

# POSITION PAPER

WSBI institutional positions to G20 decision-makers

June 2019



**THE G20 AND LOCALLY FOCUSED RETAIL BANKS:  
RESPONSIBLE AND SUSTAINABLE BANKING IN A DIGITAL AGE**



WSBI

## EXECUTIVE SUMMARY

The World Savings and Retail Banking Institute (WSBI) and its members provide this document to G20 leaders and their implementing partners, sharing concerns and proposals described below. We hope these positions can enrich policy exchange on G20 priorities.

### 1. Promote savings

WSBI would like to highlight that savings remain a potent force to address growth and financial stability. Savings help economies build up funds that feed financing models and serve as the engine for economic expansion. Mobilised national savings nourish local infrastructure investment and narrow the global infrastructure finance gap, which reduces risk exposure to foreign debt. For citizens, household savings help people become resilient against shocks faced in life and avoid over-indebtedness. Savings are also crucial for future retirement provision and promote social cohesion, notably but not exclusively in countries with a fast-aging population. Locally focused savings and retail banks can play an important role to promote this behaviour.

WSBI encourages the G20 to launch a global-wide initiative to instil a savings culture. This will address falling average national household savings rates – for instance in OECD countries – and historically low savings rates in many parts of the world after the financial crisis.

There is need for G20 leaders and implementing partners to support and enable further developing economies to build up the relevant banking infrastructure required to mobilise domestic savings efficiently. This is imperative for countries where people still keep their savings outside of the formal banking sector.

More must be done on the digital front too. Emerging digital financial service players facilitate payments and consumer borrowing. However, digital financial inclusion, which has gained more attention in recent years, should not be looked at from a purely payment and credit perspective. There should be no “mission drift” when widening digital financial inclusion and consumers over-indebtedness should be avoided. Finally, savings and retail banks are well positioned to channel household and corporate savings into infrastructure investment, MSMEs finance and green finance.

### 2. A diverse banking market serves all walks of life

Society gains greatly from a diverse banking landscape with a high level of competition. Indeed, while a competitive banking market serves people and communities better, banking consolidation may leave customers with a smaller choice of product and service offerings and non-competitive pricing. This may also result in low incentive to serve the vulnerable customers who often face huge barriers to handle their banking matters.

### 3. Proportionality tailored to national context

A diverse banking structure depends on applying banking rules proportionately. Disproportionate rules impair the competitiveness of savings and locally focused retail banks and prevent them from operating on equal footing within the market. At the same time, a proportionate approach ensures compliance with standards set at international level and helps reduce the growing distortional effects of bank rules. Taking this approach not only creates a level playing field but also has knock-on effects that promote broader goals, namely economic growth and a more stable financial system.

Implementation of international standards or guidelines designed for large, globally active credit institutions, must be customised rather than “applied to” the entire global banking sector. A “one-size-fits all” approach leads, for instance, to unnecessary and burdensome reporting requirements.

### 4. Sustainable finance for the real economy

Society demands more sustainable economies. A sustainable future, in particular tackling climate change and strengthening social cohesion, remains a pressing priority for citizens, businesses, local communities and policymakers alike. A successful transition to a sustainable economy will only happen

if everybody works together with the right policy framework. Savings and retail banks are willing to do their part to support this change.

Shifting to a more sustainable economy will imply important changes to key sectors such as housing, agriculture, energy, transport and manufacturing. Those are areas where savings and retail banks contribute. They should continue being engaged in the shift towards a sustainable future. In this regard, WSBI would like to recall that the financing models of retail banking and investment banking are fundamentally different. Policymakers should design sustainable finance policies adapted to the specificities of retail banking and support a diversified banking sector.

WSBI members warmly promote initiatives to channel more funds into sustainable projects. In order to make sustainable solutions more compelling at local, national and global levels, incentives should be given to the real economy, which includes private households and SMEs.

#### **5. Foster innovation**

Policymakers, regulators and supervisors should create and apply a regulatory framework that supports innovation while upholding a level of financial stability as well as data and consumer safeguards that form the base of citizen's trust in the financial sector. "Right-sizing" regulation for all firms that offer financial services creates a level playing field between regulated and non-regulated service providers; this while ensuring new players operate safely and soundly.

In addition, policy should help promote and acknowledge the need to equip people with digital skills and help them become more digitally "aware". This makes them better placed to identify risks as informed citizens and consumers.

