses) and OERs (open educational resources) already offer opportunities to learn for many workers. Companies could make use of these resources in order to promote and harness employees' digital skills to the extent that this is relevant and feasible.

Financial inclusion and financial education initiatives can also indirectly empower citizens regarding their digital skills.

Financial inclusion with a gender perspective

Retail banks that adopt a gender approach focused on the needs of women, will not only be promoting greater financial inclusion with relevance in meeting the needs of women, but will be contributing more to the development of local economies, especially in the countries with the greatest lag in the inclusion of women in the real economy.

Women require appropriate products. It is therefore necessary to enable flexible guarantees to finance their productive activities and continue applying methodologies that have proven to be successful, such as promotion of savings groups, as well as services and channels close to their homes.

Inclusion of migrants in the formal system

The global phenomenon of migration and displaced people due to climate or terrorist crises, or simply seeking for better opportunities, needs to be tackled.

The legal framework should enable retail and locally focused banks to provide financial services to migrants and their families both in the areas of origin and in the countries to which they migrate. Migrants that do not necessarily have the appropriate identification mechanisms nor the possibility of meeting the requirements to open an account, still need to be able to pay and to send remittances, and establish a relationship with a bank without having the traditional collateral for a loan.

Migrants often have no possibility to make transfers and rather carry cash with them on dangerous journeys and are subject to theft and extortion. Policymakers should consider exploring mechanisms that allow migrants to deposit their funds in accounts that are accessible to them in the country to which they migrate, taking into account the fact that migrants will not be able to present documents to start a relationship with a financial institution.

The risk assessment would need to be done on a case by case basis, and retail and locally focused banks are ready to contribute their experience. Yet, policy makers should recognise that this phenomenon exists and that it is preferable to give institutional options to the migrants to protect the equity they may generate on the way, rather than the informal mechanisms which in most cases is the only available way for them.

The work of Development Financial Institutions

WSBI welcomes the approach of development financial institutions to support locally focused financial institutions to become more efficient and competitive in the digital age. In the framework of the G20 Presidency held in Latin America this year, we pay particular due to the work done by the

Inter-American Development Bank Group (IDB Group) as a strong ally for WSBI and its members in this front on the following areas:

- Innovate and test new innovative and scalable business models. This translates into promoting new products, channels and technologies to reach customers not previously served, i.e. vulnerable populations, micro-enterprises, SMEs (including with special focus on SMEs led by women) through financial intermediaries, and dynamic early-stage companies, mainly through entrepreneurial capital funds in the Latin American and the Caribbean (LAC) region. In 2012, IDB Invest women Entrepreneurship Banking (weB) program was launched to serve the financing needs of women entrepreneurs in LAC. Through weB, loans, guarantees, and technical assistance were provided to 17 banks in 11 countries in the region. Finconecta, a programme that integrates Fintech financial institutions and companies into a digital ecosystem, and the support to Entrepreneurial Finance Lab (EFL) in testing credit scoring methodology based on psychometric parameters are among the key initiatives undertaken by the IDB Group in this area. Other examples include projects undertaken with WSBI members in the region, such as Banco Estado (support the development of financial products for pension savings), Fedecrédito (support in structuring an innovative mechanism to channel Salvadoran remittance flows to MSMEs), or FEPCMAC (support in the expansion of mobile banking in Peruvian non-bank financial intermediaries).
- Promote the dissemination of relevant knowledge. This includes knowledge of data, networks, learning and innovations in financial inclusion for the LAC region. It also includes publications in coordination with partners inside and outside the IDB Group, as well as the annual report on remittances, and various publications and events for the dissemination of knowledge and facilitation of generation of business networks and innovation such as Foromic, and the initiative WeExchange aimed at high growth entrepreneurs.
- Promote ecosystems. This includes the market environment, and regulatory frameworks -in alliance with the connectivity and finance division of the IDB group- that facilitate financial inclusion. This includes the Microscope on the ecosystem of financial inclusion and projects through allies such as the Association of Banking Supervisors of the Americas (ASBA), or the Center for Latin American Monetary Studies (CEMLA), for example studies on issues of regulatory frameworks for agent banking, and payment systems.

