



WSBI

The global voice of savings and retail banking

# Measuring the social dividend in WSBI members' activities - revealing the hidden elements



A study giving a fuller picture of the value created by savings and socially committed retail banks

The World Savings Banks Institute (WSBI), in cooperation with Oxford Policy Management (OPM), conducted a study on the social dividend generated by savings and socially committed retail banks.

While savings banks are competitive for-profit organisations they are also driven by the conviction that alongside the financial return necessary to achieve the sustainability of their operations, they also assume a social responsibility and generate a social return or social dividend.

This social dividend materializes notably in their corporate social responsibility (CSR) policies and in their direct support to programmes and projects in their regions with the aim to foster economic, social and cultural development.

The present study goes beyond these visible ('explicit') illustrations of the savings banks' social commitment. It reveals and assesses the value of the hidden ('implicit') part of the savings banks' social dividend. The one which derives from their provision of extensive access to financial services in their regions, including to underserved customer groups and geographical areas which would otherwise be deprived of proximity banking services.

## Participating banks

A sample of six WSBI member institutions from Spain, Sri Lanka, Uganda, Colombia, France and the USA has been studied.

Name	Caixanova	HNB, Hatton National Bank	PBU, Post Bank Uganda	BCSC, Banco Caja Social Colmena	CENFE, Caisse d'Epargne Nord France Europe	Red River Bank
Country	Spain	Sri Lanka	Uganda	Colombia	France	USA
Type and services provided	Full-service savings bank part of CECA (Confederation of Spanish Savings Banks) with branches throughout Spain and abroad	Full-service privately-owned retail bank	100% government- owned bank, offering savings, lending & money transfer services	Joint stock company offering savings & lending services	Full-service savings bank part of Groupe Caisse d'Epargne	Full-service privately-owned community bank part of ICBA (Independent Community Bankers of America)

**METHODOLOGY:** The methodology applied was designed to build up the cost of providing different services at branch level, starting with the direct costs involved and layering on other support and central control costs, before eventually adding on the costs of a bank's central executive and any strategic initiatives it may implement. This model was developed for two contrasting branches in each savings bank, one major money centre and one in a less advantaged, possibly rural region, with a view to compare cost balances.





## An ideal business model to achieve broad outreach

The savings bank business model is ideally suited to easing its way into as many local markets as it can possibly reach. The study shows that the way in which savings bank capital is generally managed – with less of the overriding commercial imperative to create and distribute surplus capital back to shareholders – makes it easier to sustain marginal branches that only need relatively small amounts of capital. On top of this, savings banks can easily adapt their business model to the demands of each local community by deploying only the services which are really needed (just savings services or savings and lending services, etc.).

One major caveat though is that some regulatory requirements, especially across the developing world and acutely so in Africa, can hinder the ability of savings banks to fit the resources they deploy to local market potential (eg. minimum security requirements irrespective of branch size).

## Broad outreach does not hinder financial sustainability

The study demonstrates that there is no evidence of massive financial transfer from stronger savings banks' branches operating under more favourable market conditions to weaker branches in

more marginal market areas – i.e. all the branches in less favoured locations which were studied proved to cover (or very nearly cover) the marginal costs of keeping a presence in those areas.

In the limited cases where branches in more favourable market areas do shelter those in less favourable ones, it generally seems to create extra operating profit to cover central overheads and required earnings on capital that the banks would have to cover in any case even if the more marginal branches were to be closed. This all confirms that the savings banks' broad outreach does not question their overall profitability.

## Adequacy of operating resources essential

Another finding of the study is that in order for the savings banks' model to fully deliver it is crucial that operating resources – particularly staff and premises – are deployed in a way that fits the business potential of the less favoured areas so productivity of human capital is kept as high as or even higher than in more favoured markets.

## Conclusions

The results of this study are significant because they provide a greater insight into the various mechanisms that allow some financial institutions, such as savings banks, to maintain a strong commitment to local community development.

The study looks beyond the savings banks' support of socially-relevant projects and programmes that promote the development of regions to focus on the saving banks' provision of financial services to a broad spectrum of clients including low-income individuals and illustrates that:

- savings banks remain accessible across a wide range of market areas as part of their proximity banking approach and because they have the ability to adjust their business model to achieve this;
- the savings banks 'stakeholder' model, seeking to bring value and return not just to the shareholders but to the whole community of stakeholders which surrounds them, is allowing these banks to have a broad outreach and to play a decisive and positive role towards financial inclusion while continuing to operate profitably and sustainably.

Overall, the study shows that savings banks are sustainable financial actors in the communities and growth engines in the regions, able to support the local economic activities and responsibly supply credit, especially to small businesses and micro entrepreneurs, in good and bad economic cycles.

