

# Financial News & Views

ON SAVINGS AND RETAIL BANKING

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WSBI IS A GLOBAL NETWORK WITH 100 MEMBERS IN 70 COUNTRIES. ITS HEADQUARTERS IN BRUSSELS ALSO HOSTS ITS REGIONAL ARM, ESBG. BOTH ORGANISATIONS REPRESENT THE INTEREST OF BANKS WORKING RESPONSIBLY AND CLOSELY WITH THEIR COMMUNITIES AND SMES.



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## WELL SAID!

**“Any organisation that ignores the society and refuses to make the people's issues and concerns its own will be destined to fail.”**

Isidro Fainé

## LEADERS

# People at the centre

WSBI PRESIDENT PLEAS FOR SOUND AND VALUES-BASED APPROACH

Barcelona, June 2021

**WSBI President Isidro Fainé thinks this is the time to reaffirm our values.**

Following months of struggle against the coronavirus, we are now beginning to pronounce the word recovery without hesitation. Discussion over the intensity and speed of this recovery is ongoing and the difficulty of making precise forecasts about the post-pandemic scenario continues to prevail. At the same time, we welcome the turning point represented by approval of the different vaccines and their effectiveness. This is a success of the medical and scientific community I will never cease to praise.

**“If the Covid-19 crisis has taught us anything, it is the importance of putting people at the centre.”**

So there are reasons for optimism as the greyest clouds disperse over the horizon. But rather than celebrate, I think this is the time to ground ourselves in the present; to reaffirm our values, in order to face the future with the best guarantees. This is my wish for all the retail banks that comprise the WSBI-ESBG.

In this regard, I cannot deny that the crisis resulting from this pandemic is not just any crisis. It is a transformational event. On one hand, it is acting as a catalyst for various forces of change that were already in motion. I refer, among others, to digitisation, teleworking, the promotion of health, and climate change. And on the other, it has sparked new tendencies that will shape the years to come.

Faced with the complexity of this accelerated transformation, which encompasses the huge challenges that lie ahead for the banking sector, our attitude must always be proactive. Quoting the wise words of Winston Churchill, “Success is not final, failure is not fatal: it is the courage to continue that counts.”

Such capability for initiative must go hand in hand with calm reflection, and this can be equated to cautiousness. To a large extent, it involves remaining well aware both now and in the future of all we have learned over the last few months. If we fail to do so we will lose an asset of incalculable value in preparing a response to the demanding situations that may arise.

And if the COVID-19 crisis has taught us anything it is the importance of putting people at the centre. They are the ones behind the big numbers, the statistics, the probabilities and the forecasts. People with names and surnames. Fundamentally, our prime concern as a sector and as a society must be the pandemic's impact on the wellbeing of our fellow citizens. Especially on the living conditions of the most vulnerable communities. We cannot ignore the fact that the crisis is further deepening certain pre-existing social divides, and if we fail to act quickly and decisively we run the risk that these divides will perpetuate.

As regards working for the wellbeing of the wider community, retail banks play a key role from two perspectives. First, from that of the branch, at street level, as providers of financial services. This can only be achieved through excellence in service, which is closely linked to constant, quality customer care. Offering an unbeatable service creates loyalty and adds value to its users; that must be the main strength, the spearhead of the retail bank.

It is undeniable, at this stage, that digitisation changes the way we interact with customers. And COVID-19 has accelerated this trend at an unprecedented rate. But whatever the channel we use (in person, by telephone, online or through robots), we must place technology at the service of people, their worries and concerns. Quality of service is demonstrated with trust and genuine personal attention. This continues to be of utmost importance. Of course, we must be honest and transparent. But we should also be respectful and take care of the details, because the road to excellence is paved with details.



The other aspect that allows retail banks to have a direct impact on people's wellbeing is social commitment, which has intensified in recent months with countless initiatives. Irrespective of the shape recovery takes, we must make sure that the most disadvantaged groups in society do not fall behind, and avoid the creation of unsustainable inequalities. With our unique model of responsible banking we shall never tire of pursuing the social vocation that defines us.

This approach is not exclusive to our sector. At the global level we are at a critical juncture that requires organisations to redouble their efforts and heighten the visibility of their commitment to society and the planet's sustainability. This is undoubtedly one of the main currents of change that the pandemic has accelerated, situating sustainable and socially responsible investment as the new corporate paradigm of the 21st century. Business profit will become ever more inextricably bound to social utility. Any organisation that ignores the society in which it operates and refuses to make the people's issues and concerns its own will be, already is, destined to fail.

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## Sustainable finance: green gold?

UNLOCKING THE POWER OF TAXONOMY

Brussels, July 2021

Sustainability belongs to the absolute top policy priority in worldwide banking and finance. Building more sustainable economies is of utmost importance and tackling climate change and strengthening social cohesion, is a priority for citizens, businesses and local communities in their towns and regions and for the locally-focused savings and retail banks that WSBI and ESBG represent. In this article, we highlight a few key elements of sustainable finance.

### NOT JUST FOR ENTOMOLOGISTS: TAXONOMY

Banking as such is not considered as a polluting economic activity, since it requires only office buildings and computers. Their impact is indirect, since they finance companies that can be active in activities that have a high impact on the environment. That is where the EU Taxonomy comes in: this green classification system translates the EU's climate and environmental objectives into criteria for investment purposes. Concretely: investments made by banks, or by banks' clients, will be classified according to their impact on the environment and financial institutions will have to disclose their Taxonomy-related activities, so that it becomes possible to compare companies and investment portfolios. Companies, if they wish, can reliably use the EU Taxonomy to plan their climate and environmental transition and raise finance for this transition. Financial institutions, if they wish, can use the EU Taxonomy to design credible green financial products.

Nevertheless, the EU Taxonomy is not a mandatory list of economic activities for investors to invest in. Nor does it set mandatory requirements on environmental performance for companies or for financial products. Investors are free to choose what to invest in. However, Economic activities that are not recognised by the EU Taxonomy Delegated Acts as substantially contributing to one of the EU's climate and environmental objectives are not necessarily environmentally harmful or unsustainable. And not all activities that can make a substantial contribution to the environmental objectives are yet part of the EU Taxonomy Delegated Acts. Delegated acts will be living documents that will be added to over time and updated as necessary. A successful implementation of the Taxonomy by policy makers and its adoption by market participants will be crucial both to growing the market for green finance and to greening the broader market for finance. It is vital therefore that the taxonomy works not only for the capital markets but also for all parts of the economy.

Delivering a workable and dynamic taxonomy is a necessary first step that would ease a homogeneous incorporation of Environmental, Social and Governance (ESG) considerations into others parts of financial regulations.

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## FINANCIAL EDUCATION

# How to spend it, or not

### DIFFERENT MEMBER STATES, DIFFERENT WAYS TO MAKE CITIZENS FINANCE FIT

Brussels, July 2021

“Financial services are embedded in the everyday, but it is concerning that they are regarded as quite distant from us and quite complex for us. Trust in financial services remains low. For example, the latest Commission Consumer market scoreboard (2018) ranked financial services as one of the worst perceived markets from a consumer perspective”. These are the words of European Commissioner Mairead McGuinness at the “Making finance work for citizens” lecture at the Florence School of Banking and Finance earlier this year.

Since their creation, ESBG members have promoted financial education initiatives in the communities in which they serve. Increased levels of financial literacy, complementing adequate consumer protection regulation, can lead to fairer and more inclusive societies. As a matter of fact, financial education is instrumental to achieving greater levels of financial inclusion.

Opposite is an overview of a few financial education activities developed by members across Europe.

#### Austrian Savings Banks Association, Austria

Austrian savings banks focus on teaching children and young adults the importance of money management skills and debt prevention. They partner with local institutions to reach a wide audience, and have a “FLiP2Go” education bus which travels to reach students in rural areas.

#### CaixaBank, Spain

New challenges faced over the past year during the Covid-19 crisis has meant to a large shift of initiatives online to continue during lockdown. In this time, CaixaBank has carried out 1,482 training sessions with 30,017 attendees.