#### **6. Fight social exclusion, especially on the digital front**

WSBI welcomes that the G20 has worked on a set of high-level principles for action on digital financial inclusion. That effort could guide country-level actions to harness digital financial services and delivery mechanisms. This would help expand access and usage of financial services safely for underserved market segments.

While digitisation continues to sweep over banks, physical branches become less essential to processing customer transactions. The brick-and-mortar networks of locally focused banks are adapting their traditional functionality to the changing needs of customers, for instance adding up the role as social contact point and facilitating customers' access to digital banking.

In this way, savings and locally focused retail banks help foster social engagement, healthier lives and help people attain sound education levels. They factor in the needs of the vulnerable and non-digital users, thereby keeping a human touch.

## **A COURSE OF ACTION: WHAT GOVERNMENTS CAN DO**

Governments can play a leading role in supporting inclusive and sustainable growth. Below is a set of ways how:

### **Empowerment: Raise people's awareness about the power of savings**

- Cultivate a savings habit amongst the citizens. As one of ways to achieve it, consider deploying a savings campaign such as celebrating World Savings Day. Held each 31 October, it places focus on the importance of saving.
- Start a culture of savings at an early age through school banking. Designed for young students to learn to manage money as part of the school curriculum, school banking programmes remain a proven and effective way to educate young citizens using a learning-by-doing approach.

### **Develop public and private partnership to support vulnerable sectors**

- Support wider availability of lines of credit for micro entrepreneurs and smallholder farmers. Incentivise banks to extend partial credit guarantees to them and set up necessary financial infrastructure such as credit bureaus, collateral registries or social credit schemes such as subsidised micro-credit programmes.
- Address the need to build out an infrastructure – both financial and physical that includes mobile networks, transportation.
- Coordinate better 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.

### **Tackle digital financial inclusion challenge**

- Encourage and support viable, innovation-focused business model design that aligns financial service providers' offering to customer needs and behaviours in a sustainable way.
- It should be clear that digitization 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. Policy makers should foster innovation, however, risks associated such as data protection should be carefully managed.
- Ensure correct balance between innovation and risks. Legislation should be written in a both technology-neutral as well as in a business model-neutral way.

### **Weave the proportionality principle into all aspects of new and existing regulation.**

### Promoting savings to boost infrastructure investment, local economic development

Evidence from research studies conclude that the accumulation and mobilisation of savings can contribute to local economic development. For countries in the throes of development, national savings can increase the amount of national resources and lower the need to resort to foreign indebtedness to cover domestic investment and consumption demand. Numerous countries – including industrialised countries with low national saving rates – must borrow from abroad, which results in a debt service burden. This clearly underscores the importance of savings mobilisation to sustain economic growth with domestic and local financial resources.<sup>1</sup> Having sufficient savings may make the national economy more resilient to any external financial shock. The global financial crisis, followed by the sovereign debt crisis, has illustrated the importance of safety nets. Domestic saving might be one of the best cures when the economic situation deteriorates.

For people, savings can help them withstand shocks in life. History shows that savings has enabled households to proceed much better through financial, economic and social crises. The recent financial, economic, and social crisis has shown the importance for individuals to have savings to withstand shocks in life and to be able to develop healthy long-term thinking. Having savings empowers an individual to seize control of their life and plan for the future.

#### *Raise the importance of savings and support financial sector development*

During the G20 Chinese Presidency, the WSBI encouraged the GPMI (Global Partnership for Financial Inclusion) Co-Chair to launch a global-wide initiative to spur savings, in particular in countries where lack of savings culture lingers. The WSBI and its member savings and retail banks argued at that time that saving at both national and individual level is vital. We remain steadfast on that point.

The G20 leaders and implementing partners should support and enable developing economies to build up the relevant banking infrastructure to mobilise domestic savings efficiently to boost nationwide economic development. To do this, governments need to take firm action to cultivate savings habits.

This may involve efforts to improve bank institutional governance, put in place a conducive regulatory environment, promote a savings culture – especially among households and young people – deepen domestic markets via financial inclusion and support technological innovation.

#### *Unleash role of postal networks*

Postal networks, in particular in Asia, have proven to play an important role in savings mobilisation given their large network and trust earned from the public. However, some postal financial institutions in Africa face challenging times, rapidly changing environments and competitive pressures. Major and urgent improvements should be made in the fields of governance, commercial policy and government commitment. There is a need to place postal financial institution reform on the agenda of national governments and international financial institutions such as the World Bank Group as well as multilateral banks like the African Development Bank.

