



WSBI • SEPTEMBER 2011 • ESBG  
The global voice of savings and retail banking



# NEWS & VIEWS

## The future of retail banking

The 21st-century retail bank has lived through so many game-changing events that it's easy to forget the game has only just begun. Barely a decade has passed and already the institution has faced down a crisis second only to the 20th century's worst financial calamity. In its wake: a new breed of retail banking customer, new payment technology, and, of course, unprecedented regulation. These three forces are reshaping the retail bank faster than you might think, making this decade crucial to the future of the retail bank business model.

What will the retail bank become? What *should* it become? We must grapple with these and other tough questions in order to grasp the three forces sure to transform the retail banking sector over the next decade.

It all starts with the bank-customer relationship, which is changing radically. These days customers know what they want and play a more active role in the process of choosing the products and services they require. They behave in new ways and online information and service sources influence communication approaches. While transactions and advice have always dominated the relationship between bank and customer, today the customer conducts so many transactions without the bank's direct help that trust and advice are the relationship's most important components.

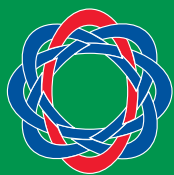
WSBI and ESBG members have gone to great lengths to (re)connect with clients by treating them less as passive customers and more like active consumers. They realise that banks need to get more from existing customers and offer better services. Banks need to know the customer comprehensively in order to offer him more and not miss sales opportunities. Meanwhile, consumer organisations and regulators are increasingly vocal about advice policies. How regulation adapts to this changed relationship remains to be seen, but banks must learn what it means for segmentation, pricing and communication strategies.

Second, payment technology and regulation will change the way people do business. After migration to the Single Euro Payments Area (SEPA), Europe will have to address a lengthy agenda in order to maintain its competitiveness, so it's useful to look at payments in the rest of the world – at what we should learn and at what we should not emulate. In terms of innovation, banks must find a balance and guard against the cost of doing too much or too little. They must find innovative ways to combine the safety, convenience and efficiency required by consumer protection, customers and business imperatives.

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tightens

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### News & Views

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Responsible Editor: Chris De Noose, Managing Director  
Editors: Dirk Smet, Communications Manager, and Lee Gillette, Communications Adviser  
Design & Layout: Malou Doumen



World Savings Banks Institute | European Savings Banks Group aisbl  
Rue Marie-Thérèse, 11 | B-1000 Bruxelles  
Phone +32 2 211 11 11 | Fax +32 2 211 11 99  
info@savings-banks.com | www.savings-banks.com

## 5 October 2011 ESBG retail banking conference: Savings and Retail Banking in 2020

Since its inception in 2005, the ESBG retail banking conference has established itself as an indispensable and internationally recognised forum that takes the pulse of the retail banking sector. It offers unparalleled networking activities, as speakers, panellists and all attendees can meet before and after sessions, during breaks and over lunch. Don't miss this once a year opportunity! See back cover for registration details.



**CHRIS DE NOOSE**  
WSBI - ESBG MANAGING DIRECTOR

SEPA could create a Europe-wide area for payments, but cash money, which is extremely expensive to process and maintain owing to security and handling costs, will still be used in the EU, so SEPA alone won't make Europe more competitive. There must also be incentive to pay electronically – doing so has to cost less than paying in cash – and additional innovations will be necessary to reduce cash money in the system and thus cut costs. SEPA will rightly benefit consumers and should also benefit banks, as the latter will bear SEPA's costs and are dependent on payments for nearly a third of their profits.

Finally, while the 21st century game has indeed only just begun, the rules are already changing. By the end of our current decade, today's regulatory proposals – in whatever form their final versions take – will be regulatory facts. The Basel III regulatory framework will shape the banking sector for years to come. But exactly how will Basel III shape it? Will it steady or strangle it? In general, ESBG supports Basel III and its goal to increase the stability and resiliency of the banking sector worldwide, and therefore calls for its global implementation. However, steps must be taken to ensure that implementing Basel III doesn't cause collateral damage to stable and sound banking structures. Such unintended consequences could prove counterproductive and even undermine – rather than enhance – overall financial stability. In short, inattentive transposition risks throwing out the baby with the bathwater.

Indeed, keep in mind that Basel III was developed for large, internationally active banks, while its transposition will apply to all EU credit institutions: large and small, international and regional, retail and universal banking models with different ownership and organisational structures. In addition, unlike other economies, such as that of the U.S., the EU's real economy is financed largely by the banking sector, whose smaller, retail banking institutions are important lenders to households and SMEs at the local and regional levels. These factors must be taken into account in EU discussions on Basel III's capital definition, capital buffers, liquidity requirements and leverage ratio. ESBG fears that Basel III doesn't account for the specificities and diversity of the European banking sector and will stifle SME lending. ESBG is also apprehensive about the two quantitative liquidity ratios that will be added to the stricter capital definitions and higher capital ratios.

Our industry is entering a critical stage, a kind of post-crisis reckoning. Through global boom, bust and recovery, the retail banking sector proved in turns dynamic, stalwart and resilient. We're still here, still strong, but we need to make sure we always will be, ready to serve individual customers, small businesses and the real economy, all of which are evolving. So must we.

Chris De Noose  
WSBI - ESBG Managing Director

### Correction

In its May issue, *News & Views* misidentified the keynote speaker in "Microcredit: A savings bank tradition" (p. 19) as Jean-Louis De Brouwer, Director of Europe 2020: Employment Policies, DG Employment, Social Affairs and Inclusion, European Commission. The speaker was in fact Raymond Maes, Acting Head of Unit, "Youth Employment, Entrepreneurship, Microfinance Facility", DG Employment, Social Affairs and Inclusion, European Commission. *News & Views* regrets the error.

# Regulatory belt tightens around 8,200 EU banks as EC moves to implement Basel III framework



Laura Whiskerd

On 20 July the European Commission, in adherence to its G20 commitments, adopted two legislative proposals – one for a Regulation and one for a Directive – which will transpose the Basel III framework into EU law. These new proposals will amend the current Capital Requirements Directive (CRD) to increase the quality of capital, strengthen risk coverage, mitigate pro-cyclicality and beef up liquidity requirements for the European banking sector.

The European Commission has vowed to implement the Basel III framework in a way which ensures that it is applicable to all credit institutions within the EU (approximately 8,200 banks). Whilst ESBG appreciates the efforts of the European Commission to play its part in ensuring the global resiliency of the banking sector, fears still remain that this “one size fits all” approach towards implementation will engender severely detrimental consequences for specific business structures operating in the EU, such as those of savings and regionally oriented retail banks, which proved their resiliency during the crisis.

In this context it should also not be forgotten that the Basel III framework is an international one and that the other G20 countries have expressed their commitment to implementing it. However, whilst the EU prides itself on being the first jurisdiction to adhere to this new framework, uncertainty surrounding the implementation efforts in other prominent countries, such as the United States, risks harming efforts to create a global regulatory level playing field. Thus, moving forward, “caution as opposed to pride” would be a more advisable approach for the EU to adopt.

## So what fears remain? Where do the problems with these ambitious legislative proposals lie?

First and foremost, there is grave concern that the European Commission’s decision to include the majority of its proposals in the form of a Regulation will not be without negative consequences. ESBG continues to urge that this Regulation, which will automatically be directly applicable to all credit institutions in the EU, takes all relevant national specificities into account.

A lack of consideration for such specificities could result in irreparable damage to numerous ESBG members, particularly regarding their ability to adhere to the new and more stringent capital requirements – their access to capital and their funding will require

fundamental adaptations, which risk making it far more difficult to pursue their original activity of financing the economy.

In addition, there is profound concern that unless certain specificities are provided for, lending to small and medium-sized enterprises (SMEs) – one of the core activities of ESBG’s members – will be severely impacted. ESBG must therefore make every effort to ensure that this does not become a reality.

Furthermore, with regard to the new liquidity requirements which foresee the introduction of a Liquidity Coverage Ratio (LCR) and, later, a Net Stable Funding Ratio (NSFR), ESBG urges the European Commission to fully utilise the observation periods allocated by the Basel Committee concerning these measures. This is of particular importance given the unprecedented and unexplored nature of these new requirements.

## What actions are therefore being undertaken by ESBG?

With a view to addressing these concerns, ESBG is already working hard on an upcoming lobbying strategy regarding the review of the CRD. A detailed action plan, which will be used to target the European Parliament and the Polish (current) and Danish (start of 2012) Presidencies has been developed, outlining the core overarching messages which ESBG wishes to address, as well as more detailed and specific issues, which also include proposals to amend the current text.

Furthermore, in order to assist its lobbying efforts towards the Parliament, ESBG organised (in conjunction with the European Association of Craft, Small and Medium-sized Enterprises (UEAPME)) an event in the Parliament on 30 August. This event is geared towards briefing the assistants of MEPs on the most important



# EBA's new, powerful legal tools: greater collaboration required

aspects of the Commission's CRD Review proposals and their ultimate impact on retail banking and lending to SMEs. The aim is to ensure that the assistants will be more knowledgeable as to the content and impact of ESBG's proposals when they are communicated to them later on in the lobbying process.

ESBG remains confident and hopeful that the finalised legislation, a result of the co-decision process, will be amended so as to take the aforementioned concerns into account.

Furthermore, it is important to note that given the wider concerns surrounding the implementation of Basel III in a global context, ESBG's sister organisation, WSBI (World Savings Banks Institute), is also monitoring the different stages of implementation of both Basel II and ultimately Basel III in other G20 countries.

## Indispensable to the real economy

Overall, it is incumbent upon ESBG to urge that the implementation of a framework such as Basel III, which is clearly designed for large and internationally active banks but which will be applied to all banks in Europe, causes as little harm as is possible.

It is vital that the long-standing tradition of the retail and savings banks sector in the EU, which has always engendered diversity in membership and proximity to the real economy, is upheld, not simply in principle, but also in reality.

### CONTACT

Laura.Whiskerd@savings-banks.com

Since 1 January, the banking industry has experienced a significant change in its regulatory landscape, particularly owing to the creation of the European Banking Authority (EBA).

Established by Regulation (EU) no. 1093/2010 of 24 November 2010, the EBA assumes all of the tasks and competencies of its predecessor, CEBS (Committee of European Banking Supervisors, created in November 2003 and to be dissolved in 2011), as well as additional tasks. The EBA is based in London and accountable to the European Parliament and the Council.

Unlike CEBS, which was an organisation driven by member states, the EBA is a "hub and spokes" model and part of the new European System for Financial Supervision (ESFS), which is an integrated network of national and EU supervisory authorities.

The EBA's general mission at the European and national levels is to ensure day-to-day supervision within national authorities, improve functioning of the internal market, ensure effective and consistent regulation and supervision, guarantee a level playing field, and protect the stability of financial markets.

More precisely, its main tasks are to develop binding technical standards, guidelines and recommendations; promote a common supervisory culture via common supervisory practices; conduct peer group analyses and peer reviews; monitor the effectiveness of colleges; conduct EU-wide risk assessments and stress tests; build risk dashboards (via a system of key risk indicators, in cooperation with the European Systemic Risk Board, or ESRB); react to risk warnings; and handle emergency situations (via a crisis management framework).

Specifically regarding its regulatory tasks,

the EBA issues, as CEBS did, implementing legislation (when some detailed provisions are necessary to properly implement new legislation) and guidelines and recommendations.



Caroline Gourisse

These tools are not legally binding, though the competent authorities and institutions must do their best to comply with them (for the guidelines in particular, a "comply or explain" principle is foreseen).

Henceforth, the EBA could also develop draft binding regulatory technical standards which, once endorsed by the European Commission, must be implemented by national authorities within six months. Although these standards are technical and do not imply strategic decisions or policy choices, they assign the role of lawmaker to both the EBA and the Commission. Indeed, via powers delegated by the Parliament and the Council, it is the Commission that adopts regulatory technical standards. Drafting these standards is entrusted to the EBA, which sends them to the Commission for endorsement. However, the Commission cannot ignore the EBA's draft proposals if it decides not to endorse the standard or to endorse it only in part or with amendments: the Commission has to state the reasons why it proposes changes to the EBA's draft regulatory technical standard; the Commission cannot change the content of a draft regulatory technical standard prepared by the EBA without prior coordination with the EBA; and it is the EBA itself which reformulates the draft on the basis of the Commission's proposed amendments and resubmits it in the form of a formal opinion to the Commission.

Moreover, in cases where it is the Commission that submits a draft regulatory techni-

cal standard (because the EBA did not manage to do it in time), the EBA will have the opportunity to propose amendments.

The EBA's crucial role in the law-making process demonstrates how those who drafted the Regulation that established the Authority intended stakeholders to be consulted throughout the process. Indeed, in the drafting of regulatory technical standards (by either the European Commission or the EBA), open public consultations have to be conducted and the potential related costs and benefits analysed. The opinion or advice of the Banking Stakeholder Group (BSG) is also requested. The BSG was created to consult interested parties on regulatory or implementing technical standards, guidelines, and recommendations and provide them with a reasonable opportunity to comment on proposed measures. The BSG should represent, in a balanced way, EU credit and investment institutions and the diverse models and sizes of financial institutions and businesses, including, as appropriate, institutional investors and other financial institutions which themselves use financial services, and small and medium-sized enterprises, trade unions, academics, consumers and other retail users of banking services.

Another reason why it is so relevant for stakeholders and the banking industry to be closely associated with the EBA's regulation process is the fact that the EBA itself is in charge of adopting an individual decision addressed to a financial institution that does not apply the acts adopted by the Commission (including regulatory technical standards) or that has applied them in a way that appears to be in breach of EU law. Of course, this individual decision will follow a recommendation to the competent author-

ity and, if the competent authority does not comply with the decision, also a formal opinion from the Commission (taking into account EBA's recommendation). An individual decision will be taken only when it is necessary to remedy non-compliance in a timely manner, in order to maintain or restore neutral conditions of market competition or ensure the financial system's orderly functioning and integrity.

But the first step has been taken: the EBA became a regulator and any breach will be severely punished.

The processes of "regulation" and of "sanctions" demonstrate the importance to the banking industry of being closely associated with the EBA's activities, particularly with regard to the use of its new legal tools, i.e. binding regulatory technical standards. It is interesting to note that, in the legislative texts adopted by the Commission on 20 July concerning the review of the Capital Requirements Directive (a proposal for both a Regulation and a Directive), the EBA is requested to provide 50 regulatory and implementing standards. The drafting of these texts, which will play a fundamental role in the future structure of the European banking industry, requires the EBA to adequately associate the banking industry with the law-making process. Otherwise, the outcome of this process risks being counterproductive for the economy as a whole.

#### CONTACT

Caroline.Gourisse@savings-banks.com

“ The first step has been taken: the EBA has become a regulator and any breach will be severely punished.

# Coming soon: The Potemkin Regulation



Norbert Bielefeld

When Catherine II of Russia visited Ukraine in 1787 she thought that the sight of many new, flourishing villages was evidence of the diligent work of her minister Prince Potemkin. The latter had actually erected cardboard houses in advance of his Empress's visit in order to conceal that he had put the money intended for the development of Ukraine to other uses. Since then, attempts to mask or distract attention from a potentially embarrassing situation have become known as "Potemkin villages".

For more reasons than one, this epithet would also suit the coming SEPA migration Regulation. For several years now European policymakers and legislators have been promising to set an end date for the existing, national euro credit transfer and direct schemes – in order to facilitate the adoption of pan-European ones – and kick-start their grand vision of an internal market for payments, a.k.a. SEPA. This legislative intent was widely supported by the European banking industry, which realised that mostly because of the prevailing competition legislation it did not have any chance to migrate the demand side (consumers, retailers, corporations, governments) from the "old" to the new schemes.

After years of consulting with market participants, the European Commission finally issued its Proposal for a Regulation in December 2010. The text of the Proposal has by now been reviewed by the member states in the European Council, and a version approved by the European Parliament at Committee level, paving the way for a September Parliament plenary adoption and probably publication of a text close to the original Proposal in the Official Journal in the first quarter of 2012.