#### Finances & Pédagogie, France

Finances & Pédagogie target adults and children with their training on money in life, funded by France’s Caisses d’Epargne. They have developed training programmes to encourage responsibility and financial autonomy.

#### CECA - Spanish Confederation of Savings Banks, Spain

Spanish savings banks contributed to a total of 4.5 million euros invested in financial education programmes in 2019, working with other entities to update programmes.

#### DSGV - German Savings Banks Association, Germany

German savings banks work with a wide range of services to educate students in age-appropriate learning from consumer issues to the stock market. They also have the Finanz-Checker app for budget planning and a digital-skills focused platform to experiment and learn about risk in a safe environment.

#### Swedbank, Sweden

Swedbank publishes Lyckoslantén (“The Lucky Coin”) to students quarterly, targeting school children and their parents in a simple way. In its cross-border subsidiaries, Swedbank works with school initiatives to boost children’s practical knowledge of finance via videos, games and lectures.

#### ACRI - Association of Italian Foundations and Savings Banks, Italy

Italian savings banks work with local governments to fight educational poverty, encouraging families to save small amounts and providing educational support to achieve realistic goals.

#### Finance Norway, Norway

Norwegian savings banks have developed a digital learning tool “Run Your Own Life”, to educate children in income, spending and saving money. Financial literacy is being implemented in the curriculum at all ages as a new topic this year.



### PEOPLE AT THE CENTRE (CONTINUED FROM PAGE 1)

Transformational leadership is needed in this new corporate paradigm, with a strong vocation of service and significant social sensitivity. Leaders can no longer be simple agents of change. They must be agents of the social and sustainable change our time demands. Moreover, they must learn to manage uncertainty, confront problems with determination and know how to apply effective measures in a timely fashion.

In fact, the COVID-19 crisis has reminded us that true leadership emerges in the most challenging situations. In complex environments such as the one we are experiencing, leaders must bring out the initiative and creativity of their collaborators. More relevant still, in my opinion, is that managers inspire all their employees to vibrate positivity and identify with the values and mission of the company. As Henry Ford once said, “Meeting is a beginning; staying together is progress; working together is success.”

Excellent organisations strengthen the capabilities of their collaborators by managing change efficiently, within and outside the institution. In fact, such companies are the drivers of business and economic progress. The key to their success is the ability they have to continually transform, both to adapt effectively to the circumstances (anticipating what is to come) and to influence the environment itself (creating the future).

So let us be catalysts of the future. Of a better future for all, without exception.

**“Excellent organisations strengthen the capabilities of their collaborators by managing change efficiently, within and outside the institution.”**

Isidro Fainé, WSBI President

Mr. Fainé is Chairman of the Board of Trustees and of the Foundation “la Caixa”, and Chairman of the Board of Directors and of the Executive Committee of Criteria Caixa, S.A.U.

He holds a Doctorate Degree in Economic Science from the University of Barcelona, an ISMP in Business Administration from Harvard University and a post-graduate degree in Senior Management at IESE.

Mr. Fainé was Chairman of CaixaBank, S.A. and member of its Board of Directors from 2011 until his resignation in 2016.

Currently, Mr. Fainé is Chairman of the Spanish Confederation of Savings Banks (CECA), and of WSBI and Vice-Chairman of ESBG.

He has been acknowledged with the 2018 Forbes Philanthropy Award.

## How much for that banknote?

**Cash money has been with us for so long that we take it for granted. But the Coronacrisis has given a tremendous boost to non-cash payments and more and more people are getting concerned that cash money will soon disappear. This could be a catastrophe for people who have no or only limited access to digital money channels, or who do not have sufficient knowledge to use it.**

Cash handling does represent a serious cost for commercial banks, who are the main distributors of the banknotes that roll of the presses of the central banks. Human resources are needed to transport the money, put it in ATMs, count it, etc. In the past, this has never been a problem for banks. But now, banks are required to invest in the development of new means of electronic payments (for example the pan-European instant payments initiative) while we face competition from digital-only providers that do not support cash services or face-to-face services, do not invest in the necessary infrastructure and yet use the infrastructure provided by banks for the benefit of their own customers.

The Austrian savings banks association, for example, strongly opposes plans from the European Commission to put an upper limit to cash payments. Franz Portisch, Secretary-General of the association stresses that any bank client should have the choice between payments in cash, with card or online. This is not only a matter of convenience, but also of respect of privacy, since any electronic payment leaves a datatrail.

The association is convinced that even very modern and perfectly performing systems such as the application GEORGE that all Austrian savings banks customers use, will never be able to replace cash payments.

**IN 2020, 5724 MILLION EURO BANKNOTES HAVE BEEN PRINTED, FOR A VALUE OF 205 BILLION EURO.**

ECB Statistical Warehouse

Without proper intervention, a decrease in the usage of cash – a phenomenon that is perceivable in many European countries - will result in an increase of the cost per client for providing cash services. Players will withdraw from providing cash services as it will no longer be economically attractive, and this will in fact further propel the increase of per unit costs. Therefore, ESBG advocates for the creation of a forum to discuss how the cash cycle can be optimised as well as under what conditions cash services should be provided and by whom.

## EU NEWS

# Challenges and priorities for retail banking post covid

## WHAT ARE THE PERSPECTIVES FOR RETAIL BANKING IN EUROPE ?



### ESBG President Helmut Schleweis describes briefly the situation in Europe.

It is obvious that the Covid-19 pandemic is having a significant impact on our global and local societies and on the way we live and interact with each other. This has introduced a radical shift in customer demand for digital products and services and this change of mindset has been observed throughout all economic sectors.

Financial services have been affected due to the legitimate customer expectations for the sector. From one day to the other, banks have had to react by adequating their offer, while keeping high levels of customer service and respecting robust security standards.

We identified three fundamental challenges and priorities for the retail banking sector in Europe in the aftermath of the current pandemic:

### ECONOMIC CONSEQUENCES

The Spring 2021 Economic Forecast of the European Commission projects that the EU economy will recover from the 6.1% GDP fall in 2020 with a growth of 4.2% in 2021 and 4.4% in 2022. The economic impact of the pandemic has differed widely across the EU and the recovery prospects will be largely determined by how successfully vaccination programmes will be in taming the pandemic and how quickly governments will lift restrictions.

Unfortunately, some companies will struggle to survive, given that public support programmes and bank moratoria are expiring, and their business outlook is not positive. Retail banks, who are often the main source of financing for companies, including SMEs, will feel the consequences on their balance sheets as well.

Global regulatory and supervisory institutions need to be supportive, implement some changes and mobilise additional funds. International policy makers have, throughout the crisis, worked on providing some relief to financial institutions. For example, the Basel Committee's oversight body, the Group of Central Bank Governors and Heads of Supervision (GHOS), postponed the implementation of Basel IV, of finalised market risk framework and of the revised Pillar III disclosure requirements by one year.

The BCBS announced at the beginning of the crisis as well:

- The risk-reducing effects of the various extraordinary support measures taken in its member jurisdictions should be fully recognised in risk-based capital requirements.

- The Committee reiterated the importance of expected credit loss (ECL) accounting frameworks as a forward-looking measure of credit losses and expects banks to continue to apply the relevant frameworks for accounting purposes.

The Committee has also decided to postpone the implementation of the revised G-SIB framework by one year, from 2021 to 2022. These adjustments will provide additional operational capacity for banks and supervisors in the current juncture

### SUSTAINABLE FINANCE

This topic has gained even more speed in recent months. People around the globe ask for a more sustainable/greener post-pandemic world. This has important implications for the entire banking sector too. Sustainability must be holistic and should integrate social and environmental objectives. Banks will need to protect vulnerable customers. The pandemic has reignited the social debate about sustainability: harmful emissions have declined as a consequence of the global restrictions on movement and contact with other people, economic activity has been reduced and environmental conditions seemed to have improved. Many people in Europe now have a greater appreciation of the benefits of a more intact natural environment.

The pandemic has highlighted a number of important ESG risks and opportunities that financial services need to be alert to in the context of managing their businesses. We have also seen a better understanding of the complexity of climate and transition risks in the financial services industry as an effect of the pandemic.