#### *Harness savings to respond to demographic change*

Developed economies with rapidly aging populations struggle to navigate through this demographic quandary. Sole reliance on state pensions is no longer sufficient. Citizens need to take up responsibility when it comes to their future retirement Savings and locally focused retail banks work towards empowering people in this respect by providing a wide range of savings instruments and increasing the

---

<sup>1</sup> <http://www.baz.org.zw/consumer-centre/banking-basics/role-banks-savings-mobilization>

levels of financial literacy in the population. Governments could play a strong role too. Encouraging savings through the right incentives may help.

#### *Savings banks: Born to promote savings*

Savings banks were born to promote and mobilise savings, particularly from small savers. They were also formed to encourage thrift and the *habit* of savings, to provide means for savings by the public and to utilise the funds of the bank for investment, which includes financing economic development. Savings and locally focused retail banks make a major contribution to the promotion of savings behaviour. They work towards empowering people to save by providing a wide range of savings instruments and raising levels of financial literacy among people.

### Low interest rate challenge

For individuals, low interest rates offer no incentive to save. In fact, low rates deter savings. Low interest rate can tighten profitability of financial intermediaries. Because of narrow interest rate margins, a “search for yield” among institutional investors, including banks, could lead to a disproportionate demand for high-yielding risky assets.

Traditional savings and locally focused bank profitability has been greatly undermined through a reduction of the profit margin as the business model centres around the transformation of local savings into loans to retail customers and SMEs. By drawing a large share of their income from interest on loans, savings and retail banks are mechanically affected by any downward trend on loan interest income.

Low interest rates do not constitute a solution to the problem of high debt and lack of confidence in the market; they merely facilitate debt sustainability for a certain length of time. The longer they are allowed to persist, the more new problems are created. WSBI warns that extremely low interest rates pose substantial collateral damage if they are allowed to persist for too long. Low interest rates diminish people’s willingness to save. We invite policymakers to look for other alternatives to encourage economic growth and not to rely exclusively on low interest rates.

## ACTIONS TOWARD ROBUST GROWTH

### Quality infrastructure investment: Ensure a level playing field among finance providers for long-term financing projects

As concerns investment, the role of banks in fostering investment should be well recognised. Alternative finance providers may only partially fill the gap between available bank capital and the multi-trillion-dollar investment programmes. Regulators are encouraged to design policies that could further boost bank lending for infrastructure projects.

### Acting for sustainable finance

A sustainable future, in particular tackling climate change and strengthening social cohesion, is a priority for the citizens, businesses and local communities in the towns and regions that WSBI members serve. A successful transition to a sustainable economy will only happen if everybody works together. Savings and locally focused retail banks should be a part of the international evolutions on sustainable finance.

WSBI warmly supports the objective to channel more funds into sustainable projects. Shifting to a more sustainable economy will imply important changes to key sectors such as housing, agriculture, energy, transport and manufacturing. This should be done by giving true incentives to the real economy, private households and SMEs to make sustainable solutions attractive at local, national and global levels. Based on the social tradition of WSBI members, they are fully aware that sustainability should integrate



social as well as environmental aims. Harmonising definitions and labels for green products is also important – including for insurance products which guarantee the quality and efficiency of the energy being used – and should be based on a discussion between the private sector and regulators/supervisors. The benefit of such harmonisation is clear: it will make sustainable finance more organised, reinforcing its credibility and efficiency. It also ensures that citizens are better able to clearly identify what products would help support a sustainable future. WSBI members stand ready to heighten cooperation with municipalities to organise the financing of new initiatives, especially to boost energy efficiency in buildings and infrastructure.

## RESPONSE TO STRUCTURAL CHANGES CAUSED BY INNOVATION AND GLOBALISATION

### Financial innovation: Opportunities and challenges


Technology is transforming finance at an unprecedented rate and is thus posing new questions and challenges for regulatory frameworks. Regulation and policy measures should keep pace with technological development to foster innovation. At the same time, risks linked to innovative instruments – based on new technologies – should be carefully evaluated from the view of financial stability and consumer protection. Savings and locally focused retail banks are strongly committed to treating all digital data as strictly confidential, and stress the responsibility of policymakers, regulators and supervisors to create and apply a regulatory framework that fosters innovation but simultaneously ensures the security, data and consumer protections that remain key to preserving trust in the financial sector.