This new Regulation will notably provide for the discontinuation of existing, national credit transfer and direct debit schemes in euro by, respectively, end-February 2013 and end-February 2014. All payment service providers that currently accept national credit transfers and direct debits will be compelled to accept pan-European ones from these dates. Both creditors and debtors then must accept such transactions sent to or received from a payment service provider located in another SEPA country. The Regulation goes further than the Payment Services Directive in specifying payment service user, notably consumer, rights. The Regulation also defines the standards to be used for executing pan-European credit transfer and direct debit transactions, and several other key features of the corresponding schemes. The European Commis-

sion has been granted powers to further develop these standards and features in the future. Finally, the Regulation bans interchange for "regular" cross-border direct debit transactions beginning 1 November 2012, and for same country transactions beginning 1 February 2018 – cross-border and same country being defined (consistently with Regulation 924/2009) from the perspective of the location of the payment service providers, not of the payment service users.

Clearly, this Regulation is light-years away from the original intent to assist the migration from existing national payment schemes to pan-European ones. The Regulation also turns its back on the premise that SEPA would be built upon free market economy principles in the context of the European social model, as per the implicit agreement between the banking industry and European policymakers. Instead, both governments and elected European legislators accept that key features of the core credit transfer and direct debit products will be cast in law, and further developed only by law, which spells the end of "self-regulation" (sometimes also termed "co-regulation") as pursued by the banking industry since 2002. Both governments and elected European legislators also accept the disruption of the successful "creditor pays" business model for direct debits and show no concern for ripple effects on consumer pricing and innovation – probably with the confidence that further legislation will redress any undesirable spillover, at least from their point of view. Finally, they admit that SEPA must be financed by the supply side, with the demand side protected by pricing regulation from any visible consequence.

The original intent behind SEPA was to promote market integration, competition and innovation. The SEPA migration Regulation will in effect freeze national pricing structures, create barriers for potential new market participants, and disincentivise innovators. Yet the Regulation will provide the European policymaker with an imposing façade, much like those erected by Prince Potemkin.

#### CONTACT

Norbert.Bielefeld@savings-banks.com

# Mobile phones and fewer branches: The way to bank?

In the May issue of *News & Views* we made the point that Europe is not left in the dust when it comes to developments in mobile payments. What about the low-income countries of the developing world?

In the developed world non-cash-based payment instruments are already well established (even though they do not yet account for the majority of payment transactions by volume). For example, there are 189 non-cash payment transactions per capita per year in the European Union, and 376 such transactions in the United States. This means that new payment instruments, or new ways of using existing payment instruments, can only be introduced successfully if they provide for significant progress in convenience or lower costs, or both. Of course, the legislator could always substitute market interaction with regulatory fiat – yet we will not consider that this should be the norm anywhere when it comes to promoting innovation. As there are, for example, more payment cards issued in both the United States and Europe than there are mobile phones in use, adoption of the latter as a payment channel is following a very slow, long take-up curve.

By contrast, in developing countries, and in particular low-income countries, there is virtually no legacy in terms of non-cash payment instruments. Official payment statistics reveal that even averaging one or two non-cash payments per capita per year would be an achievement for a number of countries. In the absence of any competition from existing habits (except, of course, cash and barter) and, more generally, of monetisation for many parts of the economy, nothing should stand in the way of rapid adoption of the mobile phone first as the channel for making and receiving payments, and shortly thereafter as the perfect substitute for physical bank branches.

With the penetration of mobile phones almost reaching saturation levels worldwide, this logical expectation has as yet gone unfulfilled. Apart from two countries, Kenya and the Philippines, mobile phone banking is still in its infancy. Did these two countries uncover a secret formula to achieve mobile payment and banking success? Or is either just an extraordinary conjunction in a given place, at a given time, of pre-conditions which – even if they were replicated elsewhere – would not produce the same results?

Clearly, success with mobile payment and banking is – as with any market development – a

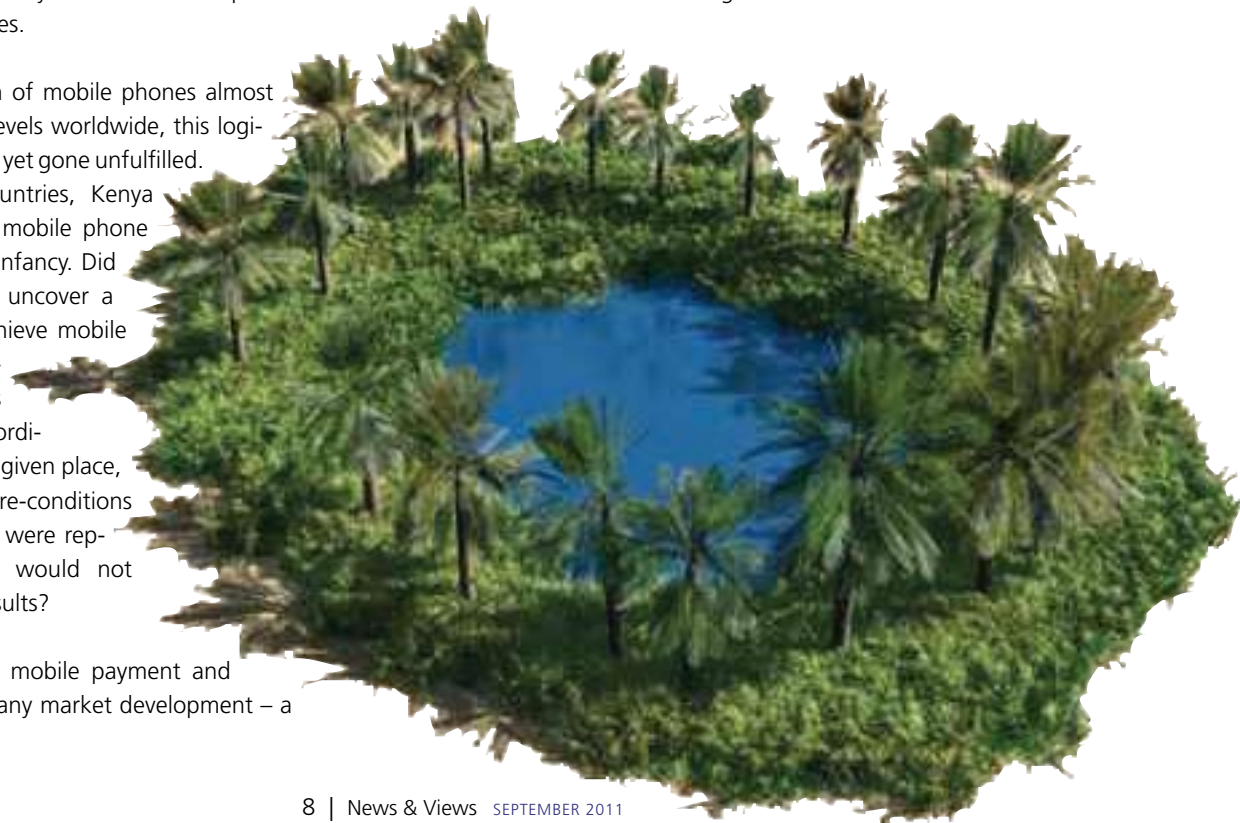
matter of incentives: incentives (or the absence of disincentives) for the supply side (handset manufacturers, mobile network operators, financial institutions, payment systems, and any combination thereof), and incentives for the demand side (which can be a particularly challenging area when there is an asymmetry in benefits, e.g. when retailers or, generally, merchants benefit more than consumers). Where the supply is limited to a single or dominant supplier, it is relatively easy for that supplier to organise and manage the incentives for the demand side, in particular if at the same time the regulator is comfortable with that single supplier and does not constrain incentives by legislation.

Such a situation, however, remains the exception: it may account for one or both of the two successes above but, beyond these, mobile banking deployments average only 100,000 subscribers and these subscribers average only one transaction per year. This will not remain so forever, but cooperation on the supply side is required, incentives must be distributed to several types of suppliers, and the demand side must be included and consumer protection accounted for. This is why the migration from cash to mobile transactions will take time, will not be a straightforward process, and will not result in exclusive use of the mobile phone.

The oasis may be in sight, but if it is to become more than a mirage, financial institutions will need to work with regulators and mobile network operators and other suppliers to define the applicable incentives to change the landscape of their own, local markets.

#### CONTACT

Norbert.Bielefeld@savings-banks.com



# Commission demonstrates wisdom on IASB governance and strategy review



Raphaël Delli

ESBG has stated repeatedly that accounting standards should reflect the underlying economic situation, and that the business model of savings and retail banks could be profoundly damaged if the upcoming new International Financial Reporting Standard for financial instruments, IFRS 9, demands more fair value at the expense of amortised cost. Logically, retail loans, since they are kept on bank balance sheets and held to maturity, should be measured at amortised cost.

While the International Accounting Standards Board (IASB) is focused on achieving a single set of world accounting standards, the complexity of their interpretation should not be underestimated. Indeed, examples appear necessary. Unfortunately, and to the chagrin of retail and savings banks, some examples can trigger unintended consequences. Two examples in the only finalised part of IFRS 9 – a part drafted without following the internal due process of the IASB – illustrate this point all too clearly. In one example (IFRS 9 paragraph B4.13), a variable rate instrument with an interest rate term that differs from the reset frequency is considered as having to be measured at fair value in its entirety. In the other example (paragraph B4.16), an instrument that limits the creditor's claim to the debtor's specified assets or the cash flows from specified assets is excluded from amortised cost measurement.

How these examples were drafted will most likely change the accounting of some classic retail loan products: they will be fair valued, triggering dramatic consequences for ESBG members. First, it will impose tremendous costs in terms of IT and valuation models, which have to be updated regularly. Second, the resulting significant increase in volatility will render the balance sheets of ESBG members more difficult to understand; such volatility could create issues with supervisory authorities and financial analysts and impact the member business model. Third, it will cause competitive distortions: banks using an "originate and distribute" model have a business model designed specifically for fair value measurement, but ESBG members will keep these loans on their balance sheets and will have to address the issues associated with an excessive use of fair value measurement.

In order to address this situation ESBG first met with the European Financial Reporting Group (EFRAG) and was discouraged from requesting an interpretation from the IFRS Interpretations Committee. The best option appeared to be a direct meeting with the IASB, which took place 13 December 2010. ESBG described the critical loan products at stake and performed a simulation to demonstrate the dramatic impact that these examples will have. The

IASB understood our points, considered that having these loans at fair value would be incoherent with the business model of savings and retail banks, acknowledged that these examples have never been open for comment and informed us that this increase in fair value is an unintended consequence. In fact, the IASB's original intention had been to tackle some structured products of investment banks. Unfortunately, while the IASB seemed keen to address this issue, no action has been taken since and, worse, the issue appeared to have been delegated in part to audit firms.

Today, these two examples are a significant source of trouble for ESBG members. Transition costs to IFRS 9 could be dramatically reduced if the IASB officially informed ESBG how to remedy this situation. Unfortunately, it seems that the IASB has other priorities, such as convergence with US GAAPs. While ESBG is focused on serving the interests of its members, the Commission is focused on making sure the IASB understands and takes into account the needs of all European stakeholders. Thus the Commission responded to two relevant consultations in 2011: the first concerned the IFRS Foundation's "Trustees' Strategy Review" and the second the "Governance of the IFRS Foundation".

These consultations made it clear to ESBG members that our issue with the interpretation of IFRS 9 shows the Commission is right on two fronts. First, in its comments on the Trustees' Strategy Review, the Commission is right to ask for strict due process, impact assessments and the introduction of ex-ante discussions on new accounting rules. Second, in its comments on Governance of the IFRS Foundation, it is right to ensure that the IASB strikes a balance, both geographically and professionally, by accounting for the needs of all interested parties (users, preparers, auditors, regulators). This will prevent similar issues from occurring elsewhere, as in reality these and all related issues are interconnected. In the end, investors will be misled by bad accounting rules.

In addition, these examples underline the Commission's long-held position: convergence is important but should neither be achieved at the expense of the quality of the rules nor become a "never ending process". ESBG strongly supports the Commission's position. In addition, it feels ex-ante assessments are indeed important, but accounting standards, when finalised, should leave no room for uncertainty. If the IFRS is to be the single set of accounting standards worldwide, it should be clear enough to be interpreted in an identical way throughout the world.

## CONTACT

Raphael.Delli@savings-banks.com

# The Digital Agenda for Europe: Will it boost payments innovation?



Julie Van Buylaere

As part of the Europe 2020 strategy for growth, the European Commission in 2010 adopted the Digital Agenda as a high political priority to ensure long-term digital success for Europe.

Information and communication technologies drive wealth creation, contributing to half of Europe's productivity. Commissioner Neelie Kroes (head of the new Directorate General charged with meeting this new political priority) summarises the Agenda's objective with the slogan "Every European Digital".

Most of the Agenda's seven focus areas should be of interest to the payments industry. First, the creation of a digital single market is expected to significantly increase the frequency of intra-EU, cross-border online purchases (compared with today, when on average only one out of eight Europeans buys online in another member state). This should be supported by greater focus on ICT standards and interoperability, contributing to greater harmonisation and fostering competition. Deliverables of the focus on trust and security (e.g. e-identity and e-signature) will have to be transposed into future payment solutions. In parallel, the Commission action plan for Critical Information Infrastructure Protection should reinforce cyber-security (e.g. with a possible Directive on Attacks against Information Systems in 2012). Also, improving digital skills and promoting accessible online services should prompt the one-third of Europeans who have never done so to use the internet for banking and payments.

A directly relevant focus is the necessity to alleviate still existing boundaries for electronic payments and e-invoicing. The (already passed) e-money Directive should motivate new market entrants to propose innovative solutions. Finally, SEPA's rapid completion is called for.

The Digital Agenda is a framework to nudge governments and the supply and demand sides into action, and where necessary adjust or complement legislation. Whilst the ambition of the Digital Agenda is clear, and should be widely supported, achieving its goals by 2020 remains contingent on sustained coherence in the actions of policymakers and legislators. A key lesson from the SEPA project so far is certainly that such coherence should never be assumed. Thus it is crucial for policymakers to acknowledge that completing the Digital Agenda requires investment

which will need to be recouped. One example is payment security, a concern for almost 35% of Europeans. Remedies should positively impact the use of e-commerce, but they have to be agreed to first (which means that supply side collaboration must be permitted, at least in this respect) and implemented, in a competitive market with scale effects in order to maximise social welfare.

Indeed, the Digital Agenda's implementation will be a test for European policymakers. Will they be able

to focus on providing guidance, removing hurdles, and motivating both the supply and demand sides of the market, rather than piling up constraints for one side only? Their success will be measured by how much innovation – including payments innovation – Europe sees in the coming decade.

#### CONTACT

Julie.VanBuylaere@savings-banks.com



# EMIR: Miracle or mirage?



Remy Moura

Summer, when the legislative process takes a break, is almost gone. For the banking sector, one of the hottest irons in the fire that's been cooling off this summer is the proposal "OTC derivatives, central counterparties and trade repositories", a.k.a. "European Market Infrastructure Regulation", a.k.a. "EMIR".

At the end of September 2009, member state leaders decided to go all-in on new binding rules for the financial sector, which were alleged to prevent any future disasters. Financial regulation being an exclusive competence of the EU, it was up to the European Commission to take the reins. On 15 September 2010, the Commission came up with a "Regulation on OTC derivatives, central counterparties and trade repositories".

The point of the regulation is to target trades on derivatives that are performed outside of exchanges (OTC, for over-the-counter). The proposal's most important set of provisions: When a derivative is traded OTC, there is an obligation to clear standardised derivatives through a central counterparty (CCP) and all OTC derivative trades in the EU will have to be reported to trade repositories.

A CCP is an entity that interposes itself between the two counterparties to a transaction and thus becomes the "buyer to every seller" and the "seller to every buyer". In doing so, risk isn't eliminated, but transformed, that is to say, concentrated into the CCP. This is why the European Commission combined this obligation with rules on prudential and conduct of business standards for CCPs.