However, sustainability entails more than protecting the environment and the climate. Covid-19 has also led to a greater focus on the corporate social response to the crisis. In Europe, more and more corporates now are exploring how they can adapt their business models to address the needs of employees, customers and suppliers. Importantly, demand for social instruments is on the rise. So, we should expect to see more activity here.

WSBI-ESBG members due to their specific role, position and social tradition are best placed to understand that there is no such thing as environmental sustainability alone. Sustainability must be holistic and should integrate social and environmental objectives. Thus, WSBI-ESBG members will continue serving the needs of society, contributing to strengthening social cohesion and ensuring that no one is excluded from basic access to financial services.

### DIGITALISATION

Banks all over the globe have understood that the sector is in an era of change with new opportunities arising from digital banking and technology applications such as artificial intelligence, digital identity, crypto-assets, digital operational resilience and cyber-security, to just mention a few key drivers of the digital age.

Regulators will need to ensure that an adequate level of customer protection is guaranteed for customer data, and that a level playing field is maintained in digital finance, in the interest of both consumers and the financial system itself.

One of the priorities of this mandate of the European Commission is to get ready for "A Europe fit for digital age". The EU Digital Finance Strategy is centred around four pillars: a Digital Single Market for financial services, an innovation-friendly regulatory framework, an adequate mitigation of the risks which are intrinsic to digital transformation, and the promotion of a data-driven innovation. Key milestones include enabling an EU-wide interoperable digital identity scheme, establishing sector-specific EU financial data space, enabling business data sharing and open finance, providing an EU regulation for Artificial Intelligence applications and-or crypto-assets.

During the pandemic, customers have been moving online in considerably larger numbers. In a digital economy, it is key to ensure a safe digital identity for all citizens. In Europe digital customer identification is becoming a topic of fundamental importance, at the center of the discussion not only at the European level, but also in Member States, as an EU-wide trusted digital identity is key for realising Europe's Digital Single Market. The European Commission has recently announced, on Wednesday 2 June, a sound regulatory framework for a "trusted and secure European electronic identification (e-ID)".

Artificial Intelligence (AI) is decisive factor for the evolution of financial services. While most AI systems will pose low to no risk, certain AI systems create risks that need to be addressed to avoid undesirable outcomes. For example, the opacity of many algorithms may create uncertainty and hamper the effective enforcement of the existing legislation on safety and fundamental rights. Responding to these challenges, legislative action is needed to ensure a well-functioning internal market for AI systems where both benefits and risks are adequately addressed.

An accelerated digitalisation has created new risks, namely digital operational resilience risks, and requires sorting the cultural approach to risk mitigation. A great example from the EU jurisdiction is the Digital Operational Resilience Act (DORA), which offers a first, comprehensive, EU-wide attempt to regulate digital risks. It applies to a wide range of financial institutions, and to a very heterogeneous group of companies operating in the sector, from FinTech startups to more structured players such as BigTech companies.

In the innovation space, the relationship between incumbent players, such as banks, and those relatively new, yet potentially disruptive players, such as FinTech startups and BigTech companies is going to be a key trend for the years to come.

### ASIA : A TESTIMONIAL FROM THAILAND

The pandemic first hit in Asia, and all countries have taken drastic measures to cope with emergencies, often with the help of the World Bank Group and of regional development banks. These operations are meant to provide emergency financing for the purchase of medical and laboratory supplies,

training of medical staff, and strengthening national public health systems.

A second phase of the COVID-19 response consists of addressing the severe economic, social and poverty impacts, and to strengthen social protection measures for the poor and vulnerable, support businesses and safeguard jobs

We asked Government Savings Bank, our WSBI Member in Thailand, to describe the efforts they delivered in their country to help the population withstand the pandemic.

### Isara Wongrung, Senior Executive Vice President replied to our questions:

Thailand has successfully fought against the pandemic for almost one year, having less than 5,000 cases in a population of 70 million by 2020. However, at the end of May 2021, it is unfortunate that the figure has skyrocketed to more than 150,000 cases during the third wave, which is quite worrying.

The banking industry in Thailand faced challenges in the context of Covid-19 pandemic since 2020; however, credit business growth was increasing from 2019 by covid affected debtors. In 2021, growth rate of credit business slowed down from 2020 due to the uncertainty of the new wave of Covid-19 contaminations. The banking industry has also faced a certain amount of pressure due to the economic situation and the long pandemic period. A consequence of this was the increase of overall percentage of Non-Performing Loans during 2020-2021.

In response to the deepening crisis, the Thai government and the Bank of Thailand (BOT) have announced an array of measures to assist SMEs affected by the Covid-19 pandemic.

Government Savings Bank as a Social Bank, helped more than 8 million customers with a total amount of 6,233 Million US Dollars (or approx. 194,800 Million Baht), the details are as follows:

- Supporting the government measure as a monthly payment channel of 160 US Dollars (or 5,000 Baht) for living expenses for 3 months (or called grant-in-aid money) to accounts of people with a low income, and this for more than 3.2 million persons in Thailand;
- Offering a moratorium or suspension of the repayment of principal and a partial amount of interest according to customer's affordability ratio;
- Providing loans for grassroots empowerment, loans for expenses on 320 US Dollars (or 10,000 Baht) and 1,600 US Dollars (or 50,000 Baht) for retail customers who do not have credit or financial history for more than 2.59 Million persons, in order to reduce inequality and to access to finance in the financial system. This loan with grace period of repayments for the first six months has a fixed interest rate of 0.35 per cent per month, with no collateral required. Digital lending process opens via mobile banking application called MyMo. The loan total amount of 1,600 Million US Dollar (or 50,000 Million Baht) expands to all areas nationwide for existing MyMo customers and new MyMo customers.
- Providing soft loans to SMEs entrepreneurs and tourism-related businesses, for a total amount of 4,960 Million US Dollars (or approx. 155,000 Million Baht) for more than 21,000 cases. SMEs also can use their land as collateral against loans from GSB without business income consideration. The amount of the loan cannot exceed 70% of the assessed value of the borrower's collateral with low interest rate in 3 years.

## CHALLENGES AND PRIORITIES FOR RETAIL BANKING POST COVID (CONTINUED FROM PAGE 3)

This measure will help sustain the debtor's status and prevent them from becoming non-performing loans which will damage their credit records, making them unable to secure loans in the future from financial institutions.

### THE COVID-19 SITUATION IN AFRICA AND THE REACTION OF THE FINANCIAL SECTOR

Redouane Najm-edinne, Director-General of Al Barid Bank in Morocco, gives a brief update of the situation in Africa. Africa has not been hit as hard as other continents by Covid 19. On the other hand, the reduction in the activities of foreign economies has had serious economic and social consequences on the entire African continent.

One of the first was a massive flight of capital, starting in the first quarter of 2020.

Second, the tightening of financing conditions, increased pressures on the balance of payments and liquidity constraints, have had a negative impact on the supply of trade finance. The external debt, under the pressure of these same factors, has taken on dramatic dimensions.

According to the African Development Bank, Africa stands to lose 173 to nearly 237 billion US dollars in gross domestic product in 2020–2021 alone!

The social consequences are also dramatic, as the African Development Bank predicts an increase in poverty for nearly 48 million people and the loss of jobs for nearly 30 million people.

To support the economy, African central banks have reacted quickly with measures such as easing monetary policy, easing regulatory requirements and putting in place moratoriums on loan repayments.

However, after more than a year, the banks - which have been able to maintain their profits thanks to these measures - face many challenges such as, the management of non-repayment of loans, the financing of SMEs and consumers, digitization and use of technologies to reduce costs, not to mention the concomitant expectations of central banks in terms of compliance.

### WHICH SOLUTIONS CAN WE CONSIDER FOR THIS VERY SERIOUS SITUATION?

International cooperation is essential for African countries: it is all the more crucial as Africa faces an infrastructure financing gap of between USD 68 and 108 billion per year, an amount that the sector public alone cannot mobilize; especially since a way out of the crisis can only go through massive investment in infrastructure and transport,

ICT should support the growth of businesses and trade. Note that these investments only make sense if they support job creation for young people and support women, who represent more than half of entrepreneurship in the informal sector.