There is need to highlight the importance of right-sizing regulation for all companies providing financial services. WSBI notes a worrying tendency to adopt light-touch regulation for new digital competitors in financial services whilst leaving incumbent savings and retail banks burdened by heavy regulation. WSBI calls for a “level playing field” between regulated and non-regulated banking services institutions while ensuring FinTech companies operate safely and soundly. WSBI also calls for the creation of a FinTech ecosystem, with among other possibilities innovation facilitators, and for the creation of a specific legislation that encourages innovation.

### Equip citizens with digital skills and financial literacy

The role of digital skills and awareness should be acknowledged and promoted, as informed citizens and consumers are better placed to identify cyber-attacks. In this regard, many of the financial education initiatives of WSBI members already encompass the digital dimension, thus helping to enhance the digital skills of the addressees. Financial education and the development of digital skills must imply a shared responsibility between all actors: private and public bodies, educational and financial institutions, NGOs, the academic sector, consumers and other stakeholders reflecting a joint commitment between them. This clearly is a task for the society as a whole.

### Addressing financial market fragmentation

 *Valuing key elements to develop stable, sustainable financial markets*

It is important to reiterate that the recent financial crisis has evidenced that a pluralistic market culture, with banking players with different business models, scopes and sizes, remains a great asset. In fact, pluralism provides much sought risk diversification, as the diversity in business models and in market players’ priorities protects the economy against a uniform and ‘thundering herd-like’ bank race over the edge of reason and sustainability.

The diversity of financial sector providers, with different business models, scopes and sizes, is a key asset to stimulate market innovation and healthy competition, for the benefit of financial services end-

users. It is therefore essential to recognise the key role of pluralistic banking structures for the stability, sustainability and competitiveness of the financial system.

The WSBI member banks' business model, based on a close relationship with retail customers and a sound knowledge of their needs and capacities, leads to a long-term vision and greatly reduces the impact of the volatility of financial markets on the solvency and liquidity of the institution. The benefits and role of socially committed retail banks, supporting local economic and social development and organised along a stakeholder business model, therefore needs to be highlighted as a central component of balanced and efficient banking markets.

#### *The risk of market concentration*

Banking concentration does have several impacts on customers, shareholders and employees, and while several studies have highlighted positive impacts, there are also several negative ones. Bank mergers could be harmful to small businesses if lending relations are restricted.

Research also points out that one particular concern is the possibility of increased social exclusion due to banking consolidation. Increased market power resulting from high levels of concentration in domestic markets could lead to a drop in the number of branches, and therefore to falling accessibility to banking services in regions. This effect can potentially lead to further social exclusion. Market consolidation occurring for some time has also led to financial markets seeing the emergence of mega-banks and financial conglomerates, operating across financial sectors (banking, insurance, securities) and across countries. These increasingly interconnected financial institutions – involved in engineering ever-more-complex products – have dramatically raised systemic risk. The situation created from the current crisis shows the impact of their failures to maintain overall economic stability. We are convinced that mergers should be driven only by the market. Furthermore, a wide network of local banks has also proven to be an advantage during the crisis.

### **Proportionality**

WSBI welcomes that G20 leaders are implementing post-financial-crisis reforms and evaluating their effects. However, it calls for regulators to consider the impact of these reforms on functions that are crucial for economic growth.

To make savings and retail banks' efforts more impactful in the places they serve, regulators need to keep in mind savings and locally focused retail banks' unique approach to banking. Prudential regimes were designed for diversified and internationally active groups. Such a regime would not have been calibrated similarly had it been evaluated for specific business models. In some texts, regulators and other policymakers have imposed hugely detailed rules for universal banks that are vastly more complex than is appropriate for relatively less complex savings and retail banks. Overall administrative resources and cost of new regulation – such as supervisory costs and new IT systems – have a substantial impact on all banking institutions, and an even more severe impact depending on criteria such as the size and complexity of institutions and their business models. That is where the principle of proportionality can help. WSBI is strongly in favour of having the principle of proportionality broadly applied.

In the interest of effective and efficient bank regulation, the principle of proportionality must 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 and financial institutions in a proportionate way. A proportionate application of regulatory regimes would help local banks to compete on equal footing while ensuring compliance with standards being set at international level and help by curtailing the increasingly distortional effects of regulation. This would allow for a level playing field, promote growth and contribute to financial stability. It is vital that all banks can carry out daily, less-risky activities, to which more proportionate regulation can contribute.