Another trait that the European Commission wants to address is the inherent opacity of this market, by requiring that detailed information on OTC derivatives contracts are reported to trade repositories (entities that centrally collect market data), made accessible to supervisory authorities, and, once aggregated, published for market participants.

The ECON Committee of the European Parliament voted on almost 1,000 amendments to the Commission proposal on 24 May 2011. This was a clear signal to the member states that their proposal on OTC derivatives was considered with a very critical eye.

For ESBG members, the EMIR proposal is mainly important insofar as intra-group transactions are concerned. While the European

Parliament was reluctant to exempt from clearing obligations banks performing intra-group transactions, some member states heard the warning of retail-oriented banks, and a Presidency compromise was struck in favour of safeguarding them from this harmful regulation.

Confident in its judgement, the ECON Committee sought full European Parliament support. Thus the draft text was presented to fellow MEPs for a 5 July plenary session vote. It was adopted, but the European democratic assembly could not seal the first round of negotiations and postponed the formal adoption of the text to an unspecified date, giving informal contacts between the Commission, Parliament and Council (the so-called dialogues) a chance to reach an agreement.

Time is running out before the deadline of the G20 agreement, especially since the other-side-of-the-pond equivalent, the US Dodd-Frank Act, has already passed through the democratic process, spawning the fear of a problem of equivalence between the two provisions.

A critical phase awaits this September: the European Parliament and the Council will have to reach an agreement, no matter what, even if it should lead to a Pyrrhic victory.

## CONTACT

Remy.Moura@savings-banks.com

# Securitisation: Not such a bad word when you think remittances

For many years – with Israel pioneering the technique in 1951 – a number of countries have diversified their financing sources through recourse to diaspora bonds, a process through which bonds are sold not to institutional investors, but to diasporas in their adopted developed countries. The World Bank believes that regardless of current developments on the capital markets, many countries could do the same. To be successful, however, diaspora bonds may require both credit enhancements, if the country of the borrower is below investment grade, and investor protection, in order to address concerns that funds borrowed are indeed used in a “wise” manner by the borrowing country or institution.

Diaspora bonds are considered attractive because they can represent a stable source of funding over time and because many diasporas will accept – because of their continued links with their country of origin – to be reimbursed in local currency, which is a great incentive. A limiting factor at times, however, can be that the body issuing such bonds may be required by legislation of the place of issuance to register with authorities (e.g. the Securities Exchange Commission in the United States).

The potential is significant. Savings of diasporas are estimated by the World Bank to reach \$400 billion, which represents 2.4% of world GDP; however, they account for 9% of GDP of low-income countries. Hence, there is great potential for issuing such bonds, but the challenge could be to persuade diasporas to invest in high priority areas such as education.

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Credit enhancements, where required, could be provided through guarantees from multilateral or bilateral agencies, which could include partial local currency-denominated guarantees from the IFC (International Finance Corporation, an arm of the World Bank). The securitisation of remittances receivables could also contribute to credit enhancement, but the onus in developing countries will be on banks.

Fedecredito, a WSBI member in El Salvador, provides an example of a worker remittances-based securitisation transaction completed some 18 months ago through the IFC. For this transaction, completed in the middle of the financial crisis, the IFC is the sole investor, but Fedecredito is empowered to reuse the investment platform with other investors in the future, and two or three have already signalled their interest to Fedecredito. The transaction relies on the notion that an intermediary has temporary ownership of the funds, i.e. it separates the flow (right to receive) from the obligation to pay (the transaction has been called “diversified payment rights-secured financing”). Such a structure is admittedly easier to achieve under civil law than under common law.

In this example, the advantages for the investor are hard currency revenues backing a hard currency investment, revenues never entering (due to the construction of the investment vehicle) a developing market environment, and a high level of collateralisation, with the loan representing 10% of the collateralised flows.

Recourse to diaspora bond financing, with credit enhancement through remittance collateralisation, should be explored by more developing countries – where huge requirements persist for the development of the payment system and banking infrastructure – and their financial institutions, in particular to facilitate financial inclusion.

#### CONTACT

Norbert.Bielefeld@savings-banks.com

# Systematically settling European securities in central bank money

Once it goes into effect, the TARGET<sup>1</sup> 2 Securities Programme, commonly known as T2S, will provide a consolidated platform for the settlement of securities against central bank money across Europe. This new platform, to be developed and operated by the Eurosystem, bridges the gap between domestic and cross-border settlement created by fragmented, proprietary systems in each country and non-standardised procedures. The T2S single IT platform will accommodate both the participating entity's securities accounts held at a Central Securities Depository<sup>2</sup> (CSD) and its central bank cash accounts or other, non-euro central bank accounts, which are linked to its main cash account in TARGET 2 (the Euro's real time gross settlement system).<sup>3</sup> All transfers will be performed on a real-time basis, making cross-border settlement identical to domestic settlement.

The focus is on creating synergies through technical harmonisation and lowering systemic risk in the securities market, both of which lead to cost savings. The system also delivers an important symbolic message, as it will be the single European settlement interface with the market. At the same time, it goes a step further toward fulfilling the Lisbon Agenda, by increasing competition between providers of post-trade services and providing participating entities with more options when choosing one.

Before the platform's scheduled 2014 launch, the T2S Programme has important pending milestones to achieve, including finalising the Framework Agreement between the Eurosystem and participating CSDs and submitting it to the Eurosystem's Governing Council in October. The Eurosystem's consultation with the future users of T2S – financial institutions to whom CSDs provide settlement and other services – is ongoing. Future users of all sizes have expressed to the Eurosystem their desire to be appropriately involved in shaping the Framework Agreement.

Although users are not a contracting party to the Framework but rather are or will be contracted with one or more CSDs, the Framework creates a contractual hierarchy that will affect all direct and indirect T2S participants. Users' insistence to be involved is all

the more legitimate given that T2S is a public initiative – even if it will be operated according to a strict cost recovery principle.

Users are also concerned about the role they will be allowed to play in the governance of T2S once the system is active. There is debate as to how much T2S users – as compared to CSDs – will be able to weigh in on the system's change management process for future releases. A further matter of discussion is whether "the reshaping of the CSDs' infrastructure" will generate costs for CSDs, and if so, who will bear these directly. CSDs have warned that the reshaping, which concerns their connection to T2S and the transfer to T2S of at least the settlement function, implies major investment in technical adaptations, which may have a negative impact on initial settlement prices. Users contend that joining T2S will benefit CSDs, which will be able to decommission their legacy systems and gain from reduced liquidity needs. Users point out that CSDs should be able to finance their investment over a seven-year period through their own savings, with no need to pass depreciation charges on to users on top of T2S running costs. CSDs consider that investment costs have to come on top, as they will not benefit from a cost-reduction once they are in the settlement system.

T2S pricing is another matter of debate, and an issue of public policy. Users are concerned that CSDs might not only pass on the costs charged by the Eurosystem for the settlement service, but also add a markup. In this respect, it is important that CSD pricing transparency and comparability can be achieved prior to the launch of T2S. As to T2S pricing itself, issues still to be debated are the principle that T2S should not be more expensive than the cheapest domestic system at functionality equivalence, the scaling of prices according to transaction volumes, and the prices for indirect participants.

Settling these issues by appropriately taking into account the views of future T2S users is crucial, as T2S will be a major step towards the creation of one globalised European financial market. The policy objectives of considerably decreasing systemic risk and cost of settlement should not be achieved at the expense of future T2S users.

1 *Trans-European Automated Real-Time Gross Settlement Express Transfer.*

2 *A CSD is an entity that 1) enables securities transactions to be processed and settled by book entry; 2) provides custodial services (e.g. the administration of corporate actions and redemptions); and 3) plays an active role in ensuring the integrity of securities issues. Securities can be held in a physical (but immobilised) form or in a dematerialised form (whereby they exist only as electronic records).*

3 [www.t2s.eu](http://www.t2s.eu).

#### CONTACT

Julie.VanBuylaere@savings-banks.com



# New anti-money laundering policy in sight



Laura Gutierrez

Anti-money laundering policy is currently high on the agenda of standard-setters and policymakers (see “WSBI welcomes guidelines...”, page 28). The Financial Action Task Force (FATF, the standard-setting body for combating money laundering and terrorist financing) is currently reviewing its standards, the “40+9 Recommendations” on money laundering and terrorist financing, while the European Commission is undertaking a review of the Third Anti-Money Laundering Directive (Directive 2005/60/EC).

Against this backdrop and with a close eye on the FATF review, the Commission is currently consulting stakeholders to gather evidence on how current legislation could be improved. It is likely that a number of changes of utmost importance for financial institutions will be introduced in the Fourth Anti-Money Laundering Directive. By way of example, the Commission is considering introducing more risk-based rules into the new Directive. ESGB welcomes a reinforcement of the Risk Based Approach (RBA), as it allows financial institutions to undertake a more targeted search for risky transactions and/or customers. In this context, the identification of Beneficial Owners (BO) – persons who enjoy the benefits of ownership even though title is in another name – remains one of the biggest challenges for financial institutions, especially in those cases where companies have complex multilayered struc-

tures. ESGB will continue to encourage the Commission to seek practical solutions for the identification of Beneficial Owners, bearing in mind that the current EU definition – individuals who hold more than a 25% ownership stake – is already helpful, as it provides a clear and appropriate picture concerning who controls a given company.

The Commission is also closely following FATF’s discussions cross-border wire transfers. The FATF is currently considering whether to establish an obligation to include additional information in wire transfers, such as full originator and beneficiary information. This would mean that financial institutions would have to verify the completeness of this information, and to screen it against sanctions lists. ESGB will continue to call attention to the implications that this could have for payments systems. Discussions also continue at EU level on defining the scope of the term “Politically Exposed Persons” (PEPs) – generally defined as persons exercising a prominent public function and their close family and associates – and on possible ways forward that could facilitate their identification.

ESGB will continue to give its views to the FATF and the Commission of pending anti-money laundering policy.

#### CONTACT

Laura.Gutierrez@savings-banks.com

# Financial regulation and inclusion main themes at WSBI General Assembly in Indonesia

At the WSBI General Assembly, organised in June in Indonesia at the invitation of WSBI member BTN, participants confirmed the strong influence Basel III and other regulations will have on their business models. This was also a central element of the welcome speech delivered by Halim Alamsyah, Deputy Governor of the Central Bank of Indonesia, and a theme discussed in one of the workshops organised the day after the General Assembly. All speakers at this workshop (Karl-Peter Schackmann-Fallis of the German Savings Banks Association, Sentot Sentausa of the Indonesian Banker Association, Stephen Mukweli of PostBank Uganda and moderator Chris De Noose, WSBI Managing Director) pointed to the need to implement a regulation that everybody considers necessary and useful with sufficient flexibility in time frame and scope. In this context, Mr De Noose called upon WSBI members to share their experiences and knowledge in the field of supervision and regulation, via the WSBI-ESBG Supervision and Capital Requirements Committee. In this way, international policymakers can be made aware of the specific requirements of retail banks.

A second focus during the meetings was the central role retail and savings banks can and should play in the promotion of financial inclusion. The financial crisis has shifted the focus from pure profit-making to the provision of stability, and financial inclusion is key to guaranteeing a more stable financial system.

Members took note of the status of the Doubling Savings Accounts Programme, which WSBI carries out in ten developing countries with funding from the Bill and Melinda Gates Foundation. This project can be seen as one of the practical applications of the various financial inclusion initiatives that WSBI has taken or participated in. Among the first lessons WSBI has learned from the programme are the importance of keeping products simple and affordable, and the essential role of training bank staff and agents. Ian Radcliffe, WSBI Director of Training and Consultancy, who moderated the workshop, also stressed the need to keep costs to a minimum and to push back against inappropriate regulation. Irman A. Zahiruddin, Managing Director of BTN Indonesia, presented one of the projects and also highlighted the crucial roles of market socialisation and staff training. Yoko Doi of the World Bank's Indonesian office presented the work of the World Bank in financial inclusion that, unlike the WSBI projects, mainly targets the demand side and reacted positively to the project that is being rolled out in Indonesia by BTN.

The workshop "Banking beyond branches – lessons from successful experiences", moderated by Tamara Cook of the Bill and Melinda Gates Foundation with Jorge Pedro de Lima Filho of Caixa Economica Federal (Brazil), Enrique Errazuriz of BancoEstado (Chile), Anand Raman of EKO India Financial Services Private Limited and Purnomo Wibowo of the Central Bank of Indonesia presented successful experiences that decongest the branches, improve the quality of service and bring financial services closer to the people. Banking is based on trust and all the panellists agreed that this is all the more true in branchless banking. In addition to much greater proximity, a much lower transaction cost is a big advantage of banking beyond branches solutions. Mr Wibowo, as representative of the regulator, underlined the accommodating role regulators should play. Their regulatory frameworks should allow the use of innovative technology and enable retailers to act as banking agents.

The WSBI General Assembly and the workshops were once again an excellent occasion to get up to date on core issues of our members' day-to-day business and to meet and interact with approximately 100 colleagues from 25 countries. It was also a striking illustration of the fact that retail banking is a universal activity: from Germany to Sudan, from El Salvador to Thailand, it is essential to the economy in which each and every one of our members operates.

Please pencil in the next big WSBI gathering: the 10-11 May 2012 WSBI World Congress in Morocco, whose central theme will be developing and proposing affordable and sustainable bank accounts as a way to draw as many people as possible into the financial system.

#### CONTACT

Dirk.Smet@savings-banks.com

The financial crisis has shifted the focus from pure profit-making to the provision of stability, and financial inclusion is key to guaranteeing a more stable financial system.

# WSBI helps OECD hone financial consumer protection and education principles



Anne-Françoise Lefèvre

The OECD is developing common principles on financial consumer protection and education. This is one of the follow-up measures to the G20 Action Plan on Strong, Sustainable and Balanced Growth, agreed on at the November 2010 Summit, and is a means to strengthen financial stability and financial inclusion through consumer empowerment.

In May and June, WSBI contributed to the consultation of selected parties on draft versions of the principles. WSBI basically supported the OECD approach, but called for some clarifications, in particular:

First, all consumers should benefit from the same level of security and protection, whatever institution they operate with (bank, non-bank financial provider, microfinance institution, financial cooperative, etc.), in order to foster broad public confidence and a level playing field for service providers. Whereas prudential requirements can differ according to the institutional status of the financial service provider, the same consumer protection standards should be applicable to all providers of a given financial service.

Second, it should be recognised that consumers have rights, but also responsibilities. Indeed, financial services providers have to pose the relevant questions to clients and ensure that the proposed products and services best suit their needs and means. However, it is the consumer's responsibility to provide relevant, complete and accurate information on their financial situation when they apply for a banking service and to take their personal and financial circumstances into account when making their decision.

Third, consumer protection measures should be given specific attention in countries where banking with formal institutions is still emerging. The targeted client groups, by definition, come from the most vulnerable and low-income segments of the population. This is a major challenge for the credibility and sustainability of the whole financial sector. If not properly addressed, any problem could lead to long-term mistrust in formal financial institutions and loss of confidence in the banking system altogether.

The G20 mandate also tasked the Financial Stability Board (FSB) with reporting on options to advance consumer finance protection in the field of credit products, with a focus on mortgages. FSB is looking at consumer issues in relation to financial stability (disclosure, responsible lending practices, product regulation, etc.).

The FSB and the OECD are working in close cooperation to streamline their work and present the final set of OECD Principles alongside the FSB Report to the G20 Finance Ministers & Central Bank Governors meeting this October. Further, endorsement is foreseen by the G20 Leaders during their summit in November.

The World Bank is also in the process of defining good practices for financial consumer protection. They are intended to provide practical, evidence-based methods of strengthening financial consumer protection and build on country-level diagnostic reviews of legal and regulatory frameworks conducted by the World Bank in several countries, especially in Europe and Central Asia. WSBI welcomed the World Bank's initiative in its response to the public consultation launched in March, but called for coordinated efforts between institutional organisations dealing with consumer protection issues, for a consistent and clear financial consumer policy global framework.