### THE ROLE OF BANKS

The banking sector as a whole must be able to be bold in managing both risk and capital, rationalizing resources and costs, while adapting to changing consumer behavior.

In this context, the priorities that emerge for financial institutions, members of the WSBI in Africa are

- Maintain debt collections, to the extent possible
- Provide special support to the most vulnerable groups
- Develop digital finance, via
  - Strengthening infrastructure on the one hand, and
  - Supporting their customers in the use of digital
- Strengthen cybersecurity

To do so, the banks will need the support of donors to reschedule debts, the support of investors, but also of local authorities to ensure a regulatory framework allowing the pooling of resources to strengthen the digital ecosystem.

To conclude, if African countries face the risk of an economic recession, the pandemic crisis will have given African financial institutions a beneficial boost, in terms of digitization, which will allow them, in the long term, to distinguish themselves from their own competitors on the international scene.

## ESBG's Head of Payments appointed as member of EU Commission Expert Group



The European Savings and Retail Banking Group (ESBG)'s Head of Payments and Innovation, Diederik Bruggink, 52, has been appointed as member of the European Commission's Payment Systems Market Expert Group (PSMEG) from now until the end of 2025. Mr Bruggink was also part of this influential group between 2017 and 2021.

The expert group's objective is to advise the Commission in the area of payments and to assist the Commission in the preparation of legislative acts or policy initiatives regarding payments, including fraud prevention issues related to payment industry and users.

The group is coordinated by the Directorate General for Financial Stability, Financial Services and Capital Markets Union (FISMA).

Diederik Bruggink is also Head of Payments and Innovations at the World Savings and Retail Banking Institute (WSBI). At WSBI-ESBI, Mr Bruggink analyses the multiple dimensions of the payments market, proposing and assisting in agreeing member positions with respect to their payments and related businesses. He advocates the associations' positions on payments with policymakers, regulators, standardisation bodies, industry associations, and enabling a constant member dialogue on developments, with a particular focus on innovation.

Prior to joining WSBI-ESBG in 2017, he managed since 2012 his own international consultancy practice. In 2009-2012 he was Vice President of card schemes at the Royal Bank of Scotland. Prior to that, he was appointed in 2005 within ABN AMRO's market infrastructures department as Vice President of payments and cards. He also worked previously with Mastercard where he was a senior business leader in the global debit team. He started his career with Capgemini Global Financial Services in 1996.

## SUSTAINABLE FINANCE: GREEN GOLD? (CONTINUED FROM PAGE 1)



**“To meet our Paris targets, Europe needs around €180bn in extra yearly investment over the next decade. We want a quarter of the EU budget to contribute to climate action as of 2021. Yet, public money will not be enough. This is why the EU has proposed hard law to incentivise private capital to flow to green projects. We hope that Europe's leadership will inspire others to walk next to us. We are at two minutes to midnight. It is our last chance to join forces.”**

Valdis Dombrovskis, Vice-President in charge of Financial Stability, Financial Services and Capital Markets Union European Commission

### SUSTAINABILITY -RELATED DISCLOSURES REGULATION: WRITE ME A REPORT ON THAT, PLEASE

Closely linked to the Taxonomy issue is the regulation on sustainability-related disclosures that entered into force last March. This regulation introduces additional disclosure requirement for asset managers and institutional investors to enhance transparency to end-users with regards to the integration of sustainability risks in all activities of financial players, and the consideration of adverse sustainability impacts in asset managers'/ institutional investors' processes. ESG points, in this field to the already relatively high pressure on financial institutions in the field of reporting and to the relatively new area this is.

### ESG PILLAR 3 DISCLOSURES IN THE CAPITAL REQUIREMENTS REGULATION: GREEN IS EVERYWHERE

The capital requirements regulation (CRR) includes the requirement to disclose prudential information on environmental, social and governance risks, including transition and physical risk, addressed to large institutions with securities traded on a regulated market of any Member State. These disclosure requirements are applicable from June 2022 on an annual basis during the first year and bi-annually thereafter. EBA is mandated to develop draft implementing technical standards (ITS) specifying these disclosure requirements. The draft ITS puts forward proposals on tables and templates for quantitative disclosures on climate change physical and transitional risk, qualitative disclosures on environmental, social and governance risks, and quantitative information and KPIs on climate change mitigating measures, including the green asset ratio (GAR) on taxonomy-aligned activities and other mitigating actions. ESG members noticed some lack of clarity around some templates and instructions. Also, we consider that the disclosures requested exceed the mandate in the underlying regulation and do not achieve the policy objectives.

### INTEGRATION OF SUSTAINABILITY FACTORS AND RISKS INTO MIFID: INVESTING WITH A GREEN CONSCIENCE

In line with the objective to enhance consistency in ESG risks integration and disclosures, on 21 April, the Commission adopted two delegated acts under the Markets in the Financial Instruments Directive (MiFID II) to include the consideration of environmental, social, or governance factors into the advice that investment firms offer to individual clients. The measures cover the areas of organisational requirements, product governance, operating conditions and risk management. These texts will now be subject to a scrutiny period by the Parliament / Council and are expected to take effect from October 2022. ESG members have raised concerns about the disconnection of the MiFID rules to the sustainability disclosures framework that is reflected in the definition of sustainability preferences in suitability assessments that requires clients to express their sustainability preference for financial instruments. On Monday, 31 May, ESBG had a call with the Commission hoping for some clarifications on how to apply the delegated acts. The Commission mainly charged the industry, including manufacturers, distributors and their clients, with the responsibility to explore what is the best way to practically implement the new requirements and determine the degree of sustainability of investment portfolios.

The JO and the Commission are willing to continue the dialogue in a follow-up meeting sometime in the coming weeks.

### EU ECOLABEL FOR RETAIL FINANCIAL PRODUCTS: WHAT IS UNDER THE BANNER?

The European Commission also proposed the creation of a voluntary EU-wide labelling scheme through the extension of the EU Ecolabel to financial products including savings deposit and fixed-term deposit accounts. In regards to the latter, deposits loaned or invested shall only be used to make and/or to invest in loans granted to finance environmentally sustainable economic activities provided there is traceability back to the deposited funds. This will be achieved either by separating the money held in deposit and then granted as loans and/or used to buy bonds within the accounts of the credit institution, or otherwise by tracking them in such a way as to restrict transferability and ensure that the funds loaned are traceable to the money deposited by the customers. The final Technical Report and final EU Ecolabel criteria for Financial Products will be voted by the Ecolabel Board very soon and adopted by the Commission by the end of the year.

**“The Commission will publish this summer its renewed strategy on sustainable finance.”**

### RISE TO THE OCCASION: LOW CARBON AS THE ECONOMIC OPPORTUNITY OF THE 21ST CENTURY

It is crucial for financial institutions to be able to understand regulators' and supervisors' expectations and that these expectations be in line with existing methodologies and their limitations.

It is crucial to understand the respective roles of retail banking and the difference of their business model compared to wholesale banking.

It is also important to clearly define the respective responsibilities of insurance companies, which are experts in insuring risk, including climate-related risks, and those of banks, which are experts in managing credit risk.

Against this background, workable and ambitious solutions should be fleshed out, at an appropriate speed, which would be applicable and proportionate to any type and size of credit institutions, to conduct risk analyses across their portfolios and asset classes.

The EU and national governments have a role to play in bringing more clarity on public policies governments pledge to adopt as they implement Paris-aligned emissions reductions (e.g. scope and timing), as this information will be incorporated to determine transition risk exposure. Information that is much more granular is needed on Nationally Determined Contributions (NDCs) about how much greenhouse gas (GHG) is expected to be reduced, at what speed, and what precise measures are going to be taken to achieve those goals.

It is important to ensure that regulatory and supervisory measures are carefully designed so that they neither endanger financial stability, hamper SME financing nor mislead market participants, and to take a holistic approach to sustainability.

## WORLD NEWS

# Scale2Save case study presents six innovative business models

Brussels, July 2021

WSBI's Scale2Save programme launched 'A case study on innovative business models: partnerships as a key to unlocking the mass market', the latest one of its State of the Savings and Retail Banking in Africa research series 2021. The series is about developments in the industry affecting services to low-income customers, where the region still has huge growth potential.