## **International taxation: Making taxation fair and reliable worldwide**

The G20 promotes the continuity of the current G20 tax policy agenda. That agenda applies namely 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. There is need to aim towards greater transparency, along with initiatives to develop a global multilateral system for information exchange with clear and equal rules for everyone. Effective monitoring is required. There is need also 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 disproportionately large reporting requirements, which put them at a competitive disadvantage compared to larger and globally focused financial institutions.

## **Bank lending: A key source of finance for SMEs**

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 vital to relaunch growth and boost world economic growth. 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.

## **Globalisation, inclusiveness and equality**

Globalisation has proven to make the world more prosperous and move society forward, but greater social exclusion and inequality has surfaced. In many countries around the globe, widening social inequality, social exclusion, and poverty pose a threat to stable political norms.

To address this threat, there is need to raise levels of financial literacy to support citizen empowerment. By empowering citizens – and particularly youth – they have a better chance to succeed in economic life, to understand complex financial “moments” such as the transfer from a defined benefit pension schemes into the contribution pension schemes. With the right tools, people can better grasp the problem of over indebtedness, and 21st century topics related to financial innovation and digitalisation, the emergence of cryptocurrencies with growing consumer and investor protection concerns.

Locally focused savings and retail banks play an important part in helping people, giving them an opportunity to participate more confidently, more fully in local economic life. Close to customers and in their communities for the long haul, WSBI member banks help citizens better navigate their financial future in an inter-connected world; participate fully in the real economy. The right policy framework can help savings and retail banks play their role even better.

## ABOUT THE SAVINGS AND RETAIL BANKING COMMUNITY

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. WSBI members work through extensive distribution networks enabling them to develop proximity services, provide regional outreach, and a socially responsible approach to business and society. WSBI's 104 members, representing about 7,000 banking institutions, are active in some 80 countries throughout the world in both developing and developed countries<sup>2</sup>. Assets of WSBI members active in the G20 countries amount to US\$13.159 billion, and they serve more than 1.5 billion customers.

*Figures: WSBI members in the G20 countries*

<b>Data at the end of 2017 accounting year</b>							
<b>Assets</b>	<b>Total Loans</b>	<b>Non-bank loans</b>	<b>Total Deposits</b>	<b>Non-bank deposits</b>	<b>Outlets</b>	<b>Employees</b>	<b>Customers</b>
<b>US\$ millions</b>							
<b>13 159 327</b>	<b>7 956 522</b>	<b>6 854 214</b>	<b>9 430 173</b>	<b>8 382 376</b>	<b>188 256</b>	<b>2 108 587</b>	<b>1 537 527 303</b>

### Regional, Retail and Responsible

Financing the real economy is core to WSBI's identity. Member banks safeguard deposits and put them to work through effective and responsible lending. Retail banking serves the financial needs of individuals, households, small and medium-sized businesses across all sectors, and local authorities. With this unique business approach, their broad range of retail products and services aim at raising the financial well-being of people around the world.

Savings and retail banks of all sizes and legal forms play an essential role in providing the diversity crucial to maintain the stability of the financial system. Preventing the concentration of economic and financial resources in the hands of the few is paramount to a financial system that serves the greatest possible number of people and businesses.

Fostering close, interactive relationships with customers and communities served, WSBI member banks reach out to customers and use a wide range of easy-to-use channels to provide the services people need – whether they live in rural areas, the heart of a metropolis or anywhere in between. Locally focused retail savings and retail banks also maintain a close, synergistic relationship with the community. They participate as responsible members of the community they serve, engaging in socially responsible endeavours that bring real benefit to society. WSBI members favour local decision-making and set the highest business and ethical standards.

WSBI member institutions take a “double bottom line” approach to banking: balancing the need for financial sustainability and a return to society. They abide by fair and transparent corporate governance and nurture fair and clear relations with our customers. Promoting financial inclusion is part of their heritage and remains core to their mission today. WSBI members promote financial education policies and instruments within the communities serves. They commit to becoming environment-friendly businesses that invest responsibly by integrating proper environmental, social, governance and ethical values into all their financial analysis and decision-making. They look after our own: treating all people employed by them fairly and equally, with dignity and respect, and recognise their merit. Only in this way will the savings and retail banking business endure.

<sup>2</sup> Membership data is updated after the 2018 WSBI General Assembly.



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-esbg.org](http://www.wsbi-esbg.org)

Published by WSBI. June 2019.