WSBI will pursue the dialogue with international policy bodies and help members assess how best to combine this consumer protection approach with their long-standing customer-friendly banking practices, to make sure that consumers are in a position to take informed decisions and to be treated fairly.

## CONTACT

Anne-Françoise.Lefevre@savings-banks.com

## Publication of an updated WSBI financial education report

WSBI members play a key role in educating people on finance and budget issues. They are motivated by the belief that these initiatives contribute to preventing social and economic exclusion and that citizens with better knowledge of financial issues are able to make informed choices. WSBI's updated financial education report presents good financial education practices from member banks in 21 countries. (See "What's new at WSBI" at [www.wsbi.org](http://www.wsbi.org).) It emphasises that building efficient financial capabilities requires combining financial education with access to relevant financial products. This is key to turning financially educated people into financially active citizens.

# Society's lobbyist

## An interview with Finance Watch Secretary General Thierry Philipponnat

Finance Watch ([www.finance-watch.org](http://www.finance-watch.org)) is a new Brussels-based non-governmental organisation whose mission is to ensure that the interests of society are better represented in arenas currently dominated by the financial industry and its lobby. Finance Watch believes:

- Finance has a strong public interest dimension.
- The purpose of finance is to serve the real economy.
- The transfer of credit risk to society at large is unacceptable.
- The only way for capital to fulfil a meaningful social role is to be allocated to productive use in a sustainable and transparent manner.



### How and why was Finance Watch born and what is it meant to do?

It all started in June 2010. As you know, the European Parliament has vast powers in terms of financial regulation. Last summer a group of 22 MEPs made it publicly known that they were getting inundated with calls from financial

industry representatives pleading for its interests, and the MEPs wanted to get the other side of the story, too, so they called on civil society to get itself organised in order to represent society's interests in the field of finance. The 22 MEPs were from five of the Parliament's seven political groups, so they represented a wide spectrum of views, and after the summer these 22 became 88, and then another 90 elected national officials joined the call.

So almost 200 elected officials, representing the entire political spectrum, called for the creation of a non-governmental organisation that could develop expertise on the financial market activity of banks, insurance companies, hedge funds – all the major players – in order to represent the interests of society. These 200 officials are not members of Finance Watch, we've cut the cord with them out of respect for any conflict of interest, but they organised the first meetings that made the call possible. And this call was given the name Finance Watch. It aims to end the imbalance between the financial industry's influence and the absence of NGO lobbying in the field of finance.

### How can that be achieved?

Two ways: by increasing both the quality of arguments and the quantity of players making them. To build high quality arguments, we must cultivate expertise by generating research and position papers with the highest level of professionalism and technical quality so that it gets a fair hearing. Once this research is produced, we have to get it out there via communication channels, the press, the media, and by lobbying elected officials, regulators, high-level civil servants who determine the law and regulation.

As for increasing the quantity of players, I'll give you an example. The rapporteur of the Alternative Investment Fund Managers Directive on hedge funds and private equity held 198 meetings with hedge fund managers and the like, and zero meetings with anybody representing alternative views. Mind you, this wasn't his fault, it's just the current nature of the game. With Finance Watch, it's now 198 to 1, but of course we want and need more. The imbalance between the finance industry's influence and society having a say is a democratic problem. Democracy is a game of checks and balances, but you have to enter the game to exercise those checks and balances. Finance Watch will produce expertise, arguments and technical reasoning for its members to develop and produce their own advocacy. Some call it "giving ammunition to our members".

### Who are your members?

We have two types of members: organisations and what we call "qualified members". Our 40 organisation members are typically already involved or interested in the financial regulation debate or their mission is linked, directly or indirectly, to issues related to financial regulation. Our 17 qualified members are individuals with specialist knowledge or experience in finance, financial issues, financial regulation, ethical or responsible finance, economic issues, social issues, advocacy issues or the governance and management of organisations. We welcome new members and encourage organisations or qualified persons to apply to become members of Finance Watch, which can be done by sending an e-mail to [membership@finance-watch.org](mailto:membership@finance-watch.org).

To avoid all possible conflicts of interest, organisations representing banking or financial industry interests and individuals working for the banking or financial industry, whether as employees or outside consultants, cannot become members of Finance Watch.



All applicants are vetted by our Committee of Transparency and Independence in order to ensure that they have the right qualifications and do not have a conflict of interest. Upon the recommendation of the Committee of Transparency and Independence, the Board of Directors makes the final decision.

### Can you explain your “Private interest dressed in public interest clothes” series of papers?

I think it's fine to say, “We do this because it's profitable”. But very often arguments are dressed up in what their arguers seem to believe are less unseemly terms. Private interests have a legitimate and useful role to play in society as long as they are pursued openly and honestly. If it makes money, tell me it makes money, that's fine. But when a private interest is dressed in public interest clothes, it distorts the debate. Be honest. That way the people in charge can make informed decisions. Populist arguments against banks are actually fed by this kind of “private interest dressed as public interest” argument, because people know intuitively that they are being fed false arguments. We need to rebalance the dialogue in order to address the real issues underneath the false or irrelevant arguments. The “Private interest dressed in public interest clothes” series of short position papers highlights situations where a private interest is disguised as a public interest argument. The first paper, which you can read for free on our website, deals with sovereign credit default swaps. We will also begin publishing reports after the summer and they, too, will be freely accessible on our website.

The combination of private interest dressed as public interest and incredibly technical, dry information put politicians to sleep before the crisis, and yet this boring detail had huge impact on society. Since the crisis, elected officials have realised how important those details are but there is still a need for someone to highlight how and why they are important for society at large. Hence the need for Finance Watch. This crisis was due not to a lack of regulation but a lack of proper regulation. The finance industry needs to make a profit and serve society, and regulation needs to help it do both.

### What is Finance Watch's view of Basel III and CRD4?

Around early October Finance Watch will publish a position paper on CRD4. We hear often the argument that the increased capital requirements will negatively impact the economy, but I'm convinced that it's either wrong or negligible. The main reason why many banks oppose higher capital requirements is that it will mechanically lower their return on equity, which bank managers don't like for understandable reasons. Basel II's minimum capital

was 2% of risk weighted assets, which translates into a leverage ratio of over 99% of total assets (under Basel II definitions, the average ratio of total assets to risk weighted assets was about 3). Basel III increases it from 2% to 4.5% of risk weighted assets, which, with a ratio of total assets to risk weighted assets now around 2.5 under Basel III definitions, means that banks will still be funding about 98% of their activity through debt. Finance Watch will show the true impact of this change of leverage on banks' cost of funding and on their ability to lend at the same price.

### How does Finance Watch perceive the retail banking sector relative to its own mission? Do you see ways Finance Watch and ESBG can cooperate?

Finance Watch is completely open to anyone including trade bodies. I'm absolutely convinced our view that finance has a public interest dimension is something that industry players would agree with. We should all have the same objective: a balanced way of organising the industry. Obviously, a financial services provider – which is, by the way, called a bank – needs to be efficient and profitable. We are not an anti-bank lobby. “Bank bashing” – that's a term and an attitude that you will never hear coming from Finance Watch. But talking together is indispensable. If we don't agree on a particular point, that doesn't mean we have to fight.

Clearly, one cannot look at a retail bank like one looks at, say, Goldman Sachs. In fact, there are two perceptions of finance: one is using it to help the real economy, the other is betting on anything that moves – to make money out of it. These are two completely different perceptions of finance. We feel finance is about serving society. Savings banks do exactly that. Finance Watch thinks retail banking is an essential function of banking and finance in general.

**W**hile appreciative of Mr Philipponnat's opinion, we at WSBI-ESBG believe that the CRD4's stringent capital requirements and unprecedented and unexplored liquidity ratios comprise a “one size fits all” regulatory approach to banks which in fact come in so many sizes that a single size cannot possibly fit them all. Designed specifically for the big banks that sparked the financial crisis, CRD4 will stifle lending to small and medium-sized enterprises – one of the core activities of savings and retail banks, which proved largely resilient throughout the crisis – and thus the real economy.



# Preparing for 2011 World Savings Day

What is seemingly a simple idea – setting aside sums in a savings account – actually has profound consequences for economic development and personal financial well-being. Savings guard against risks such as illness, unemployment, and other economic hardships and are crucial to the economy, as they enable banks to provide credit. While access to microcredit is important, recent research indicates access to general financial services, such as savings accounts, is also instrumental in alleviating poverty and stimulating economic growth.

Every year on 30 or 31 October (the date depends on national bank holidays) World Savings Day calls attention to the importance of savings for modern economies and individuals alike. WSBI established World Savings Day in 1924 to inform people all over the world about the advantages of saving their money in a bank rather than keeping it under their mattress. Today it's an annual tradition in several countries, a day to celebrate and campaign to encourage savings – and who better to spearhead the effort than

WSBI and ESG members? They are retail banks specialised in mobilising savings to grant credit to private customers, SMEs and local authorities. Over the years, they have acquired expertise and combined it with modern technology, allowing them to collect even small amounts of money and maintain it in an affordable savings account.

To emphasise the importance of savings to society, WSBI-ESBG has launched a website dedicated solely to World Savings Day (<http://www.wsbi.org/template/event.aspx?id=4488>), which will provide relevant information throughout the year. If you would like to contribute fresh ideas, exchange best practices, or share information concerning World Savings Day or related initiatives, please do not hesitate to send us your input. It will be considered for publication on the website.

#### CONTACT

Lee.Gillette@savings-banks.com

## Beyond our means: Why America spends while the world saves



To promote World Savings Day (30-31 October 2011), we asked Sheldon Garon, Nissan Professor of History and East Asian Studies at Princeton University, to provide an analysis of saving in America, based on his book *Beyond Our Means: Why America Spends While the World Saves*, to be published by Princeton University Press in November 2011. What can the rest of the world learn from the American experience?

If the recent financial crisis has taught us anything, it is that Americans save too little, spend too much, and borrow excessively. Millions today lack the savings to protect themselves against foreclosures, unemployment, medical emergencies, and impoverished retirements. How did Americans come to be such miserable savers? What might they learn from European and East Asian countries that boast much higher household saving rates?

My book *Beyond Our Means: Why America Spends While the World Saves* tells for the first time the global story of how nations aggressively encouraged their citizens to save over the past two centuries. They did so by means of special savings institutions and savings campaigns. The resulting cultures of thrift have proven remarkably enduring in several advanced economies. My book challenges mainstream economic analyses of saving. Economic theory has not persuasively explained why some nations save so much and others so little. American-trained economists tend to

believe that households save according to universally “rational” calculations. People supposedly save the most in their middle years as they plan for retirement, and save the least in welfare states. In reality, continental Europeans save at high rates despite generous welfare programmes and aging populations. Equally surprising, Americans save little, despite weaker social safety nets and a younger population. American economists and business writers seldom refer to high saving in Europe, perhaps because it so subverts their faith in the triumph of Americanisation in the Atlantic world. By highlighting the role of institutions and moral suasion in shaping habits of saving, I illuminate normative factors that economists have been loath to model.

*Beyond Our Means* offers a sweeping narrative that traces the evolution of savings-promotion on three continents. What brings together the high-saving societies of Europe and East Asia is not a common heritage, but a common modern history. Beginning



Sheldon Garon, Nissan Professor of History and East Asian Studies at Princeton University

around 1800, European reformers and governments became pre-occupied with creating prudent, self-reliant citizens. To encourage the “humble” folk to save, the proponents of thrift established philanthropic savings banks, postal savings systems and school savings banks. In the pantheon of virtues we term “Victorian”, thrift occupied an exalted station. Many of the world’s famous writers were unabashed champions of popular saving: Daniel Defoe, Charles Dickens, Diderot, Benjamin Franklin and Samuel Smiles, who wrote the international best sellers *Self-Help* and *Thrift*. After 1868, when modernising Japanese leaders set out to discover the sources of Western might, they too adopted – and sometimes improved – European institutions aimed at encouraging the regular saving of small amounts. Indeed, the Japanese postal savings system today constitutes the world’s largest bank.

By 1914, the great powers regarded thrift as not simply good for the soul, but as a matter of national survival. In the two world wars, the belligerents ran intrusive savings and economising campaigns. The promotion of saving increasingly relied on new techniques of mass propaganda. Everywhere, citizens encountered radio spots, movie trailers and evocative colour posters, which illustrate my book. Although the Second World War ended in 1945, savings campaigns did not. From London to Tokyo, campaigns exhorted people to “Keep on Saving”. Saving and investment, not spending, would be key to post-war recovery. Thereafter, enduring cultures of thrift – along with newer ideologies, notably environmentalism – continued to restrain the expansion of consumption and consumer credit. More recently, states in East and Southeast Asia emulated Japan’s successful developmental model, mobilising domestic savings to finance rapid economic growth.

*Beyond Our Means* is more than a comparative study of disparate national cases. I contribute to the emerging field of transnational history. Although Chinese, Japanese, Germans and French love to talk about thrift as part of their national character, nations do not save simply because of indigenous traditions. The similarities in savings institutions and campaigns across the globe resulted in large part from international exchanges of knowledge on how to organise prosperous, powerful and stable nations.

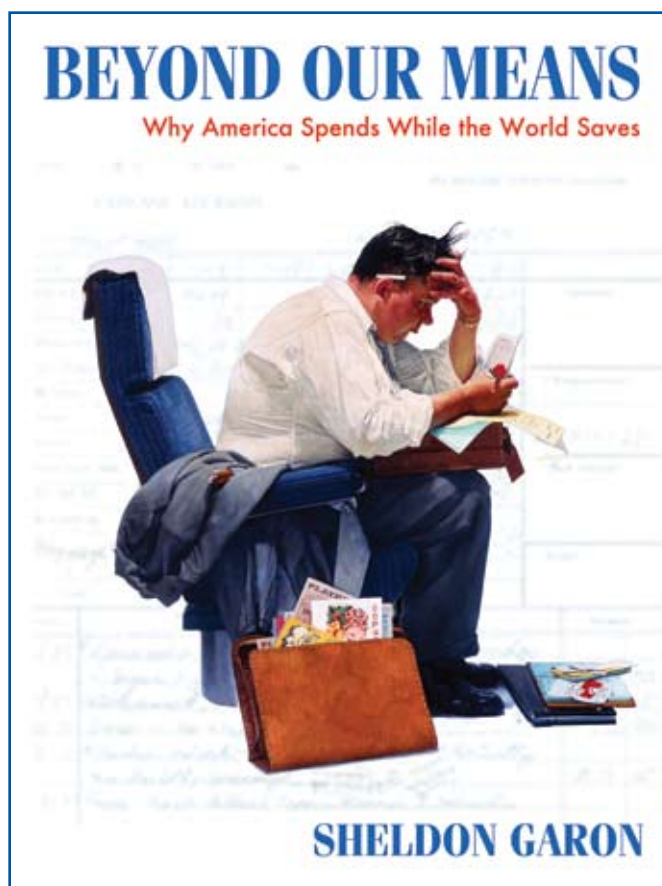
How does the United States fit into this global history of saving? Rather uncomfortably, I conclude. At times America (or at least parts of it) encouraged mass saving as much as Europe and Japan did. During the 20th century, English-style savings banks sprang up, followed by German-style building and loan associations. Yet these institutions remained confined to a few states in the North-east and Midwest and on the Pacific Coast. The vast majority of Americans in the southern and western states lacked access to any institution for savers of small sums. As late as 1910, less than 16% of the US population held a savings account in any type of commercial or savings bank. Likewise, European-inspired school savings banks thrived in some school districts, but failed to reach many American schoolchildren. Although most European nations and Japan introduced nationwide postal savings banks between the 1860s and 1880s, the US Congress did not enact postal savings legislation until 1910. Weakened by compromise, the postal savings system never attracted more than a tiny fraction of American savers, and in 1966 it was abolished. The majority of Americans became regular savers only after the federal government intervened decisively to promote saving in the 1930s and 1940s. Established in 1934, the Federal Deposit Insurance Corporation insured smaller deposits in banks. This was followed by government campaigns to market small-denomination US savings bonds during the Second World War. Federal guarantees made it safer and more convenient to save, and American depositors came to inhabit an environment attained by Europeans and Japanese decades earlier.