Scale2Save is a learning programme that aims at establishing the viability of low-balance savings accounts and understanding the extent to which savings allow vulnerable people to boost their financial resilience. It is a partnership between WSBI and the Mastercard Foundation.

"This latest case study is very relevant because it sheds light on various routes into a viable business model for small scale savings as a response to shifting customer expectations", said the programme director, Weselina Angelow.

The study describes how new and varied business models for FSPs in Africa are emerging from efforts to address the trend towards digitalization and FinTech, the impact of the COVID pandemic and growing customer expectations. It defines six models and links them to case studies:

- **Cooperate with other FSPs through strategic partnerships** - To complement each other physical reach or product range. This kind of partnerships are beneficial to both parties, because the overall business volume will exceed their individual efforts.
- **Cooperate with other FSPs to build financial infrastructure** - Despite progress in the past decade, the financial infrastructure in many African countries is still inadequate for the needs of savings-led FSPs.

FSPs can work together to tackle these shortcomings, especially in retail payments and credit information systems. The study analyses the example of FINCA Uganda, a Micro-Deposit taking Institution (MDI) who established a partnership with Centenary Bank and United Bank of Africa to augment its service delivery to customers via a digital platform.

- **Cooperate with mobile money operators** - Mobile money operators (MMOs) are the dominant retail FSPs in some African countries. This strong market position makes them attractive partners for banks because of their ability to offer banking services to mobile phone customers. These partnerships are also attractive to MMOs because they can generate additional revenue and enhance their appeal to customers by offering banking services without the challenges of seeking a banking licence. For example, Zimbabwe's Post Office Savings Bank (POSB) partnered with the three major MNOs in the country, Econet, Telecel and Netone, to offer mobile banking services in 2011, becoming one of the first banks to offer a mobile banking platform in Zimbabwe.
- **Use FinTech** - Innovation in retail financial services is often achieved by independent technology-based companies or FinTech. These companies develop ways of providing financial services digitally, but typically lack direct access to customers. By working together, savings-led FSPs can incorporate these services into their value proposition without having to acquire or develop the internal capacity necessary. FinTech services span a wide range of financial capabilities, from client-onboarding, payments and savings and investments to credit and credit-assessment services.

- **Go Digital** - FSPs with strong digital capabilities can establish a purely digital bank, with no branch network and all client services and interactions done digitally. This may be simpler than trying to digitize an existing operation but is resource-intensive.
- **Cooperate with non-financial service providers** - Increasingly, FSPs need to link directly into the economic ecosystem in which they operate. They must enable customers to obtain goods and services where required, and provide the financial service embedded in that interaction. This can go from the digitization of value chains across all actors, for example, in agriculture, to incorporating the FSP's products in the services of a non-financial service provider such as remittances sent or received at grocery stores. This model is illustrated by a case from Al-Barid Bank, who partnered with the International Fund for Agricultural Development (IFAD), Silatech and Making Cents International under the IFAD Rural Youth Economic Empowerment Program (RYEEP) to extend the rural reach of its youth savings product, Tawfir al Ghad (TAG) or 'Savings for Tomorrow'.

The study concludes by summarising the strategic questions that FSPs should answer when looking at alternative business models. We provide a decision tree that FSPs can use to guide them in selecting an alternative business model best suited to their situation and environment.

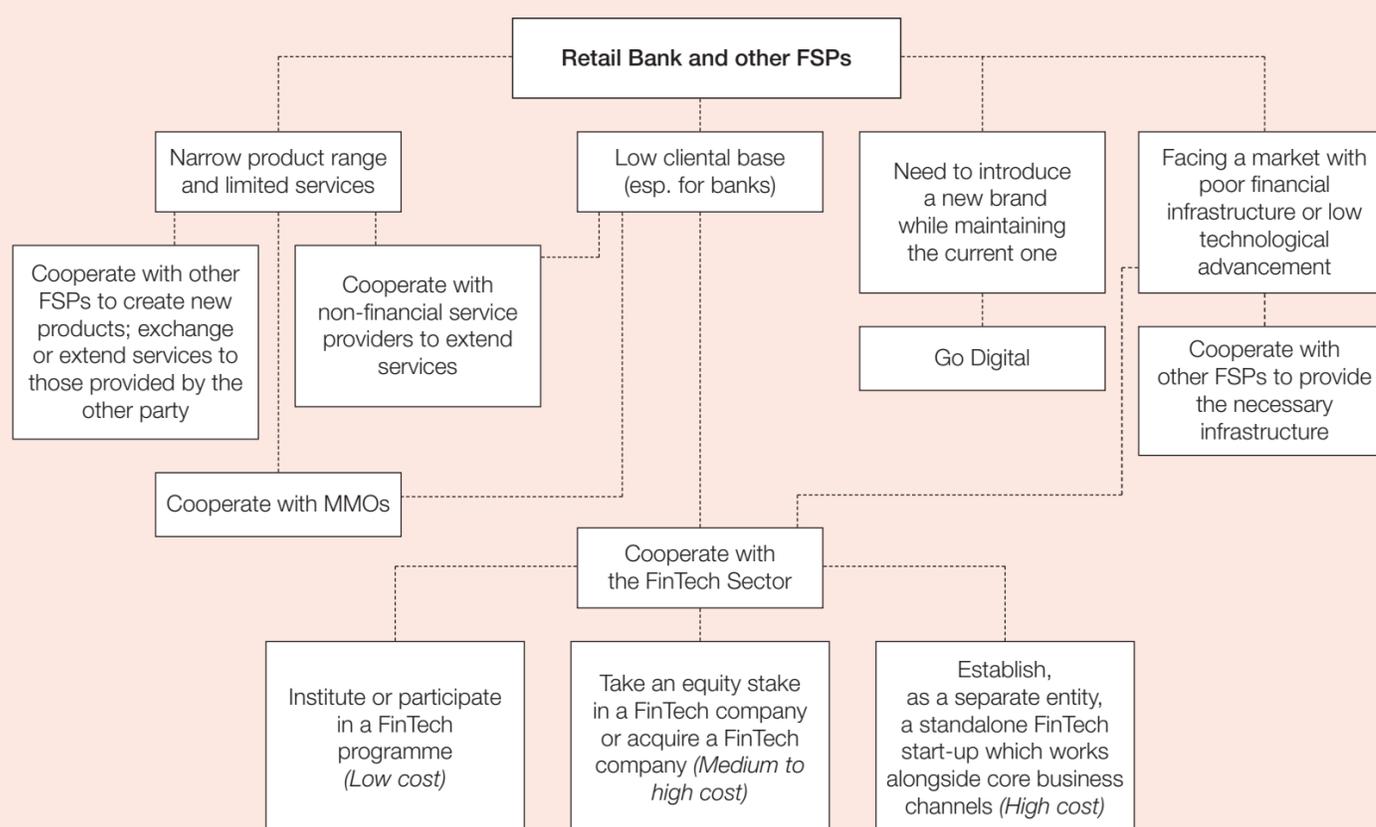
Scale2Save's case study on innovative business models is the third of the 2021 research series that also includes studies on the Covid impact and on Mobile financial services. Upcoming studies will explore digital solutions and platforms for the agriculture sector.



"This latest case study is very relevant because it sheds light on various routes into a viable business model for small scale savings as a response to shifting customer expectations."

Weselina Angelow, Programme Director

### CHOOSING NEW ROUTES TO MARKET: A DECISION TREE



### Scale2Save by the numbers

#### OBJECTIVE

**1 million**

more people banked

#### INVESTMENT

**\$16 million**

#### GEOGRAPHIC SCOPE

**6** countries in Africa

#### PROJECTS

**12** innovative projects

#### TIMEFRAME

**6** years

Sep 2016 to Aug 2022



MORE INFORMATION IS AVAILABLE ON THE WSBI-ESBG WEBSITE AND ON THE SCALE2SAVE WEBPAGE.