2. INFRASTRUCTURE

As the G20 Argentinian Presidency highlights, investment growth is frequently regarded as far less than what is needed to sustain vigorous growth and make this growth truly inclusive. WSBI welcomes that the G20 will seek to develop infrastructure as an asset class, particularly by improving the instruments designed to fund infrastructure projects. Enhancing trade and investment ties is a crucial task in order to reinvigorate strong, sustainable, balanced and inclusive growth as well as SME participation in global value chains.

Investment: Ensure a level playing field among finance providers for long-term financing projects

As far as investment is concerned, WSBI would like to highlight that the role of banks in fostering investment should be well recognized, and the capability of banks to fund investment should not be impacted by the evolving regulatory framework such as rules on capital requirements and liquidity. Progressively introducing capital conservation buffers and countercyclical capital buffers as part of the Basel III regulation is expected to significantly increase minimum capital requirements for banking institutions (with a particular burden on smaller banks) thus providing a rationale for a decrease of bank lending capacity in the short run. Because alternative finance providers may only partially fill the gap between available bank capital and the multi-trillion-dollar medium-term investment programmes, WSBI encourages regulators to design policies that could further boost bank lending for infrastructure projects. Due to the crucial transmission role of savings and retail banks to the wider economy, such policies would further enable the capacity of banks to transform deposits into loans for sustainable long-term projects. Since the role of banks is to adequately assess risks for given projects while the role of institutional investors is to provide returns, the complementarity of both models should be strongly encouraged in order to provide a level playing field for infrastructure finance providers, which would in turn be beneficial for both growth and financial stability.

Blended finance

WSBI welcomes blended finance as the strategic use of development finance for the mobilisation of additional commercial finance towards the Sustainable Development Goals (SDGs) in developing countries. It has been estimated that 2.5 trillion USD per year will be needed by developing countries alone to successfully deliver the Goals. Implementing strategies to deliver SDGs will engage banks at all levels, as they have a key role to play in delivering the 2030 Agenda. In this respect, WSBI welcomes and fosters public–private partnerships in the framework of blended finance strategies. Working with development funders via strategic partnerships, be it foundations, development finance institutions, World Bank Group and actors alike, is at the core of sustainable minded institutions, such as WSBI membership.

3. IMPROVE AGRI-FINANCE TO REACH A SUSTAINABLE FOOD FUTURE

Agriculture remains a major source of livelihood and a primary sector for the majority of rural populations in developing economies. Ensuring that it receives adequate access to financial products and services, including smallholders, can significantly impact economic growth and development. However, despite its importance, effective delivery of agri-finance products, a lack of coordination among the value chain actors and the need to apply price pressure on agricultural commodities represent persistent constraints. The impacts of climate change on the agriculture industry are also becoming more prevalent and represent major challenges.

To overcome these constraints and challenges, actions are needed to increase both public and private investments in agri or agri-aligned sectors. Recent innovations have also paved the way for several new and promising delivery mechanisms for agri products and services and are creating important opportunities for the sector to grow. To be successful these solutions need to be supported by governments through the development of enabling regulatory frameworks and policies which support climate resilience.

Agri-finance is needed to meet rising demand

It is estimated that a food production increase of 100% is needed by 2050 to supply an expected global population of 10 billion and that the majority of this production will take place within developing economies.[1] In order to meet this rising demand, a significant number (estimated at 75%) of the poor living in developing economies which rely on farming for revenue and their own food source will need better access to markets and the ability to effectively enter the value chain. A formal credit delivery system is thus needed to support this development and provide funds to farmers engaged in agricultural projects.

Expanding access to formal sources of finance to rural smallholders requires a number of considerations and approaches. For example, providing smallholders with financial literacy training has been shown to increase yields and incomes.[2] New loan models enabling smallholders to utilise their crops as primary collateral are also becoming more common.[3] The digitalisation of the value chain has the potential to further financial inclusion significantly, particularly when coupled with other technology solutions such as mobile payments as ways of expanding access to the formal financial sector. Finally, an appropriate regulatory framework providing incentives to finance providers delivering products to the farm sector may also be beneficial.