The book ends with America’s remarkable divergence after 1945 from patterns of savings-promotion in Europe and East Asia. The United States emerged from the war extraordinarily rich when other belligerents were forced to rebuild war-ravaged economies. Politicians, businessmen and labour leaders all encouraged Americans to spend to foster economic growth. An array of policies also stimulated the growth of home ownership and suburbanisation, which further increased consumer spending. Beginning in the 1980s, several developments combined to stop millions of Americans from saving altogether. Deregulation permitted the financial industry to offer massive amounts of credit on strikingly favourable terms – even to very low-income households and students. The new instruments included credit cards, home equity loans and subprime mortgages. From affluent homeowners to the poor, many Americans wondered why they should save when they could buy things with easy money? Or as Shakespeare wrote in *“The Merry Wives of Windsor”*, “There IS money. Spend it, spend it; spend more.” When the housing bubble burst in 2007-08, so too would America’s unsustainable culture of debt.

I conclude with recommendations of what the United States might learn from savings-promotion policies elsewhere in the world. Financial education programmes thrive in Japan and Germany, and many nations like Germany, France and Japan retain the accessible savings banks and postal savings systems that have stimulated small saving since the 19th century. Although consumer and housing credit has grown in all the advanced economies, few countries in continental Europe permit the sort of “predatory lending” that ultimately impoverished so many Americans. Whereas Americans lack the very concept of “overindebtedness”, European governments have developed elaborate mechanisms to prevent their peoples from assuming too much debt.

When I talk to people from other nations, they are bewildered by everyday financial practices Americans take for granted. Recently, a visiting Italian colleague had difficulty understanding that her American bank’s ATM card was really a debit card, not a credit card. We usually obtain credit cards independently of our local bank, I explained; we go online or respond to mailed solicitations. But how, she asked, do you pay your credit card bill each month? Well, I replied, we send a check to some address in South Dakota or Georgia. “That makes no sense,” she said. True, it wouldn’t make sense to Italians, Belgians or Germans, who rarely encounter an American-style credit card. Their “credit cards” are almost always issued by their bank, and are paid off each month from funds in one’s bank account. But “what would happen”, my colleague wondered, “if you didn’t have enough money in your account to pay the credit card bill at the end of the month?” That’d be no problem, I assured her, because half of the country doesn’t pay in full and borrows the balance from the card company; besides, the companies encourage customers to go into debt because their profits lie in high interest charges. Again she shook her head, “That really makes no sense.”

I was loath to tell my Italian friend that to most Americans, neither she nor her country makes any sense. According to our economists, Italy is plagued by “imperfections” in its financial markets.



Far from helping people avoid overindebtedness, the Italian system allegedly punishes consumers by restricting access to credit and denying them richer lives. So, who’s right? When societies with such fundamentally different assumptions cohabit the capitalist world, surely we require a more historical understanding of how these rival cultures of saving and debt came to be. My book is dedicated to making sense of it all.

**CONTACT**  
garon@princeton.edu

## WSBI WORLD CONGRESS

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# Commission recommends, but does not mandate, access to basic payment account



Astrid Hagenah

In recent years, the topic of financial inclusion has become a key issue in EU and international discussions. In July, the European Commission published a recommendation on “Access to a basic payment account”, inviting member states to ensure that basic payment accounts become available at a reasonable price to consumers, regardless of their EU country of residence or financial situation.

The recommendation follows the 2009 and 2010 Commission consultations and sets out a number of key principles, such as the essential payment transactions that should be covered. It provides member states the flexibility to designate service providers and determine reasonable charges for the account.

ESBG has been actively involved throughout the EU discussions, as the promotion of financial inclusion is part of the mission of savings banks. Acting in the general interest of society was the initial vocation of savings banks and remains an integral part of their identity. Many ESBG members have introduced specific, targeted schemes to ensure that the most vulnerable members of the population have access to necessary basic financial services. Access to a basic payment account is, without any doubt, one of the most crucial tools for facilitating financial inclusion.

When considering the best approach to foster financial inclusion in Europe, ESBG has always argued that the principle of subsidiarity has to be strictly applied and that solutions in countries where financial exclusion occurs should first and foremost be found at the national level. A one-size-fits-all approach would not be appropriate, and ESBG welcomes the Commission’s decision to refrain from pursuing EU legislation in this field and to leave it

to member states to find appropriate solutions that correspond to their national situations and legislation. ESBG has strongly advocated against the creation of a right of access to a basic payment account, and it is important to acknowledge that the recommendation does not state that payment service providers will have to accept any application from an individual in any case. Forcing financial institutions to provide basic payment accounts would not only contradict the principle of contractual freedom, but also hamper the innovation of new products and services.

The recommendation clearly defines the essential payment transactions that should be covered by a basic payment account. ESBG agrees with the proposed services and in particular with the fact that access to credit or any overdraft facilities are not covered. They are neither a component of nor a right related to a basic payment account and would increase the risk of overindebtedness.

The flexibility given to member states regarding the designation of payment service providers is invaluable, as it allows the former to design measures at the national level that respond to their needs. However, it should not lead to the creation of complicated and complex new structures, as established ones are already in place. ESBG is convinced that access to financial services can and should be increased in various ways: by offering specific products and services, adequate information, and financial education and by improving the level of financial literacy. ESBG members have long-standing and successful projects and instruments in place, and ESBG stands ready to continue sharing its members’ expertise in order to foster financial inclusion.

#### CONTACT

Astrid.Hagenah@savings-banks.com



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# Providing financial services as a means to “graduate” out of extreme poverty

## An interview with Tilman Ehrbeck, CEO of CGAP

Tilman Ehrbeck became CGAP CEO in October 2010. Prior to joining CGAP (Consultative Group to Assist the Poor), he was a partner with management consulting firm McKinsey & Company, where he held a series of leadership positions in the firm’s global Banking & Securities and Healthcare Payor & Provider Practices. He was part of the leadership of the firm’s Indian operations from 2005 to 2009.

**One year after your appointment as CEO, what are your key priorities for advancing the financial inclusion agenda?**

My priorities are driven by the more than half of the world’s working-age adults – that’s 2.7 billion people – who don’t have access to formal financial services. The starting point is understanding a household, its aspirations, and the financial services to meet those aspirations. We ask households, “What do you want to achieve?” and their answers demonstrate they need a broad range of financial products and services (see box).

We work on several levels to advance financial inclusion so that the needs of poor clients are met with the appropriate products. A big priority is to better understand poor client needs, then work on business model innovation and pushing delivery models to reach much further and function more cost-effectively. We also work at the policy level with regulators, because the regulatory environment is key to achieving financial inclusion that serves poor and low-income people. CGAP is the technical advisor to the G20 on financial inclusion, and it’s very encouraging to see the G20 pursue this agenda.

**What role can WSBI member banks play in developing inclusive banking sectors?**

Savings banks play an important role in financial inclusion because they have the capacity and technical expertise to provide financial services such as savings, and they maintain a strong focus on serving low-income segments of the population. The introduction of new delivery channels to further expand the network offers a real opportunity to reach remote and unserved groups. But it may require significant investment in redesigned IT systems. Although the capacity and technical expertise to mobilise savings exists, product and process redesign and positive marketing might still be needed to improve accessibility for the poor.

**How does CGAP promote small-scale savings mobilisation? What steps are necessary to make further progress?**

CGAP’s current activities focus mainly on finding successful business models that meet client needs and include savings as a key

Alberto Lozano Mamani and his partner Epifania Vargas Chinchero are participants in one of ten CGAP-Ford Foundation Graduation Program pilots, which aim to help participants “graduate” out of extreme poverty. Both in their mid-30s, they have seven children aged 4 to 17, and they live in the remote Peruvian mountain village of Urinsaya Ccollana, home to just over 100 families. It takes almost an hour to walk to the nearest school. They own a hectare on which they grow vegetables and raise 20 sheep, three cows, and seven guinea pigs. They want to buy more livestock, build a new stable, expand their house and pay for school fees, but they need a range of suitable financial services to realise these aspirations.



CGAP-Ford Foundation Graduation Program participant Alberto Lozano Mamani. Photo by Plan International, Dec. 2010.



Tilman Ehrbeck, CEO, CGAP

component. For example, the youth savings consortium (<http://www.youthsave.org>) of which we are a part aims to understand a specific segment's needs. CGAP's Technology Programme focuses on how to build low-cost transaction channels. A recent CGAP study of the business case for small-balance savings ([http://www.cgap.org/gm/document-1.9.47356/OP\\_18\\_Rev.pdf](http://www.cgap.org/gm/document-1.9.47356/OP_18_Rev.pdf)) shows that high operating costs linked with small-balance savings mobilisation can be more than offset by profits generated through cross-selling loans and other products, and that new technology channels can have a significant impact on reducing costs. CGAP also works with donors and investors interested in promoting savings. We just completed a resource guide that addresses the issues funders need to consider when focusing on the expansion of voluntary savings mobilisation. On our blog (<http://microfinance.cgap.org/series/savings-series>), there is also frequent discussion on how to effectively mobilise savings.

#### What is your analysis of the microfinance crisis in India? What lessons can we learn?

First, the industry and individual microfinance institutions (MFIs) didn't fully understand the underlying demand and market potential, which is probably lower globally than we might have thought in the past. We must do more to fully understand demand. Second, rapid growth in a number of markets led to saturation, and neither the industry nor individual MFIs realised the underlying challenge shifted from providing access to responsible delivery.

Third, the infrastructure – especially credit information sharing – didn't exist to prevent some of this from happening. We need market infrastructure in place when the underlying challenge changes from providing access to responsible delivery.


#### What are CGAP's microfinance initiatives?

CGAP's current work includes research on overindebtedness, credit information reporting and credit bureaus, and governance – we have papers coming out on all of these topics in the coming weeks. On a global level CGAP is moving forward on the responsible finance agenda, participating on the Steering Committee for the Smart Campaign (<http://www.smartcampaign.org>), where we are responsible for working with investors. We also work on client protection and, with the Social Performance Task Force, social performance measurement.

#### What are the challenges, and possible solutions, to turning branchless banking, or banking beyond branches, schemes into efficient financial inclusion vehicles?

The promise of technology, in particular mobile phone-enabled business models, is to reduce transaction costs so that payment and short-term high-frequency saving services become economically viable for providers. At the regulatory level, governments can enable branchless banking or prevent it altogether. Allowing banks and other financial institutions to provide financial services through agents, which can dramatically increase outreach to remote and rural areas, is an absolute prerequisite to branchless banking services. The use of agents can be particularly effective when coupled with reduced identification requirements, making it possible for poor customers who might not have documentation to open an account for the first time. Governments can also spur competition by allowing non-bank actors to serve poor customers, by allowing them to issue e-money.

Businesses are still struggling to develop the right, cost-effective model for delivering desired financial services. Major challenges include how to structure business partnerships between banks

CGAP (<http://www.cgap.org>,  "Follow @CGAP") is an independent policy and research centre dedicated to advancing financial access for the world's poor. It is supported by over 30 development agencies and private foundations who share a common mission to alleviate poverty. Housed at the World Bank, CGAP provides market intelligence, promotes standards, develops innovative solutions and offers advisory services to governments, financial service providers, donors and investors.

// Knowledge is coming together that will allow us to achieve full financial inclusion in our lifetimes, and that's probably not something you can say in many other areas of development.

and mobile network operators or retail chains, determining the best pricing structures, how to manage an agent network to ensure that agents always have cash on hand, and developing technology platforms.

Finally, many branchless banking services attract very low customer activity levels, which suggests we haven't found the right product design. Businesses need to listen to customers and develop services that are better than informal alternatives.

#### Do you see any fields for cooperation between CGAP and WSBI?

We can continue to partner through research and knowledge exchange, particularly as CGAP expands its work on poor client needs. CGAP sits on the Steering Committee of the Bill & Melinda Gates Foundation-funded WSBI project supporting ten savings banks to double the number of savings accounts for the poor, an area where we expect to continue to collaborate. We can also work together on formulating the responsible delivery of appropriate products that make financial inclusion a reality.

We have a lot to do, but it's exciting to see what's coming together: a better understanding of consumer needs and demand, experimentation with new business models at far lower costs and the environment they require – the right regulation and infrastructure. Knowledge is coming together that will allow us to achieve full financial inclusion in our lifetimes, and that's probably not something you can say in many other areas of development. An exciting opportunity is within our grasp – if we do the right things and work together.



## The Banker Top 1000

### The good times are back...

...but not for everyone. That's the opening line of *The Banker* magazine's analysis of its 2011 ranking of the world's top 1000 banks (based on Tier 1 capital). Indeed, a quick glance shows a decline of banks in Western Europe and the growing dominance of Asian banks. Latin American banks are growing strongly, too, while the number of African banks in the Top 1000 remains stable.

Once again, various WSBI and ESG members made the list. Lloyds Banking Group (UK) is ranked 7th in Europe and 18th in the world. French member BPCE is 22nd in the world. PKO Bank Polski (Poland) is ranked 4th in Central and Eastern Europe (CEE) and 165th in the world. OTP Bank (Hungary) is 5th in CEE and 177th worldwide. Halyk Bank (Kazakhstan) is 11th in CEE and 332nd in the world. Unsurprisingly, ICBC is the biggest bank in China but ranks only 6th worldwide (the world's biggest bank being Bank of America). Caixa Economica Federal (Brazil) is 4th in Latin America and 108th in the world. BancoEstado de Chile is 15th in Latin America and 363rd in the world.

Other notable ranked members:

- 56: La Caixa (Spain, indirect member via Spanish Savings Banks Confederation – CECA)
- 62: Bayerische Landesbank, and 63: Landesbank Baden-Württemberg (indirect members via German Savings Banks Association DSGV)
- 70: Erste Group (Austria, indirect member via Austrian Savings Banks Association)
- 91: Swedbank
- 114: Caixa Geral de Depositos (Portugal)
- 174: Vakifbank (Turkey)
- 245: SNS Bank (Netherlands)
- 356: BCEE (Luxembourg)
- 688: BTN (Indonesia)
- 786: Bank of Valletta (Malta)

Many other indirect members in Germany, Spain and Italy are ranked in the Top 1000, but listing them all would make this article far too long. *News & Views* congratulates all WSBI and ESG members in the Top 1000.

#### CONTACT

Dirk.Smet@savings-banks.com

# Microfinance regulation and supervision: WSBI questions CGAP's proposed exclusion of "savings banks"

In May, CGAP published the draft "Guide to regulation and supervision of microfinance" for public consultation. CGAP's objective is to support regulators and policymakers in drafting microfinance regulations to ensure optimal financial inclusion, and, specifically, enable poor and low-income people to gain access to relevant and diversified financial services. The draft presents CGAP's views on how to best regulate and supervise microfinance, taking into account financial inclusion objectives, but also financial stability, financial integrity and consumer protection goals. CGAP aims to reflect a wide consensus among experts in the field of microfinance, and called for contributions from all interested stakeholders.

In the draft, CGAP addresses the prudential regulation of depository institutions engaged in microfinance and examines the challenges surrounding their supervision. It also addresses areas of non-prudential regulatory concern that affect both depository and non-depository microfinance institutions, such as consumer protection, prevention of overindebtedness, anti-money laundering, fighting against abusive collection practices, etc. It also dedicates some specific developments to the regulatory issues relevant to branchless banking, given the strong potential of this approach to serve low-income customers. Finally, the document discusses regulation of microinsurance, especially when it is sold or administered by microfinance providers.

In its response to the consultation, WSBI expressed its general support of CGAP's regulatory and supervisory approach, as it believes that it could facilitate the development of socially-driven, sustainable and efficient microfinance markets, and beyond that, inclusive financial sectors.