## INTERVIEW

# Hitting the ground running

PETER SIMON ON FIRST MONTHS AS MANAGING DIRECTOR



**“Savings and retail banks must face the future in challenging times, but they can build upon a solid, well established foundation.”**

**Peter Simon, Managing Director of the World Savings and Retail Banking Institute (WSBI) and the European Savings and Retail Banking Group (ESBG)**

- Born in Mannheim, Germany
- Served as a Member of the European Parliament between 2009 and 2019.
- Vice-Chairman of the Economic and Monetary Affairs Committee (ECON) between 2014 and 2019
- Coordinator of the S&D Group in the special committees TAXE1 and TAXE2 of inquiry on tax avoidance (Tax rulings and “LuxLeaks” special committees) as well as in the committee of inquiry on tax evasion, money laundering and tax avoidance (PANA).
- Coordinator of the S&D Group in the TAX3 special committee of inquiry on financial crimes, tax evasion and tax avoidance (Paradise Papers special committee) in 2018 and 2019.
- Rapporteur and chief negotiator for CRD V/CRR II
- Shadow Rapporteur and co-negotiator of the S&D Group for the 4th and 5th AMLD (Anti-Money Laundering Directives)
- Rapporteur and chief negotiator for the Deposit Guarantee Schemes Directive now in force.

Brussels, July 2021

**WSBI and ESBG confirmed the appointment of Peter Simon (53) as Managing Director of the World Savings and Retail Banking Institute (WSBI) and the European Savings and Retail Banking Group (ESBG).**

**P**eter Simon took up his new role on 1 January 2021 and he is working alongside long-serving Managing Director Chris De Noose, who will leave his current role at the end of 2021.

**Recently you have been appointed as Managing Director of the World Savings and Retail Banking Institute (WSBI) and the European Savings and Retail Banking Group (ESBG) alongside Chris De Noose. How do you value these months in office?**

I have found myself in a well-established association that warmly welcomed me. However, the circumstances due to the pandemic with the obligation to work from home wherever possible were extraordinary. Sometimes I felt as if I was nearly the only one in this wonderful, freshly renovated building. So, my onboarding process was different to what I have experienced before. Nevertheless, we have managed and already implemented several new perspectives on all that matters. For example, in the first couple of months, we already restructured some of our internal organisation and implemented new tools, especially in the field of advocacy. Furthermore, our Communications department has been completely reshuffled and we will relaunch existing products and publications like our website. We have and will continue to become even more digital, something that has been catalysed by the pandemic as well.

**WSBI and ESBG Managing Director, Mr Chris De Noose, will leave his current role at the end of 2021 after 26 years leading both institutions. How do you describe Mr De Noose’s trajectory at the forefront of WSBI and ESBG? How do you feel about working side by side with him during this year?**

Chris de Noose has earned the title among our members worldwide as “Mister Savings Banks” of the financial industry. There is for sure nobody among the savings and retail banking family who has not known or consulted him throughout his more than 27 years as head of the association, due to his expertise. As a highly communicative personality Chris is accessible for every question coming up. So, I can benefit from his experience. What is even easier as he has his office directly opposite mine.

**After this transition year, what will be your priorities as Managing Director?**

When Chris retires at the end of this year, an era lasting 27 years will end. Naturally, a change in management after so many years means for any organisation also somehow a restart. In this situation it helps a lot to have a strong team around you, which we have. The setup is good, but we should focus on reaching more visibility of our work. Gaining awareness is not easy in policy making and we will put much of our energy into that.

We also want people, including decision-makers, to better know and recognise what WSBI-ESBG means, we want them to associate us immediately as the “good, responsible and sustainable bankers”. I ought to clarify that this is not only a marketing claim but simply the truth and deserved thanks to savings banks’ socially committed business models. As written in our statutes, our members demonstrate responsibility towards the societies in which they operate.

Therefore our diverse members should also play a greater role in our advocacy activities - with them we can put more faces and authenticity to our positions and policy messages.

**From your point of view, what is the most differential factor of the savings banks sector?**

It is a matter of fact that for more than 200 years, savings banks have been putting their clients at the centre of attention. They are not driven by profit maximisation to mainly satisfy shareholders but have committed to provide a return to society. This makes savings banks unique. Our savings and retail banks consider themselves as banks for each and everybody. They are present for households, local businesses and entrepreneurs and have a strong presence in the SME sector.

Figures on philanthropic activities, such as funds spent on financial education programmes, are a good illustration and we will make use of it. Moreover, they are, despite offering modern digital banking channels, present in local regions and remote areas. This regional approach allows them to know their customers and their needs, e.g. SMEs, better than other players in the market. This is our unique customer-centric approach to savings and retail banking.

**Currently, pandemic effects have damaged our economy and this process is not over yet. What is the current situation of savings banks? Are they prepared to manage this crisis?**

Savings banks are solid and have been working well through the crisis; it was often savings banks to whom people and companies turned to first when the crisis broke out. This shows standing and trust, which WSBI-ESBG members are not putting at risk. They have been helping their clients to master the crisis since day one in an excellent and dedicated manner. Let me give you some examples.

For instance, the loan deferrals for clients, both private and corporate, who have a very low income will not be charged a higher interest rate due to a longer loan period. Savings and retail banks extended payment moratoria beyond what the authorities foresee, e.g. from 6 to 12 months. Numerous new loans continue to be provided despite the economic downturn.

In some countries, savings and retail banks help to improve customers’ income situation, for instance by paying unemployment benefits or pensions in advance. Commissions for the use of ATMs have been eliminated to receive cash without fees. Many savings and retail banks provide training for digital banking services and education on digital skills, which has become more important and popular during the crisis.

In a nutshell, savings banks will continue to stand by their customers throughout the recovery phase and a return to normality, while also being prudent regarding their capital reserves. They are working out individual solutions for customers who are in difficulties – that’s responsible banking and customer centricity, for which savings and retail banks are known.

**What are the main challenges the sector must face from a regulatory point of view?**

There are several, let me mention some very important ones.

Digitalisation is leading to lots of new, additional regulation. For example, in a digital world, identification and security are key.

Here, savings banks need to strike a balance between customer convenience on the one hand and strong customer authentication on the other. Also, savings banks are expected to share, upon customer request, payment data with FinTech companies – for this, significant investments are required to ensure only the appropriate data can be accessed and that the necessary security infrastructure is in place to avoid unauthorised access.

Another challenge is the upcoming implementation of Basel IV (which some call the finalisation of Basel III), which needs to be done in a smart way that does not endanger the international level playing field. This text ought to consider local specificities and must not lead to unjustified, significant increases in capital requirements, especially whilst we are in the middle of recovering from an economic crisis, which could hamper the lending capacity of banks and be detrimental to the wider economy as a consequence.

**Given the social approach that saving banks have maintained historically in their business model, how do you consider the sector can improve its role in sustainability?**

Savings and retail banks must face the future in challenging times, but they can build upon a solid, well established foundation.

On one side, the savings and retail banking sector should, in my view, continue on its path in this respect. Savings and retail banks should and will simply continue to do what they are good at and known for, be socially committed and pursue a responsible, inclusive customer-centric business model.



On the other side, savings and retail banks will of course move with the times and adapt where adaptations should be made. It’s not only the pandemic that has highlighted several important risks and opportunities that financial services need to consider in the context of managing their businesses. WSBI and ESBG members are deepening their understanding of the risks that climate change poses, and the need to transition to net zero carbon emissions.

Referring to savings and retail banks’ proximity to corporate and private customers, as we know, savings and retail banks are the natural partner to SMEs, which are themselves fundamental for innovation. Members’ extensive practical and day-to-day knowledge of local industry and households have given them the tools to provide SME lending, as well as give SMEs our support in transitioning to a more sustainable future. Because of their share in climate change, households are also being offered attractive solutions to reduce their carbon emissions. Energy efficiency might be a key phrase here.

Green mortgages and green loans are examples where WSBI-ESBG members can provide support and investment in local communities. Members can provide more tools that investors and customers need to become more sustainable.