Without access to finance, rural smallholders are extremely limited in their ability to expand and meet the rising demand for agriculture. The fusion of agriculture and technology, also referred to as "agri-technologies or agtech" provides important opportunities for farmers to increase their profits. By utilising new technologies, smallholders can find ways to rely less on chemicals, collect and use data more effectively to increase productivity, reduce waste or access better market information. By promoting efficient agricultural reforms along the entire agricultural value chain, governments can help farmers in both reducing their costs (cultivation costs can be put down with the use of efficient water, fertilizer and nutrient usage) and increase their revenue (governmental targeted scheme to ensure that farmers get remunerative prices). Utilising digital technology in agriculture can also potentially reduce environmental risks by providing technology support to farmers and helping them combat the impacts of climate change.

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[1] http://www.fao.org/fileadmin/templates/wsfs/docs/Issues_papers/HLEF2050_Global_Agriculture.pdf
[2] file:///C:/Users/ShawnHunter/Downloads/Innovative+Agricultural+SME+Finance+Models.pdf
[3] http://hanoitimes.com.vn/economy/agriculture/2016/03/81e0a0d1/vietnam-supported-in-sustainable-agrifinance/

Policy and measures to support agriculture

There are a number of ways in which governments can play a leading role in supporting the growth of the agriculture industry. Some examples include:

- Supporting the availability of lines of credit through both public and private financial institutions for smallholders, providing agricultural information on insurance markets, incentivise banks to extend partial credit guarantees to farmers, utilise subsidies to enable sustainable financing for farmers or set up the necessary financial infrastructure such as credit bureaus or collateral registries for farmers in rural areas.
- Supporting measures which aim to increase the amount of agri-technologies and other digital platforms used to increase financial access and profits of smallholders. These measures will only succeed if smallholders are also willing and able to utilise the required technologies to take advantage of these opportunities.
- The development of infrastructure that would aim at increasing agricultural productivity directly or indirectly (e.g irrigation schemes…) should also be encouraged at local and national levels
- As coordination among value chain actors and price pressure on agricultural commodities are the main challenges, it is necessary to provide a price stabilisation mechanism for smallholder farmers to better estimate prices.
- The focus on agri-technologies and finance supply chains needs to be urgently increased to meet food supply needs and to de-risk current threats – such as climate change – to agricultural production.
- The modernization of farming practices should be encouraged to increase agricultural productivity
- Improving efficiency in financial services to agriculture needs to be bundled with non-financial services (e.g. technical support, extensions services, capacity building) and risk management through portfolio supervision mechanism.
- Policies should be shaped to support the resilience of clients in agriculture value chains against potential climate-related shocks.
- Reducing food loss by introducing new and innovative products for post-harvest management will help to broaden the ambit of agricultural finance and private sector participation.

4. CONTINUITY OF PREVIOUS PRESIDENCIES

WSBI welcomes that the G20 Argentinian Presidency will continue the G20 German Presidency's initiative to further strengthen the international financial architecture and global financial safety net. As highlighted by the G20, risk associated with volatility, macroprudential measures and capital flow management tools are at the top of the agenda.

Appropriate regulation for better economic growth

Past reforms on capital, liquidity, loss absorption, etc. have powerfully fostered financial stability all over the world. Now, when economic figures are showing some growth rates, it would be wise to let the economy grow instead of prescribing even stricter requirements to be complied with. In this respect, there is need for a pause on banking regulatory reforms at international level – and those that might have unintended effects should be recalibrated – in order to focus more on fostering economic growth. For example, the capability of banks to fund the real economy has been restricted by new regulations under Basel III and could also be hindered once the Basel IV framework has been mirrored in regulation. In this regard, we call on decision-makers in all jurisdictions should give due consideration to the possibility of undertaking thorough public impact assessments with updated data, enhancing a constructive and transparent dialogue with stakeholders. Transposing Basel IV texts into national law must be done in a way that does not harm banks' ability to finance the economy.