However, WSBI is concerned about the restricted scope of application defined by CGAP, which explicitly excludes savings banks.

WSBI calls for clarification on what CGAP's understanding of a savings bank is, to properly assess the impact of the proposed exclusion. WSBI believes that this approach could lead to an unlevel playing field among microfinance players, which would be detrimental to end-clients. WSBI hopes to have a constructive dialogue with CGAP on this crucial issue.

WSBI also emphasised that:

- regulation of microfinance is welcome if it can help overcome some of the existing barriers to achieving full financial inclusion or fill some gaps, in particular strengthening the soundness of deposit-taking microfinance institutions and fostering consumer confidence in the formal financial sector;
- regulation for deposit-taking activities is absolutely necessary. Prudential measures to protect voluntary savings taken from the public are indeed a fundamental pillar of a strong and secure formal financial sector. Gaining the trust of small-scale savers for the development of a long-term banking or financial relationship with a formal institution requires unconditional confidence that assets are placed securely;
- appropriate capacities and resources are required to ensure efficient regulation and supervision, which is particularly crucial given the impact the supervision of microfinance players could have on the level of public trust and confidence. It is a question of credibility for the whole financial sector.

#### CONTACT

Anne-Françoise.Lefevre@savings-banks.com

WSBI is concerned about the restricted scope of application defined by CGAP, which explicitly excludes savings banks.

# Microfinance on G20 agenda: WSBI helps define recommendations to political leaders

The French Presidency of the G20 organised a seminar on microfinance to compare microfinance experiences in Northern and Southern countries and explore the possible interface between microfinance and the G20's ongoing work on financial inclusion.

Participants included representatives from central banks, finance ministries and supervisory authorities of G20 countries and major emerging economies, and from multilateral organisations and microfinance institutions from around the world.

Debate demonstrated general agreement on key issues. First, having microfinance on the agenda of the G20 is an important achievement. The ultimate objective is to convince political leaders to support the definition of a positive environment for the development and growth of the sector. Otherwise, and as the Indian case proved, politicians could enter the field and make counterproductive decisions.

Second, microfinance is not an end in itself but a tool both to help people emerge from poverty and to build inclusive societies, in a very broad sense, fostering democracy, confident citizens, empowered women, etc.

Third, "genuine" microfinance should be promoted, resulting in responsible and sustainable microfinance that pursues the double objective of social integration and economic development.

Views were, however, mixed on the status of microfinance vis-à-vis the banking sector. Some participants were very critical of the business approach and scope of banks in general. A majority of speakers agreed, though, that in the current context, when financial markets are being restructured and reorganised in the aftermath of the global crisis, microfinance should be approached as part of the banking system, with the objective of making it inclusive. WSBI shared this view and emphasised the growing interconnection between the microfinance and banking fields, with

banks offering microfinance services and microfinance institutions (MFIs) transforming into banking institutions. A level playing field for all players and high quality service and security for all clients require that microfinance is organised along similar principles, regardless of who provides the service.

Together with representatives from CGAP, the Alliance for Financial Inclusion (AFI), Accion, the Bill and Melinda Gates Foundation, Grameen Crédit Agricole, La Caixa, and Xac Bank from Mongolia, WSBI contributed to the panel on "Lessons learned from developing economies". Chris De Noose, WSBI Managing Director, presented four main recommendations: put clients first; define incentives to keep social impact at the heart of the mission of MFIs; operate according to sound risk management policy, as microfinance is a financial business; and educate stakeholders about microfinance.

A number of expectations vis-à-vis the G20 were expressed, including the development of an ecosystem to support the sustainability of microfinance, which needs to be financially viable in the long run and not dependent on government subsidies; a regulated and supervised sector, with a strong focus on consumer protection and prevention of overindebtedness; support for institutional vehicles to promote "long-term capitalism" ("capitalisme patient"), for which profit maximisation would not be the end objective, but would primarily benefit (poor) owners/borrowers; the design of a set of transparent principles and rules to support a responsible, efficient and balanced microfinance offer.

The next step will be to work towards the introduction of formal support for microfinance in the conclusions of the 3-4 November 2011 G20 Summit.

#### CONTACT

Anne-Françoise.Lefevre@savings-banks.com

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# WSBI welcomes guidelines enabling broad financial inclusion whilst preventing crime

In June, the Financial Action Task Force (FATF) adopted a "Guidance on Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion". (See also "New anti-money laundering policy in sight", page 14.) WSBI views this initiative as an important step to encourage national authorities to develop anti-money laundering and combat the financing of terrorism (AML/CFT) regimes that can prevent crime yet will not stand in the way of financial inclusion initiatives.

The implementation of AML/CFT rules has indeed proved a challenge in a number of situations where, for example, the identification of people or their formal address could not be established by official documentation. In a number of cases, this has acted as a disincentive both for unbanked groups to access the formal financial system, and for financial institutions to serve this market segment.

The Guidance seeks to develop a common understanding of the FATF Standards that are relevant when promoting financial inclusion and to point out the flexibility they offer, in particular regarding the risk-based approach (RBA), thus enabling national authorities to craft effective and appropriate controls. It is based on the important assumption that financially excluded and underserved groups, in both developing and developed countries, should not be classified automatically as presenting a lower risk for money laundering or financing terrorism, but rather depending on the various risk factors. The Guidance reviews the different steps of the AML/CFT process (Customer Due Diligence/CDD, record-keeping requirements, reporting of suspicious transactions, use of agents, internal controls), and for each of them presents how the standards can be read and interpreted to support financial inclusion.

WSBI took an active role in the definition of the guidelines, as a member of the FATF Working Group and the coordinator of financial industry input. Its contribution was articulated around three main proposals:

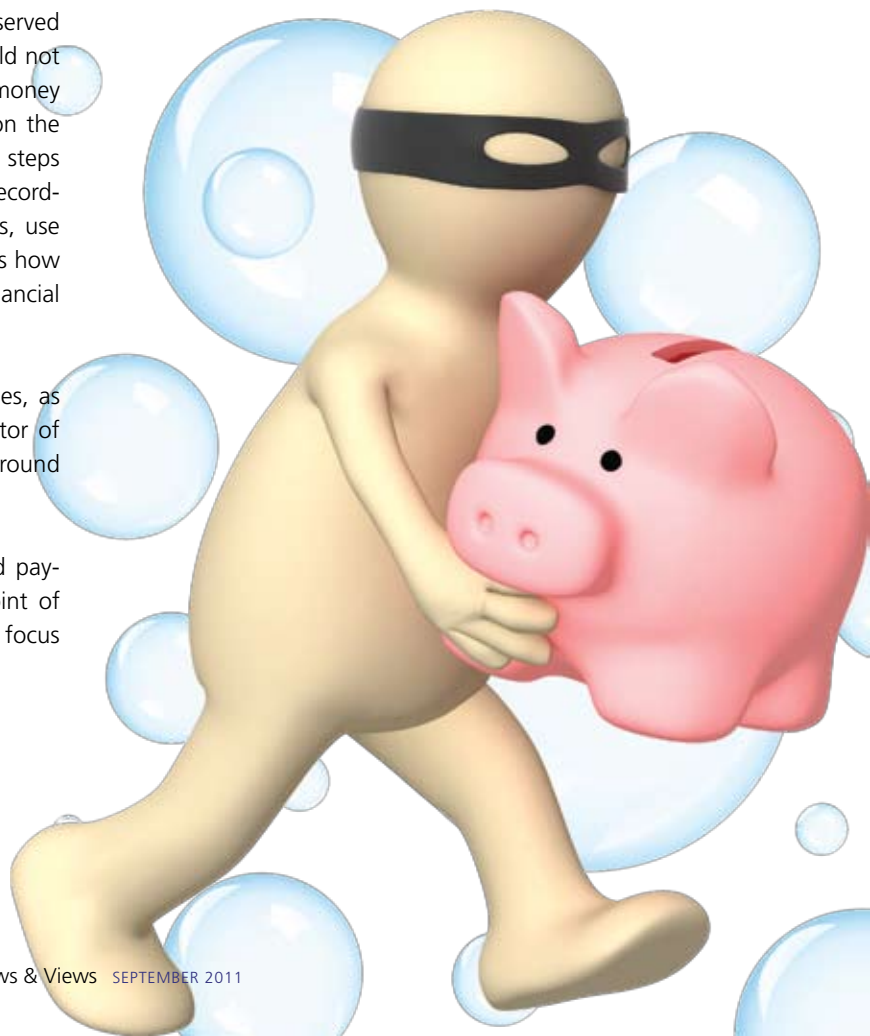
- the provision of financial access through account and payment facilities is critical from a financial inclusion point of view and these services should therefore be the primary focus of the Guidance;

- there is room for simplified CDD measures on the front end, possibly with monetary thresholds, provided that strong back office control and monitoring are in place;
- there is value in applying a progressive Know Your Customer, KYC/CDD approach whereby the transaction/payment limits vary, based on the extent of the CDD process conducted at the initial stage of the relationship.

WSBI wants to continue working with FATF to promote the guidelines to national AML/CFT authorities, to make sure that they make full use of the flexibility offered and that adapted but efficient AML/CFT regimes are designed.

#### CONTACT

Anne-Françoise.Lefevre@savings-banks.com



# Learning how to manage money – and accessing the means to manage it!



Laurie Dufays

What's the use of learning how to manage one's money if the financial services required to manage it are inaccessible? Financial education requires an additional step to facilitate access to financial products and services. Banks should cooperate with governments and join academic initiatives to develop tools to help children and young people save for the future. WSBI members' research and their experiences of creating bank branches

in schools in order to teach children about banking (as GSB in Thailand has done) show that giving young people the tools to accumulate savings creates economic opportunities but also affects their attitudes and behaviours in positive ways. Financial institutions, though, are still reluctant and definitely need better information on the development and commercial impacts of youth savings in order to optimise their investment in this segment.

This will be one of the objectives of this year's WSBI Cross-regional Conference on Financial Access for Youth and Youth-Inclusive Financial Services, 24-25 October 2011, in Lima, Peru. The event, which usually gathers experts from Africa, Asia, Europe and Latin America, will address the issue of financial education as a means of empowering individuals to manage financial resources effectively, with a view to achieving sustainable improvement in their living conditions. The conference will focus on children and young people, and on savings as a springboard to a better future, emphasising that they need not only the ability to act (knowledge, skills, confidence and motivation), but also the opportunity to

act, through access to adequate banking services and institutions. Without such access, they will not build the skills to use financial services in a productive and responsible manner. In tandem with this growing need, more and more financial service providers are interested in assessing the business case for (or against) entering into, or expanding their existing services within, youth markets.

Therefore, the conference is specifically designed for financial institutions interested in providing financial education services to children and young people and developing a sustainable youth-inclusive financial offer. The main conference objective will be to highlight the conditions and parameters necessary for building a sustainable business model for financial institutions. Accordingly, the conference will emphasise how to offer adapted products and services for young people so that they easily, safely and wisely become clients of the bank in a manner that is sustainable for both. The event will show existing business cases from active stakeholders such as YouthSave, the United Nations Capital Development Fund, and Child and Youth Finance International. Making Cents International, a social enterprise that provides financial education services, will share some of the process-related factors in developing youth financial services. Finally, WSBI members from all over the world will share their experiences and close the day by focusing on end-products or "success stories" demonstrating that financial inclusion and sustainability may successfully coexist.

#### CONTACT

Laurie.Dufays@savings-banks.com

## MARK THE DATES

- PGCECP (WSBI West Africa Subgroup) meeting: 28-29 September 2011 (Senegal)
- History Workshop "From regulation to deregulation and back again?": 4 October (Brussels)
- ESGB Retail Banking Conference: 5 October 2011 (Brussels)
- Latin America/Caribbean Regional Group meeting (GRULAC) and Cross-regional Seminar on Youth Financial Education and Financial Access: 23-25 October 2011 (Peru)
- World Savings Day: 31 October 2011
- Postal Savings Banks Forum: 29-30 November 2011 (Brussels)
- Asia/Pacific Regional Group meeting: 1-2 March 2012 (Sri Lanka)
- WSBI Congress: 10-11 May 2012 (Morocco)



# WSBI Doubling Savings Accounts Programme

## How to measure success



Ian Radcliffe

Since 2009, WSBI has been working with bank projects in ten developing countries to increase access to finance through its Doubling Savings Accounts Programme. On 24-25 May project partners and WSBI and Foundation staff participated in an “OVI workshop” in Nairobi, Kenya, where they worked on “objective verifiable indicators of success” (OVIs) – evaluation indicators for the ten projects.

The workshop aimed to foster a common understanding of project OVIs, to put final touches to project-specific indicators and strategy maps, and to help participants learn techniques to motivate bank staff to put this knowledge into practice. During early project implementation, it became clear that the initial quantitative goal of increasing the number of savings accounts was not enough to measure project achievement, and that additional quantitative and qualitative indicators of success had to be considered. Besides client numbers, other key project performance targets discussed during the workshop were usability, affordability and proximity. Workshop participants explored how to translate these drivers into concrete indicators for their own projects.

The workshop was an important step toward finalising an evaluation framework for the programme. Participating banks continued their work on OVIs after the workshop (see pages 31, 32), and their first data should be available in late August and allow them to start benchmarking.

After the fruitful OVI workshop, participants visited Kisumu in western Kenya, a regional hub where PEP Intermedius Ltd (PEP) has its head office. PEP draws together and supports a network of small business units, some of which are directly owned and some of which are independent but act as agents; all aim to improve access to financial services. PEP manages over 100 outlets, through which it provides the mobile money service M-PESA and thus acts as a leading player in Kenya’s mobile banking revolution.

Workshop participants visited PEP agents and learned about efficient agent management practices from PEP staff and its founders Frederik Eijkman and Paul Otieno. Confronting the central challenges of agent management in its daily work is crucial to PEP’s success. First, it monitors agents closely, typically by visiting them every two weeks to see how they are managing the

growing number of transactions. Second, it maximises its liquidity management capacity: balancing electronic money from M-PESA (e-float) with cash and vice versa; the central issue here is meeting the diverse needs of agents across geographical areas. Agents in rural areas are typically handling more withdrawal transactions and are, therefore, accumulating e-float while risking running out of cash. Agents in urban areas face the opposite problem, as they are mainly deposit-takers and therefore have more cash and lack e-float.

### CONTACT

lan.radcliffe@savings-banks.com



Fedecredito CEO Armando Rosales sharing his views during the OVI workshop in Nairobi on motivating staff to reach project objectives.

# Fedecrédito, El Salvador:

## What does it take to serve the poor with agent and mobile phone banking?



Weselina Angelow

Success stories in microfinance across the world have shown that it takes strong leadership and intermediation capacity to expand your target market. In fact, the 20 most successful microfinance institutions are also financial intermediaries. Successful financial institutions operating in the microfinance market must also get to know their client market in order to develop the right products and channels for serving their customers. A favourable regulatory environment, choosing the right agents, and applying best practices from successes elsewhere help establish the right framework for implementing a successful mobile banking model.

WSBI member Fedecrédito is a strong intermediary with visionary leadership and a demand-driven link to clients via its 55 members. The client relationship is built on trust and what works best for each individual customer. Fedecrédito has just conducted extensive market research amongst its membership and with mini-focus groups, mapping out the perception of the current financial service offer and financial service needs in the low-income target market. Insights from this research will be applied when extending Fedecrédito's product offer and distribution channels via non-banking agents in at least half of the 173 unserved municipalities, a project run in partnership with the WSBI Doubling Savings Accounts Programme. In addition to agents, the project will implement mobile phone banking, which motivated Fedecrédito's president and business manager to take part in the programme's South-South experience exchange in Tanzania and Kenya, the latter in connection with the programme's OVI workshop, in May (see page 30).

The best practice exchange was arranged with Tanzania Postal Bank, which just launched mobile banking services (TPB POPOTE) via its post office and will also do so in the near future, as just approved by the regulator, via non-postal agents (franchise post offices, registered savings and credit cooperative organisations, community banks, mobile network agents and individual shops); and with Kenya Post Office Savings Bank, which is setting up a network of agents and already offering mobile phone banking

(Patacash). The visit provided the opportunity to meet with other partners such as the regulator and leading telecommunications companies in Tanzania (Airtel) and Kenya (Safaricom).