## REGULATION

# Social taxonomy: keep it simple

Savings and retail banks are trustful partners of households and SMEs in their endeavour to make the planet more sustainable, including to be more socially just. Mitigating climate change also implies a lot of adaptations, for example how to measure climate risk, what to disclose for investors, how to advise customers in their investment decisions. It is needed to increase awareness and activity on sustainability, and WSBI-ESBG is fully supportive of the different policy initiatives. However, lots of efforts are needed - not just from banks of course, but from everyone and we all need to contribute our bit to make the world more sustainable.

**Finally, I would like to ask you for the future. The scenario for savings banks has been changing in time and the sector has had to adapt to new realities. Will it be necessary to do it again? A new era is opening for banking?**

The future does not belong to the biggest or the strongest. It belongs to those who adapt best to changing circumstances. This is a demanding challenge for all participants in the financial sector.

Let me add that BigTechs and FinTech companies have also entered the banking sector market, and this is having consequences. On a sidenote, WSBI-ESBG has a very clear view on this. If these engage in the same business, taking the same risks, then the same rules should apply. On such level playing field, savings and retail banks need to continue to understand what their customers need in terms of banking products. FinTech companies will compete on some of these products – they usually pick the ones that are most profitable to them, repackaging them in one or another innovative way. Savings and retail banks compete by being innovative too, and can leverage their core assets which are the factors that they are capable of offering a full suite of banking products on the one hand and that they remain close to their consumers on the other.

Times are certainly changing. The Covid-19 crisis is maybe the best example of how quick things can change and all of us need to adapt. Banks all over the world, and in particular savings and retail banks, who were often the first addressee of SMEs and private customers when the crisis broke out, have been doing their utmost to mitigate the effects of the crisis for their customers.

In any case, while it is inevitable to need to adapt to new situations, not just savings and retail banks, but everyone in the financial services market, I am confident that the savings and retail banks' business model is very solid, unique, and will also be appreciated in the future.

## Flood disasters: ESBG Members participate in recovery efforts

The flood disaster caused devastating damage in Germany and Belgium. The German savings banks have immediately started extensive programmes for emergency aid and have made significant donations. The insurance companies of the Sparkassen-Finanzgruppe are geared towards providing quick and unbureaucratic assistance. The savings banks have also launched a country-wide donations programme. The funds received there are paid out directly to those affected. The savings banks bear the costs of payment processing and the savings banks in the affected areas are responsible for correct use.

Brussels, July 2021

**Institutions and governments around the world have recognized the importance and necessity of taking steps to achieve a fair and just transition to a more environmentally and socially sustainable society and economy.**

The European Green Deal, which sets ambitious goals for sustainable growth and environmental preservation, was passed by the European Parliament in 2020. Specifically, the plan requires to reach zero net emissions of greenhouse gases by 2050, decouple economic growth from resource use and leave no person and no place behind. To achieve these objectives, a significant increase in the flow of capital into long-term investments is critical. Because the public sector can only fund a portion of these expenditures, private sector participation is required.

Developing international standards is the essential first step to prevent common tactics like green or social washing and to assist private firms and investors in identifying sustainable activities. The European Union's Taxonomy was devised as a tool to bring clarity and assurance to investors, decision-makers, and citizens, first addressing primarily environmental challenges. Social and governance elements are currently included only as a component in the Taxonomy. In this regard, the European Commission mandated the Platform for Sustainable Finance to work on expanding the Taxonomy to cover social objectives.

### CONSIDERATIONS ON A FUTURE SOCIAL TAXONOMY

A social taxonomy should be less complex than the environmental taxonomy. The Platform on Sustainable Finance<sup>1</sup> recommends that the development of a "social taxonomy" follows the model of the "green taxonomy" where possible. At ESBG, we do not consider this feasible taking into account that contrary to the environmental taxonomy that is science-based, a social taxonomy would be based on internationally agreed authoritative norms and principles. Thus, it will be more difficult to find quantifiable criteria for a social taxonomy than it is the case with the environmental taxonomy.

The social dimension of WSBI-ESBG members' activities, as presented above, goes beyond the normal operation of banks and is a factor that differentiates us from other actors in the financial sector. WSBI-ESBG banks have a history of socially responsible banking that is not tied to recent, related regulatory requirements. The Platform on Sustainable Finance makes a distinction between an inherent benefit of an economic activity or entity and an additional benefit which substantially contribute to social objectives. We are convinced that our social commitment to responsible banking meets the additional criterion.

While establishing social objectives, it should be considered that prudential regulation rules may hamper banks' social business and/or lead to inconsiderate decisions to vulnerable people.

Any articulation between the social taxonomy and environmental taxonomy should make sure that it doesn't create a complex and bureaucratic framework and that it doesn't hinder the social business of WSBI-ESBG member banks. We consider that ensuring the interdependency of the two taxonomies may serve these objectives best. In addition to this, the relationship between a social taxonomy with other regulations under the sustainable finance framework, including the Sustainable Finance Disclosure Regulation, the Non-Financial Reporting Directive, the prudential treatment of banks etc. should also be considered.

### SAVINGS AND RETAIL BANKS ARE SOCIAL BANKS

Most of the WSBI and ESBG member banks have basically been created during the nineteenth century for social reasons, with the objective of including as many people as possible to be part of the formal banking system. This original intent is captured in the main values of WSBI and ESBG members, the so-called 3 Rs.

- **Retail:** We provide retail financial services for people - individual consumers and the self-employed, households, micro-, small and medium-sized enterprises (MSMEs) and local authorities, thus ensuring financial inclusion and a chance for everyone to prosper.
- **Regional:** We deploy broad decentralised distribution networks rooted within the communities they serve, including local and regional reach in both urban and rural areas, thus contributing to economic transformation and progress.
- **Responsible:** We provide long-term support aimed at balancing economic, social and ecological demands, thus bringing a return to society as a core business aspect. Savings and retail banks are not shareholder-driven, nor do they have profit maximisation as a primary goal. Instead, their responsible approach to business focusses on the needs of local communities in which and for which they operate.

### PROMOTION OF ADEQUATE LIVING STANDARDS FOR VULNERABLE INDIVIDUALS AND GROUPS

The promotion of adequate living standards for individuals and groups in vulnerable situations is a central objective of the recommended social taxonomy, which covers basic economic infrastructure, including financial inclusion, in addition to basic human needs such as water, food, housing, healthcare, and education.

WSBI-ESBG member banks serve all segments of society, from younger people to those who, due to advanced age, lack access to digital banking services to extend financial inclusion. Furthermore, WSBI-ESBG member banks provide access to current financial products and services adapted to the financial profile of the individual, especially those with lower salaries or modest means. To ensure banking accessibility and proximity, WSBI-ESBG member banks have created a network of branches throughout the country in which they operate, including low-populated and economically disadvantaged areas, as well as a variety of electronic access channels. Branches and distribution methods are kept as accessible as possible, especially for the access of older people and people with physical disabilities or impairments. Finally, member banks of the WSBI-ESBG have a long history of providing high-quality financial education programs to assist individuals with a greater understanding of financial concerns, allowing them to make more educated decisions.

### WHO SHOULD BENEFIT FIRST FROM A SOCIAL TAXONOMY?

When defining objectives of a social taxonomy, people should be placed in the centre. It is suggested that a future social taxonomy recognises three groups of stakeholders most commonly impacted by business: workers, consumers and communities.

#### Impact on workers

WSBI-ESBG member banks promote and protect human rights in their role as responsible employers.

They advocate for workplace equality and non-discrimination, with a particular focus on women's empowerment. In all of the regions where they operate, WSBI-ESBG member banks also provide high-quality jobs and good, healthy working conditions for their workers, and they assist in achieving a decent work-life balance. Finally, WSBI-ESBG member banks encourage career advancement through training and lifelong learning opportunities.

#### Impact on consumers

Building and maintaining a long-term relationship of trust and confidence with their customers is important to WSBI-ESBG member banks. They cultivate and promote transparency by providing clear, accurate information on products and services, as well as other terms and conditions of use. When providing advice, WSBI-ESBG member banks strive to address client needs and offer products and services that are appropriate for their specific circumstances and financial profile, with a focus on the most vulnerable. For WSBI-ESBG member banks, customer service is crucial; they respond to client complaints quickly and efficiently.