Locally focused banks that make up WSBI's membership, which are strong building blocks of national financial systems in particular in the time of a financial crisis, should not be hurt by ongoing financial rules reform, but should thrive within an innovation-driven, framework. A proportionate application of international and national banking regulations would allow local banks to perform a wide range of services to their customers - SMEs and households, some of whom are in regions where only local banks provide services.

The Principle of Proportionality should be weaved into all aspects of regulation. There is need for it to be recognised and applied at every step of the legislative and regulatory process, so that existing and new legislation and regulations are applied to banks in a proportionate way. If not applied, costs of disproportionate regulation are likely to be substantial.

Pressing need for impact assessment and proportionate legislation

Many measures were adopted in difficult circumstances in the aftermath of the financial crisis within a short period of time. Unintended consequences, not striking the right balance between mitigating risk and fostering growth, occurred. Given the wave of new legislation, there is pressing need for an assessment by policymakers of the appropriateness of banking rules already in the books. Furthermore, before initiating new regulatory acts, it is especially important to carry out detailed impact assessments that also take into account the impacts on smaller and less complex banks as well as the interactions between different regulatory pieces.

Making taxation fair and reliable worldwide

The G20 Argentinian Presidency has rightly committed to continuing the current G20 tax policy agenda. That agenda namely applies to implementing the recommendations for preventing base erosion and profit shifting (BEPS) and encouraging tax compliance by achieving the broadest possible participation in the exchange of information in tax matters.

Aiming towards increased transparency is needed, along with initiatives to develop a global multilateral system for the exchange of information with clear and equal rules for everyone. Effective monitoring is required, however, to ensure that these global standards are applied consistently across all participating countries guaranteeing fairness, proportionality and a level playing field.

One global standard will ensure that a level playing field is established, as all jurisdictions participating in the information exchange would be subject to the same requirements. This is vital to ensure that smaller institutions, such as locally focused banks, are not subject to a disproportionately large reporting requirement putting them at a competitive disadvantage compared to larger and globally focused financial institutions.

Taking responsibility on climate action

WSBI fully agrees with the G20 Argentinian Presidency's decision to expand on the German Presidency's commitment to the 2030 Agenda for Sustainable Development and its Addis Ababa Action Agenda on Financing for Development. Locally focused banks should be included in the international evolutions on sustainable finance. In addition, standardising sustainable finance activities and product terminology is important. Harmonising definitions and labels for green products should be carried out – including for insurance products which guarantee the quality and efficiency of the energy being used – which should be discussed between the private sector and regulators/supervisors.

The benefit of such harmonisation is clear: Making sustainable finance more organised and more scrutinised, reinforcing its credibility and efficiency. It also ensures that citizens are better able to clearly identify which products would help support a sustainable future. WSBI members stand ready to increasingly cooperate with municipalities to organise financing of new products, especially to increase energy efficiency such as buildings and infrastructure.

Transitioning towards more flexible and cleaner energy systems

The G20 Argentinian Presidency is right to build on the Energy Efficiency Leading Programme agreed upon in China 2016 and the Toolkit on Renewable Energies created under the Turkish presidency of 2015. WSBI also backs the G20's plan to push forward issues on the energy agenda such as inefficient fossil fuels and energy data transparency.