When entering the mobile money market, it's important to determine the needs the service will meet. The Kenyan experience has shown that most people use mobile phones for money transfer (M-PESA) rather than for opening accounts and depositing money (M-KESHO). Partnership, of course, is crucial. Having a good marketing strategy in place, a broad network of agents, and the capacity and ability to quickly position the product in the mindset of clients can help convince a telecommunications company that it's worth integrating a banking menu into its SIM card menu.

Fedecrédito has the competitive advantage of being a pioneer of agent and mobile banking in its local market. The Kenyan experience shows that the first mover advantage in the e-money market can lead to enormous success in serving the market's low-income segment. This is crucial to Fedecrédito in its increasingly competitive national market, where Banco Azteca opened 29 branches in only three and a half months last year, and considering that El Salvador's regulatory institution has made progress with the draft of a similar regulation for banks. These insights will be extremely useful to Fedecrédito's project, which launches a pilot in September.

### CONTACT

Weselina.Angelow@savings-banks.com

KPOSB Project Director Anne Karanja and Head of Retail Banking Silvester Obuono with Fedecrédito Business Development and Project Manager Ovidio Magaña in a KPOSB Branch.



# BTN, Indonesia: Finding the right response to meet client needs

Targeting one million unbanked is peanuts if you have more than 45 million of them in your country and are competing with other financial giants, such as BRI and Mandiri Bank. However, there must be a reason why financial service providers have not been able to meet the needs of the total unbanked market in Indonesia. There must also be a reason why it has proven difficult for the government-issued TabunganKu savings product to take root via the countries' bank branches. The trade-off between a sustainable product offer and a client demand-driven product offer is a challenge to manage for each financial institution and very often leaves a void in the market.

WSBI member Bank Tabungan Negara (BTN) is stepping into this void by offering a unique zero-cost card-based savings product that maximises usability and affordability for low-income customers. BTN is the exclusive provider of savings services through Indonesia's postal network, endowing it with the competitive advantage of basing its fee structure on exclusive agreements with the post. In June, the new product piloted in 10 out of a targeted 576 post offices in urban and rural Central Java. Women's groups expressed great interest in the product. Word of mouth is a commonly used and extremely effective marketing tool when banking the unbanked, and BTN is counting on it to spread the word.

Following the product pilot and the new set of performance indicators formulated at May's OVI workshop in Nairobi (see page

30), very early results from post offices in Central Java show on average an additional deposit in the month after launch. BTN Assistant Project Manager Firman Mutazir explains, "Only one in eight of the new clients withdrew any money at all during that month and those withdrawals were barely a quarter of the total amount deposited. Over 90% of the new savings balances are below \$25, with the average balance of these below \$10, but the 5% of accounts with balances above \$100 more than double the whole deposit base." According to Programme Technical Advisor Stephen Peachey, "This backs up what the WSBI programme is aiming at, which is if we open affordable savings accounts close enough to the poor, we should prepare to be swamped with high frequency, low-value savings, but the way balances start building up can be good and the better off help pay for infrastructure that the poor can also use."

The question is: Do affordable and usable products have to be fee-free? The programme will explore this, as experience shows that poor and low-income people are willing to pay for good service.

#### CONTACT

Weselina.Angelow@savings-banks.com

Women's group representatives and Zahiruddin Irman (Project Sponsor and Director Mortgage and Consumer Banking at BTN).



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# Rejuvenating postal banking in Gabon

## An interview with Alfred Mabika Mouyama, CEO of La Poste (Gabon)

### Could you describe the Gabonese financial system and the role of the La Poste?

The Gabonese financial system is headed by a central monetary authority, the Bank of Central African States (Banque des Etats d'Afrique Centrale, BEAC), which operates within the Central African Economic and Monetary Community (CAEMC). BEAC also created the Central African Banking Commission (Commission Bancaire de l'Afrique Centrale, COBAC).

The Ministry of Finance oversees the Gabonese financial system, notably the following seven banks:

- BICIG, a subsidiary of the French Group BNP Paribas
- Union Gabonaise de Banque, a subsidiary of Attijariwafa
- BGFI BANK, a Gabonese-funded bank
- Citigroup
- Ecobank Transnational Incorporation (ETI)
- Union Bank For Africa (UBA)
- Orabank

Other development, credit and microfinance institutions make up this system, including the Gabonese Development Bank (Banque Gabonaise de Développement, BGD), and microfinance is growing in importance with the establishment of cooperatives.

The Gabonese Treasury plays a leading role in the economy as does La Poste through the financial activities related to the Postal Cheque Centre (CCP), the Postal Savings Bank (CEP) and money transfers. These activities are currently being consolidated under PosteBank, which will begin operations in the months ahead. It is noteworthy that with the creation of PosteBank, Gabon's bank penetration rate will double from 10% to 20%.

### Do remittances account for a significant portion of your business? Do you offer other products designed specifically for low-income segments of your clientele?

Remittances do account for a very large portion of our activity, to the point where we created a specialised subsidiary owned by PosteBank, which in turn is wholly owned by La Poste. This subsidiary manages remittances related to the use of the Western Union license and to Mandat Express, a proprietary product of La Poste as part of a network of African postal companies. We have signed 12 contracts with various African countries. We hope to develop our activity with South Africa and the United Arab Emirates for end-2011.

In 2010, the subsidiary's Mandats Express remittance activ-

ity grossed CFA 1,000,100,000 (\$2,000,200) on 183,050 issuances, and its Western Union remittance activity grossed CFA 8,000,200,000 (\$16,000,400) on 402,768 issuances. This is substantial when you consider that La Poste's 2010 sales totalled CFA 7,687,242,145 (\$15,374,484) excluding Western Union.

Regarding low-income populations, we offer a comprehensive line of credits with an attractive interest rate: equipment credit, back-to-school credit, and life insurance at CFA 1,000, or \$2/month. We also allow accounts to be opened with a deposit of CFA 25,000 (\$50) during normal times and CFA 10,000 (\$20) during promotional periods.

### Could you explain how and why Gabon Poste was transformed into La Poste?

La Poste was created by the government's desire to revitalise postal activity and put an end to chronic deficits requiring a steadily increasing financial contribution from the state. La Poste began its activities on 1 February 2007. The objectives set by the government are to improve the postal service and make it sustainable while gradually reducing its dependency on the state. We also want to create a true postal bank over the medium term. To achieve these objectives, we created a management model based on three pillars: the administration of mail collection and distribution; offering and managing a comprehensive line of financial services; the telecommunications system and buildings. Thus La Poste has become a holding company, with two operating subsidiaries: PosteBank for the financial activities, PosteMail for the mail activities.

### What are the reasons driving the creation of PosteBank and what will the advantages be for clients?

The decision was motivated by the idea of having specialised entities be responsible for activities within their scope of expertise. Thus PosteBank covers the financial activities, the Postal Cheque Centre, the Postal Savings Bank and money transfers. Just today we received a favourable opinion from the National Credit Council (Conseil National du Crédit) as well as the assent of the Banking Commission (COBAC) for this approach.

The creation of PosteBank is a strategic decision that takes several parameters into account. At the national level, the banks do not cover the entire territory, even though the people are not opposed to the idea of an emerging local bank. Moreover, the banking penetration rate in Gabon, as well as in the other CAEMC countries, is absurdly low. The primary motivation is to respond

to the expectations of the people, and beyond that the hopes of Postal Cheque Centre (CCP) and Postal Savings Bank (CEP) clients. The long-range objective is to accelerate the bank penetration process to serve the people.

Regarding savings, we offer a 3.5% interest rate on deposits, which represents substantial expense not covered by the use of these same funds, even though these represent long-term resources.

Regarding the last part of your question, I would simply say that the creation of PosteBank makes it possible to broaden the spectrum of products currently marketed by La Poste. Indeed, our clientele had been limited to the services of a financial institution. Only in recent years did we begin granting small credits to our clients. The creation of PosteBank enables us to change our status from a financial to a banking institution. This change will be evidenced by PosteBank making all banking products available to its clientele. These products range from basic to sophisticated services. Clients will have bank accounts and payment cards. They will be able to apply for all types of credits. In short, PosteBank will offer its clientele all the key services that a reputable bank can offer. I also learned that a CAEMC Regulation related to the exercise of electronic money issuance is currently being drafted. Once this regulation enters into force, we will expand our product range by introducing an electronic purse.

**In your capacity as the Chairman of the WSBI Africa Regional Group, how do you see the future for the organisation's African members? What does your membership in the WSBI network contribute to your institution?**

The future for the WSBI's African members is promising, provided that they demonstrate a willingness to establish ties through concentric circles consisting of sub-regional areas. Take the case of the Central African region. We need to agree on a conceptual plan and establish a development model for financial activities that will be accepted and applied in all the countries. That is what we have done in Gabon. Because over the long term it is not viable to have a bank and not be part of a large network.

The creation of a network will occur gradually; first at the sub-regional and then at the inter-regional level. The interconnection of the African sub-regions should lead us to connect with the sub-regions of other continents. For that, it is essential that our governments provide us with strong support for our plans and actions.

Our institution benefits from the WSBI network's know-how and its access to finance solutions. We would like WSBI to be our voice vis-à-vis other large institutions.



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# Retail banking in the heart of Central Asia

## An interview with Nodir Nazarov, Chairman of the Board, State Commercial People's Bank of the Republic of Uzbekistan (Xalq Banki)

Can you provide our readers with a basic overview of Xalq Banki's evolution from the early 1990s, when it was a Soviet savings bank, to its current incarnation as the State Commercial Xalq Banki of the Republic of Uzbekistan?

The State Commercial Xalq Banki is the country's largest full-service bank. Established in the 1870s in Tashkent, it functioned as a savings institution. By 1896 offices in major cities were collecting deposits and using them for loans and investments. Over the years the branch network expanded and services multiplied, including loans to collective farms and private individuals. Following Uzbekistan's 1991 independence the bank's lending, deposits, capital and assets grew. In 1994 the bank began disbursing social benefits to low-income families through its vast branch network – today the country's largest. In 1995, the bank was reorganised into the State Commercial Xalq Banki of Uzbekistan. In 1996, it began disbursing social benefit packages to families with children under 18 years of age. In 1998, it began channeling benefits to single mothers with a child aged two or younger. Meanwhile, the bank introduced banking services with securities and syndicate lending schemes involving other commercial banks and specialised funds.

From 2001 to 2006, the bank extended the scope of loan products and its deposit base, issuing securities including certificates of deposit. Following a 2000 government resolution, the bank's capital more than tripled. The bank helps implement the state's accumulated pension system, maintaining records of savings pension accounts and ensuring that account holders receive adequate interest by investing available resources into profitable securities.

Today, Xalq Banki serves a wide range of individuals, credit institutions, enterprises and organisations. Fourteen regional and 185 district (municipal) subsidiaries, 270 mini-banks and more than 3,500 specialised cash-offices employ more than 12,000 specialists. The bank forms part of the country's financial backbone and is a leader among commercial banks in Uzbekistan, as the following market shares demonstrate: number of branches, 86.9%; number of employees, 25.3%; number of loans to individuals, 17.9%; deposits, 33.5%.

By 2012, according to the Decree of the President of Uzbekistan, the authorised capital of Xalq Banki is scheduled to increase by 20-fold through issuance of additional shares. For the past three years, Xalq Banki was audited by PriceWaterhouseCoopers, and was given a B/STABLE/B international rating by Standard & Poors.

Xalq Banki's growth strategy for 2011-2015 will focus on further improvement of the corporate governance system, including optimisation of organisational structure, decision-making system and internal control; development and introduction of new banking products and services tailored to the needs and capabilities of customers; development of retail and corporate business; formulation of marketing policy; exploiting contemporary information technology; increasing rates of return and profitability. Over the next five years the bank will analyse office activity; cost-effective offices will be improved while unprofitable offices will be reorganised or closed. Special attention will be paid to involvement in government programmes for financing the real economy, including the modernisation, technical and technological re-equipment of enterprises and support of small business and entrepreneurship.

What was the effect of the global financial crisis on Xalq Banki and how did the bank respond?

In 2008-2009, our government worked to prevent the influence of the worldwide financial collapse on our country. The government took decisive measures and developed specific programmes to avert the impact of the world crisis on the country's financial and banking system. Our bank strengthened financial stability by increasing its level of capitalisation, and reducing risk in the bank's total share of active operations. In addition, Xalq Banki actively supported the development of small and private business projects by expanding its volume of financing, and this, in turn, had strategic importance to the economy's well-being. Therefore, we can confidently say that the crisis observed in Western countries had no significant negative impact on the bank's performance, asset quality or public confidence.

One of your main goals is to serve small businesses. What products and services have you developed to help small-scale local entrepreneurs?

As you might have heard, 2011 in our country is the year of Small Business and Private Entrepreneurship, and as such, our bank pays particular attention to supporting this sector's growth. During this year we plan to significantly increase the share of lending to small-scale entrepreneurs to 25% of the whole loan portfolio. The bank offers small business and private entrepreneurs many services, including: loans for up to three years with a grace period of up to six months; investment credits to enterprises incorporated in the State Investment Program; leasing and factoring operations; issuance of guarantees; loans to enterprises engaged



Home to over 28 million people, Uzbekistan is located in Central Asia, north of Turkmenistan and south of Kazakhstan, with Tashkent as its capital. Its 2010 per capita GDP was an estimated \$3,100. More than 60% of the population lives in densely populated rural communities. Export of hydrocarbons, including natural gas and petroleum, provided about 40% of foreign exchange earnings in 2009. Although growth slowed in 2009-10, Uzbekistan has seen few other effects from the global economic downturn, primarily due to its relative isolation from the global financial markets.

in direct cotton and grain cultivation; express loans using simplified schemes.

### Are remittances an important part of your business? What remittance services have you developed to serve migrants abroad?

Xalq Banki, in cooperation with international money transfer systems, continues to open up additional service centres that provide remote populations access to remittance services. Our bank uses the same computerised service technology that other international money transfer systems use. During the first six months of this year, our customer service volume of international money

transfers increased by 2.5 times. In addition, we are aiming to reduce service time, implement customer identification cards and, in order to expand the range of international money transfer services, conduct negotiations with the representatives of two more systems. In order to create maximum convenience, our bank created a system of distant bank servicing, which provides qualified service and avoids traditional methods of payment. We offer a service system that allows customers to make payments for their own props and utilities, internet and phone services without leaving the home. The customer can enter his/her password and manage the account through any computer with internet access.

### How does WSBI membership benefit the bank?

The bank has a positive experience from years of cooperation with WSBI. Our employees undertook trainings and exchanged experiences on a managerial level, exchanged IT know-how, attended seminars on microcredit, savings accounts, etc. In the future we hope to work with WSBI and its members to benefit from technical assistance and consultancy to institutionalise and develop projects carried out in collaboration with international financial institutions; and to sign a Memorandum of Understanding with Dongbu Savings Bank (South Korea) and member savings banks in other countries, to pursue bilateral agreements that improve the bank's activities.

Visit Xalq Banki at [www.xb.uz](http://www.xb.uz).

# ISIC-WSBI partnership taps into a promising market segment



Fiona Joyce

WSBI has entered into a partnership agreement with ISIC – the International Student Identity Card Association – to issue ISIC cards effective 1 August 2011. This is based on the mutual interest of the partners to serve the student population with tailor-made banking services and to provide access to a wide range of travel and lifestyle benefits.

The ISIC Card is the only internationally recognised and accepted proof of full-time student status worldwide. It is endorsed by UNESCO and recognised by academic institutions, national governments and ministries of education around the world. Each year the ISIC Card is issued to more than 4.5 million full-time students in 120 countries. ISIC cardholders gain access to more than 40,000 student benefits across the globe.