Moreover, Members of the WSBI-ESBG incorporate the digital dimension into their business models that allows them to provide their clients with the greatest levels of data protection, confidentiality, and cybersecurity. WSBI-ESBG members also improve accessibility and proximity to banking services by utilizing the latest digital technologies.

#### Impact on communities

For WSBI-ESBG members, sustainability entails more than just being environmentally friendly. It has a deep social dimension that is ingrained in the WSBI-ESBG members' DNA. WSBI-ESBG member banks, in particular, foster local economic growth, entrepreneurship, and jobs by primarily supporting SMEs and local households. Over and beyond their customer base, WSBI-ESBG member banks link their business ambitions and success to the requirements of local communities and society in which they operate. They create, implement, and promote a diverse range of social activities aimed at creating a more inclusive society. In domains as medical and scientific research, arts and culture, social entrepreneurship, education, integration, and corporate philanthropy, WSBI-ESBG member banks interact with communities through multi-stakeholder collaborations and corporate philanthropy.

### GOOD CORPORATE GOVERNANCE

With regard to considering good governance principles, it is worth mentioning that WSBI-ESBG members are committed to integrity and ethics among staff, management and governing bodies. Their governance structure also allows for democratic backing and supervision from local communities.

### THE WAY FORWARD

Savings and retail banks are well positioned to contribute to sustainable objectives, in particular strengthening social cohesion. For savings and retail banks this will imply playing an active role in ensuring the highest commitment to financial inclusion, social cohesion and economic growth. We stand ready to leverage our expertise, knowledge and local networks to work together with policy and decision makers.

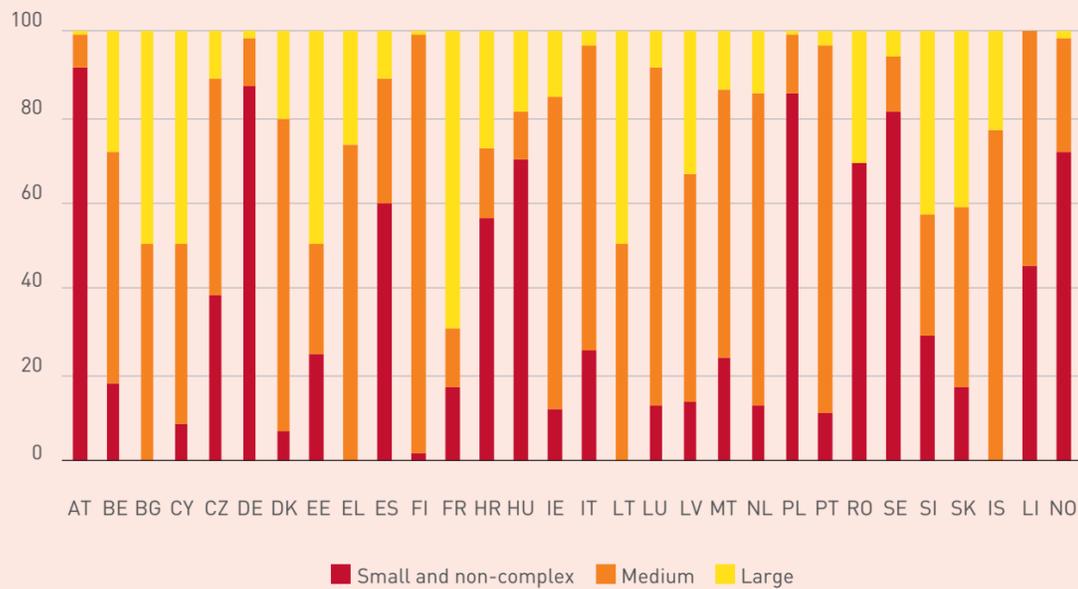
<sup>1</sup> The Platform on Sustainable Finance brings together world leading sustainability experts across all stakeholder groups: Private stakeholders from financial, non-financial and business sectors, NGOs and civil society, academia and think tanks, experts in personal capacity, as well as public and international institutions. In total, the Platform can draw on the expertise of 57 members and 11 observers.

## MISCELLANEOUS

# How Great it is to be Small

The data visualisation below comes from the European Banking Authority's Study of the Cost of Compliance, published on 9 June and available on the organisation's website. It shows the banking sector in the 30 member states of the European Economic Area, ranked in three reporting categories: small and non complex (in red), medium (in orange) and large (in yellow). Note the big difference between countries such as Germany, Austria and Norway, where a large and dynamic savings banks sector offers a strong diversity. Compare this with countries such as France, Cyprus and the Baltic States, where big and complex banks dominate the landscape.

### EBA COST OF COMPLIANCE REPORT - SHARE OF CREDIT INSTITUTIONS OF DIFFERENT CRR PROPORTIONALITY CATEGORIES



## POINT OF VIEW

# How to discourage savings: put the interest rates below zero

On 12 March 2020, the Governing Council of the ECB announced the launch of a stimulus package to combat Covid-19 shock without changing the interest rate on its main refinancing operations (MRO). This package includes additional longer-term refinancing operations (LTROs), more favourable terms to longer-term refinancing operations (TLTRO III) and a temporary envelope of additional net asset purchases of €120 billion in complement to the existing Asset Purchase Program (APP). On 18 March 2020, the Governing Council (GC) of the ECB announced the launch of an extraordinary asset purchase programme of 750€ billion in a context of market tension. With this historical quantitative easing (QE) programme, the ECB wanted to "counter the serious risks to the monetary policy transmission mechanism and the outlook for the euro area posed by the outbreak and escalating diffusion of the coronavirus".

On 10 June 2021, the ECB Governing Council decided that the interest rate on the main refinancing operations (MRO) and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.50% respectively.

On 11 March 2021, the Governing Council of the European Central Bank (ECB) announced it will continue to conduct net asset purchases under the pandemic emergency purchase programme (PEPP) with a total envelope of €1,850 billion until at least the end of March 2022. Purchases under the PEPP over the next quarter shall be conducted at a significantly higher pace than during the first months of this year. The net purchases under the asset purchase programme (APP) will continue at a monthly pace of €20 billion.

### WHAT'S IN IT FOR AVERAGE JOE?

For individuals, low interest rates offer no incentive to save. In fact, low rates deter savings. Low interest rates 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 have 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.

### TELL ME, SISTER MORPHINE, WHEN ARE YOU COMING ROUND AGAIN?

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 problems are created. ESGB 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.

## EVENTS

# The Horizon of Banking (Re)evolution

### Digital event

Many developments are profoundly reshaping the banking sector: artificial intelligence, digital outreach methods that replace at least partially bank branches, big data and cloud and the sometimes intimidating presence of BigTech companies with sufficient firepower to challenge incumbent institutions. At the same time, the future has rarely been more interesting: banks are being reshaped, getting leaner and nimbler right before our eyes. In other words, it is bliss to be a banker in these days; We are happy to invite you to the WSBI Innovation Forum, The Horizon of Banking (Re)Evolution: retail banking, digital finance, ecosystem. You will get the opportunity to listen to experts from inside and outside the banking sector on recent developments and how certain institutions have been able to harness technology to improve the customer experience.



PLEASE REGISTER FOR THIS DIGITAL INNOVATION FORUM BY SCANNING THIS QR-CODE

# Less scary than Halloween: the World Savings Day

The 31st of October used to be the day when the virtues of saving money were commemorated. That was before Halloween came and replaced coins with sweets and piggy banks with monster masks.

Originally created in 1924, at the foundational congress of the international savings banks that gave birth to WSBI, the day has been celebrated on all continents, even if the concept has lost prominence in many countries.

Still, the idea is as strong and valid as ever. When you offer people a simple and save solution to put even small sums of money aside, it strengthens their resilience, it allows them to cope more easily with the difficult moments of life that most of us have to cope with and ... it provides banks with a solid source of deposit funding.

At WSBI, we are working to bring the World Savings Day more in focus that currently is the case. And as we are preparing for the 96th celebration of the World Savings Day, we ask you a simple question: what does savings money mean for you? Record a short video with your smartphone, ask your family, friends or bank clients to do the same and send your answer to [worldsavingsday@wsbi-esbg.org](mailto:worldsavingsday@wsbi-esbg.org).



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