SMEs: The backbone of local economies

SMEs are the backbone of economies throughout the world as they contribute to the most significant share of employment and added value creation in both developed and developing countries. Enhancing the contribution of SMEs in a globalised world is therefore vital to relaunch growth and boost the world economy. Outlook forecasts that global infrastructure investment needs to reach 94 trillion USD by 2040[4] in renewable energy, transport, energy infrastructure and buildings. Given the constraints on public finance in many countries, the majority of these investments will have to be financed by the private sector, i.e. SMEs and households. The role of SMEs in a sustainable environment should also be highlighted and has garnered more attention from institutions in recent years. In a context of rapid international expansion of the green sector, estimated at 5% per year, SMEs should be considered as a changing force with the capacity of transmitting innovative solutions to the economy. Increasing SMEs' access to bank credit can help to reduce the supply–demand gap in financing SMEs and should be further encouraged in both developed economies and developing countries where levels of financial inclusion are low. Public credit guarantees are contributing to enhance SMEs' bankability by reducing information asymmetries between lenders and borrowers and are beneficial to support SMEs' access to finance thus having a positive impact on growth and employment. Developing these programmes is necessary to ensure that SMEs have access to the financial means they need for their projects.

Since SMEs also play a major role in most economies, adequate capital requirements should be applied to credit exposure to the SMEs segment. The current credit risk framework for SMEs in the Basel

[4] World Bank, Global Infrastructure Outlook, 2017

framework could therefore be lower. If not, the combined effect of higher risk-weighted assets and higher capital requirements is expected to reduce credit availability for SMEs and further widen the borrowing cost gap between large firms and SMEs. On diverse non-traditional bank financing instruments and channels, WSBI-ESBG underlines that most SMEs are microenterprises and that efforts spent in broadening the sources of finance may not be adequate for a large share of SMEs, while appropriate for others. 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 only complement bank lending.

WSBI calls upon development financial institutions and international cooperation agencies to enable a greater availability of funds in the form of non-reimbursable grants, such as technical assistance for emerging countries with high levels of poverty, in order to promote financial inclusion and education, not only through digital means, but also through the "person to person" relationship in places with geographical barriers and formal access.

De-risking

De-risking brings wide consequences for the financial industry as a whole. The most worrying aspect of de-risking is the fact that people still need to make payments – and if traditional banking channels are no longer available, transactions are likely to be forced into alternative channels, which may be less well regulated. It has an effect on financial access for individuals and populations and hinders financial inclusion progress. It affects remittances flows between countries, as small local intermediaries active in financial inclusion suffer the effects of accounts being closed down in global banks, which effectively reverses the financial inclusion effect of rural and marginalized populations. De-risking represents a regulatory failure. Policymakers, regulators, standard setting bodies and other stakeholders should take necessary accountability and leadership to solve challenges related to dealing with accounts of clients perceived to be "high risk" rather than 'De-risking'.*Fighting corruption*

Recent years have shown financial institutions worldwide that money laundering and corruption can be interlaced. Both offshore companies, as well as domestic (EU) companies controlled by offshore companies (e.g., UK LP/LLPs) without any clear purpose of that structure, can be vehicles for facilitating not only money laundering and corruption, but fraud, tax evasion, illegal arms trade and avoidance of international sanctions.

Financial institutions which have taken a clear stance to reduce and clean up their client portfolios of offshore companies and domestic companies controlled by offshore companies will not only strengthen their obligated work to comply with anti-money laundering, but will also assume their expected social responsibility and make it more difficult for bribery and corruption to be facilitated through financial institutions. By doing so, they will also inherently help the international community in fighting corruption and other crimes. Governments worldwide have a big role in helping financial institutions. Governments also need to take responsibility in this matter and open up company registries and make them easily available and transparent with reliable and updated information (e.g., UK Registry) on beneficial ownership. A continued, enhanced dialogue and cooperation between the private sector and the authorities are also needed to handle these issues.

About WSBI (World Savings and Retail Banking Institute)

WSBI – The Global Voice of Savings and Retail Banking

WSBI is an international banking association that helps member savings and retail banks thrive, focus on servicing local communities and boost the small and medium-sized businesses that form the bedrock of the real economy. Representing savings and socially committed retail banks that offer their services mainly to private clients, micro and SMEs and local authorities, they work through more than 180,000 branches worldwide to provide banking services through a socially responsible approach to communities where they serve. The 110 WSBI members, representing about 7,000 banking institutions, are active in some 80 countries throughout the world, in developing and developed countries alike. Assets of WSBI members active in the G20 countries amount to €15 trillion and they serve more than 1.2 billion people.

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