Benefits include discounts on global brands such as Skype, Hostelworld and Microsoft, and advantageous reductions with local companies. Examples of benefits with some global brands are listed in the box below.

All benefits are accessible via [www.isic.org](http://www.isic.org) and on the go via smart phone and tablet applications that have been developed by ISIC and are free to download and use.



The ISIC Card may be issued as a stand-alone companion card or co-branded with a bank debit or credit card. What started as a student travel document has now been established as a multi-purpose international student lifestyle identity card. This lifestyle extension means that it is no longer necessary to travel to use these benefits. They are also an attractive option for students living in their own countries.

ISIC also has a system of co-brands worldwide. There is an extensive network of more than 460 academic partners who have adapted the ISIC Card as their identity card. They also have an

extensive network of financial partners, including banks, who often partner with entities such as Visa or MasterCard. Thus there are more than 100 financial co-brands existing worldwide today. Examples from among WSBI-ESBG members include Erste Bank Austria, OTP Bank in Hungary and Caixa Geral de Depósitos in Portugal. Some German savings banks have also entered into a cooperation agreement with ISIC for the issuing of ISIC cards. In general, these are issued as a stand-alone card and are included in their student current account packages.

## Advantages for WSBI-ESBG members



### The "one card": lower attrition and higher usage

#### Identification Card:

The convenience of having a payment card that also functions as an identification card.

#### Global Payment Acceptance:

MasterCard, Maestro and Visa brands are accepted all over the world.

#### Student Discounts:

Access to a variety of student discounts worldwide ranging from restaurants, retailers, entertainment, museums, transportation, etc.

It is widely recognised that students are the future affluent and are therefore an important customer segment for WSBI-ESBG members. Research carried out on behalf of MasterCard shows that students' ability to carry a single card increases the utility of all services and leads to lower attrition and higher usage. The combination of an ISIC card with a debit or credit card presented by the banks broadens distribution opportunities and creates additional awareness. This may result in the ISIC Card being used more frequently, becoming a more essential part of a student's everyday life. The experience reported by ESGB members on their cooperation with ISIC over the years and the reception of the product by their student customers is also very positive.

WSBI-ESBG is convinced that its new partnership cooperation with ISIC will provide access to an interesting value-added product and service proposition that its members can include in the current account packages that they offer students. The added value for

### About ISIC

ISIC is a not-for-profit association established in 1953. Its main purpose is to issue the ISIC Card (International Student Identity Card), through a global distribution network in some 120 countries worldwide. ISIC also issues two additional cards: the International Youth Travel Card (IYTC) and the International Teacher Identity Card (ITIC), but the ISIC Card is the most important one, representing 98% of overall business.

members derives from the potential to increase customer loyalty with students, acquire new customers, improve cross-selling opportunities and enhance their international image. The partnership agreement also provides for the possibility for WSBI-ESBG members to issue ISIC cards under advantageous financial conditions within an established cooperation framework.

#### CONTACT

Fiona.Joyce@savings-banks.com

## “Speed dating” to success: Exchange international business experiences

The WSBI-ESBG International Business Cooperation Event, in Brussels 18-19 October 2011, is unique: it brings together member bank personnel responsible for looking after the international business interests of small and medium-sized enterprises (SME), allowing them to:

- meet and establish contact with counterparts in like-minded savings and retail banks across Europe and beyond and thus expand their international business network;
- familiarise themselves with the structure and organisation and SME business of other member banks;
- learn about existing European business cooperation initiatives and in particular the Pan-European strategy for SMEs;
- discuss ways and means of implementing this strategy and generating business flows between ESBG member banks;
- exchange information and experiences via international SME business case studies;
- identify business synergies;
- explore possible joint value propositions for the international business of SME customers;
- discuss one-on-one with other members and participate in “speed dating”.

This International Business Cooperation Event is the second one to be organised by WSBI-ESBG. Some 30-35 participants are expected to attend from Europe and beyond. The innovative feature of this event will be “speed dating” sessions to allow participants to sit down together “one on one” and find out more about each other’s SME products and services and discuss possible joint services for existing or potential SME customers.

#### CONTACT

Fiona.Joyce@savings-banks.com

## Retail Banking Experience 2020 Roundtable

Members of the savings banks community justifiably take pride in being close to their customers – especially through extensive branch networks, which are denser and exercise more extensive outreach than those of their competitors. These networks have proven a valuable asset up to now. However, a number of external forces now call for taking a different look at how members of the savings banking community relate to their customers, notably from a channel perspective, a demand-side demographics and customer expectations perspective, and a costs perspective.

This was the rationale that prompted ESBG members to share their experiences and their questions about the overarching trends and developments influencing the retail banking experience in European countries today and to brainstorm together regarding how these trends and developments are likely to evolve in the run-up to 2020. These exchanges took the form of a roundtable in Brussels 3-4 May, with strategy experts from ESBG members in France, Germany, Italy, Portugal, Spain, Sweden and the United Kingdom.

The objective was to come up with a retail banking 2020 framework that could enrich internal reflections on this topic; to identify potential synergies and areas in which ESBG members could work together across borders; and to prioritise the most critical tasks. Members focused on demand-side demographics and customer expectations on the one hand, and on the various supply-side options in terms of channels, technology and organisation for meeting these customer expectations on the other.

In a nutshell, the challenge for ESBG members has been encapsulated as: “regardless of market conditions, to interact 24/7 seamlessly with a human ‘emotional’ touch with the existing yet much more finely segmented customer base through a channel mix in order to deliver advice and provide a range of easy to understand, fairly priced and quality products and services whilst reverting to deposit funding and constantly optimising the cost/income ratio”.

The roundtable’s main conclusion: it is essential to fully exploit the core market, existing customer base and core products and services with the aim of increasing customer loyalty and creating demand in an innovative manner. There is little room for error in a market with low overall growth, and excellence is required in the overall strategy, operating model and execution in order to create a competitive advantage.

### CONTACTS

Norbert.Bielefeld@savings-banks.com

Fiona.Joyce@savings-banks.com

## WSBI-ESBG hosts banking environment workshop for Industrial and Commercial Bank of China Brussels branch

ICBC (Industrial and Commercial Bank of China), one of WSBI’s members in China, opened its branch in Belgium in January 2011. ICBC Brussels will offer comprehensive financial services to Chinese customers in Belgium and act as a bridge for Sino-Belgian trade, economic cooperation and mutual investment.

On 20 April, WSBI-ESBG organised a workshop for representatives of the ICBC Brussels branch, whose objective was to provide an overview of the EU and Belgian banking frameworks. The ICBC delegation included Chen Fei, General Manager of the Brussels branch, and Chai Hui, Deputy General Manager. ESBG EU experts and Belgian banking specialists from the National Bank of Belgium, Allen & Overy LLP and Dugardyn & Partners provided ICBC with useful information to help them develop their Belgium-based activities. Discussions focused specifically on legal requirements to fund transactions, financial accounting and reporting, risk management and payment systems.

### CONTACT

Mina.Zhang@savings-banks.com

# Swedish savings banks and CSR

## Filippa Silverstolpe, Business Development & Environmental Coordinator, Roslagens Sparbank, Sweden

Successful commercial operations that benefit society – this has been part of the philosophy of Swedish savings banks ever since the first one was founded in 1820. It's a philosophy based on trust, which has become increasingly important in the business sector in recent years.

Most of Sweden's more than 60 savings banks operate in small and medium-sized communities. Each bank is independent and its success depends on serving the residents and businesses of its region. Many savings banks play key roles in development ventures to spur local growth and create new jobs. Others invest in environmental, school or healthcare sector projects, drug abuse prevention or reducing unemployment among young people. Still others support development projects in rural and sparsely populated areas, ranging from inspirational seminars and working groups to financial assistance. But all savings banks share at least one characteristic: they offer their customers savings accounts and investment opportunities that take ethics and the environment into consideration, such as loans for investing in home energy-saving measures.

### A "trampoline" for youth development: education and entrepreneurship

Sweden's savings banks still base their work on the fundamental idea that understanding private finance and savings provides people greater financial security. That's why savings banks take part in various knowledge-enhancing activities for children and young people, including working with schools to inform students of the importance of savings and teach them about private finance.

For many years, savings banks and local players have addressed issues concerning youth unemployment and have created trainee positions so the young can gain work experience and thus a foot in the door toward a productive working life. The majority of savings banks also invest in giving young people the opportunity to try their hand at running a business. This takes place through various initiatives, such as Ung Företagsamhet ("Young Enterprise"), Sommarlovsentreprenörer ("Summer Entrepreneurs") and Egen Sommar ("Own Summer"), and often in close collaboration with the Swedish Jobs and Society Foundation, via its Enterprise Agencies, and with other parties such as local authorities and schools. In 2010, many young people were put on the right

track to running their own businesses, with a start-up package of financial assistance, information on business administration, accounting, marketing, and legal issues and access to a personal mentor.

Roslagens Sparbank participates in a Chamber of Commerce project called Trampolinen ("Trampoline"), in which a business acts as a "sponsor company" by "adopting" a class of seventh-grade schoolchildren (age 13) and follows their progress during their final two years of compulsory education. The bank meets the class once a term throughout these two years to teach them about the bank and its employees' roles. One of the main aims of Trampolinen is to encourage young people and spark their interest in business and work prospects as they approach a time when they will make choices about further studies and careers.

### Environmental management, both in nature and at the workplace

Half of Sweden's savings banks are ISO 14001-certified – this is the International Organization for Standardization's environmental management framework. Several savings banks, including Sala Sparbank and Södra Dalarnas Sparbank, have developed their own environmental training courses, and the savings banks convene regularly to share knowledge and experience regarding environmental issues.

The savings banks adapt to developments in society by embracing CSR initiatives issued by bodies such as the UN and OECD, and by complying with the regulations and guidelines that apply to sustainability reports. For example, Sörmlands Sparbank has been certified since 2008 by Investors in People (IIP), an international standard to improve company performance by investing in employee development. Meanwhile, Roslagens Sparbank publishes a sustainability report in line with the Global Reporting Initiative ([www.globalreporting.org](http://www.globalreporting.org)), and a Communication on Progress (COP) report, a public disclosure to stakeholders on progress made in implementing the ten principles of the UN Global Compact ([www.unglobalcompact.org](http://www.unglobalcompact.org)). Finally, Westra Wermlands Sparbank has contributed to developing the Balansa concept ([www.balansa.nu](http://www.balansa.nu)), a way for companies and organisations to address work environment and competence issues, integrated with gender and diversity awareness.

### Sweden's savings banks at a glance

57 independent savings banks - 5 savings banks partly owned by Swedbank - 258 branches in 240 cities/towns in 20 of Sweden's 55 provinces - 11.6% of savings banks' operating profit distributed to the public good in 2010

Source: Swedish Savings Banks' Annual Report, edited by the Swedish Savings Banks Association

# Training partnerships crucial to advancing financial inclusion

WSBI Training participates in WSBI's mission to promote inclusive financial markets. Its focus on risk management, savings products design and distribution channel optimisation aims to help members become competitive and sustainable retail banks. One challenge is to make its 100 members a training offer that is sufficiently diversified to satisfy demands at different levels of development. The other challenge is to offer them state of the art banking training.

## WSBI new online training programmes

Though most people usually prefer residential trainings with face to face interaction with teachers and peers, banks striving to cut costs are currently increasing their use of distance learning and online training tools. Management also recognises the need for more, and regular, training to quickly and systematically integrate newcomers and to get the knowledge of every team member fully up to speed regarding a new product, IT system or regulation. In addition, training is viewed as an effective tool for instilling an entrepreneurial culture throughout all strata of the organisation, and distance learning and online training, in particular, appear to be perfect tools. Last but not least, today's distance and online training packages are more attractive than those in the past thanks to recent improvements in communication and information technology and in accessing them. All of this is reason enough for WSBI to enrich its existing service range of training by adding distance and online training on core banking topics.

WSBI has established partnerships with two online training providers: the Belgian SimArch, which specialises in online simulation programmes, and the Spanish Instituto de Estudios Bursátiles (IEB), which specialises in online master programmes in banking and finance and is Spain's leading financial training institution. IEB offers the possibility of cooperating with the London Business School of Economics within the framework of an online master programme and with the Global Association of Risk Professionals (GARP), the globally recognised leader in financial risk testing and certification programmes.

### Online Master Degree in Banking and Finance

Given the financial industry's increasing competitiveness and the challenging processes triggered by the global financial crisis, the market requires high-level professionals with deeper knowledge of financial markets and institutions and sophisticated management skills in order to add value to stakeholders and sustain profitability. Thus WSBI is developing an Online Master Degree in Banking and Finance, in partnership with IEB. The Online Programme flexibility allows four Master Degrees: a Master Degree in Banking and Finance, two specialised Masters, one in Responsible Retail Banking and one in Universal Banking (Independent Programmes), and an Executive Master Degree in Responsible Retail and Universal Banking that includes all programme con-

tent. Another objective of this programme is obviously to attract WSBI's larger and more developed member banks in emerging countries. The programme, which will be launched first in English, will be enriched by study visits of WSBI members who would like to participate. IEB will ensure the cooperation and support of the London Business School of Economics for the same purpose. The programme will launch in early 2012.

### Online bank management simulation: an international contest

WSBI and SimArch – a Belgian firm specialised in the development of online simulation training programmes – proposed last spring a three-day online bank management simulation as an international contest between several financial institutions throughout the world (Europe, Africa, Asia, and North America). During the three days, participants navigate through six financial quarters, with the help of online access to a support team. After each financial quarter, a tutor gives online feedback. Each year, the winning teams on each continent are invited to participate in the global finals in a famous world city – this year in New York – where the winning team will be crowned “Best Managed Bank of the Year”. Given WSBI members' interest, the programme will take place again in 2012 and registration will start in September 2011.

### Online simulation courses: a national upgrading tool

Extending its partnership with SimArch, WSBI will propose a three-day online training to all WSBI and ESBG members on asset and liability management (ALM) – through courses entitled Bank Management I and II, for young and senior executives, respectively – to take place 7-9 November.

## European Bank Training Network (EBTN)

Through partnership with EBTN, an association of 43 banking training institutes (33 in Europe and 10 outside), WSBI is expanding its range of training services. EBTN's main objectives are promoting the ethical and professional development of employees in the banking and financial services sectors, and developing and promoting common European frameworks and standards for education, training and qualifications. It also liaises with EU and other competent authorities and organisations. WSBI members with active training academies may also consider becoming EBTN members.



Partnership with EBTN will allow WSBI and its members to benefit from EBTN's work in certification processes. EBTN participates in the European qualifications framework, which makes national qualifications more comparable across Europe, thus promoting employee mobility and lifelong learning.

Thanks to EBTN, WSBI has new ties with banking academies in Europe – including in Portugal, Romania, Bulgaria, Kosovo and Ukraine – which are interested in promoting WSBI training programmes to their own member banks. This also presents the opportunity for WSBI to meet potential new members and extend its visibility. EBTN has also been invited to partner in and promote the above online training programmes within its network of training academies.

### AMS Master in Management, Innovation and Entrepreneurship

WSBI has established cooperation with the Antwerp Management School (AMS) of the University of Antwerp, which aims to groom young management talent into professionals and entrepreneurs. AMS funds the development and coaching of disadvantaged students and young entrepreneurs and managers with outstanding grades from developing regions, and offers the possibility for students to undertake the AMS ten-month Master Programme in Management, Innovation and Entrepreneurship under attractive conditions.

WSBI and AMS have decided to partner in order to facilitate enrolment of high potential candidates from WSBI member banks, support their Master Programme study and help them achieve sustainable business results in their current business. Every year, the Master Programme accepts 12 candidates, and this year one of them will come from the Vietnam Bank for Agriculture and Rural Development (VBARD), a WSBI member. The candidate's programme will be partially funded by AMS. Considering the ample member bank response to WSBI's call for programme applicants, and thus the impossibility of accepting all of them, AMS and WSBI are considering developing an executive programme to meet member bank requests.

#### CONTACT

Laurie.Dufays@savings-banks.com



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