



TO G20 HEADS OF STATE AND GOVERNMENTS

Brussels, 15 September 2009

Re: ***Contribution to Pittsburgh Summit on Recovery and Reform***

The members of the World Savings Banks Institute (WSBI) and of the European Savings Banks Group (ESBG) are savings and socially committed retail banks that offer their services mainly to private clients, small and medium sized enterprises and local authorities. They work through extensive distribution networks that enable them to develop proximity services and provide regional outreach. They practice a socially responsible approach to business and to society. The 110 members, representing around 6,500 banking institutions, are active in 92 countries throughout the world in developing and developed countries alike. Assets of WSBI/ESBG members active in the G20 countries amount to 8,767 billion USD and non-bank deposits to 4,636 billion USD¹.

At the G20 Summit in Pittsburgh on 24-25 September 2009 important decisions will be made to remedy the perceived shortcomings in the regulation and supervision of the financial sector. In this context, and as a follow-up to their input for the April 2009 Summit², WSBI/ESBG and their members would like to express their concerns and submit their proposals on a number of key issues which will be discussed in Pittsburgh:

Importance of a pluralistic market structure for stability

- WSBI/ESBG would like to reiterate its opinion that recent events have evidenced that a pluralistic market culture, with banking players with different business models, scopes and sizes, is a great asset. The pluralism and the diversity of Europe's banking sector for example, are key reasons why aggressive and – now evidently short-lived – business strategies were not the prevalent banking practice within Europe. In fact, pluralism *is* risk diversification, as the diversity in business models and in market players' priorities protects the economy against a uniform and 'thundering herd-like' bank race over the edge of reason and sustainability³. It is therefore also due to the pluralistic market culture that there are many banks which are at this point able to maintain and even to increase lending to the economy.

Adequate supervision of 'mega-institutions', level playing field for all market participants

- WSBI/ESBG agrees that it is important to adequately oversee and examine mega-banks and financial conglomerates operating across financial sectors (banking, insurance, securities) and across countries. These increasingly interconnected financial institutions have dramatically increased systemic risk and the current crisis situation evidences the impact of their failures on the overall economic stability. The question of whether the development of such financial institutions should be supported at all also deserves to be raised.

¹ See full list of members in G 20 countries and detailed figures as Annex 1

² See DOC 0257/09, Annex 2

³ Recently, a study was published, which investigated the merits of a diverse banking system, including from a stability point of view. R. Ayadi, R. Schmidt, S. Carbó Valverde, Investigating Diversity in the Banking Sector in Europe, 2009.



WSBI-ESBG

Associations internationales sans but lucratif/Internationale verenigingen zonder winstoogmerk/ International not-for-profit associations

Rue Marie-Thérèse, 11 ■ B-1000 Bruxelles ■ Tel: + 32 2 211 11 11 ■ Fax: + 32 2 211 11 99

E-mail: first name.surname@savings-banks.com ■ Website: www.savings-banks.com



However, the much-needed efforts to improve international and cross-sectoral cooperation to better supervise these mega-institutions should not be made to the detriment of other financial services players, and especially proximity banking institutions such as WSBI/ESBG member banks. It is essential that these different types of banking institutions, despite their differences, can operate on a level playing field. This point highlights the need for an overall system which is flexible enough to meet the challenge of embracing a wide spectrum of market participants, and at the same time will keep oversight and regulation as close as possible to the relevant national, regional and local markets. In this context, concerning supervision, WSBI/ESBG strongly supports the recognition of the central role of local supervisory authorities, given their familiarity with local markets and their proximity to the supervised entities. This being said, a mechanism to ensure better cross-border cooperation between supervisory authorities at the international level would be welcome.

Assessing the need for more and 'better' capital

- Regarding the development of stronger prudential regulation, WSBI/ESBG supports the need for all financial institutions to operate with an appropriate level of capital. However, capital requirements increases should strictly target and apply to the risky activities and transactions where a lack of regulatory capital has been demonstrated, and which have therefore been at the source of most of the current problems; examples are some financial market activities such as complex securitisation. Stricter capital requirements should in no way be imposed in a generalised manner and affect business lines which have proved to be adequately regulated.

Additionally, the objective of “better” quality capital should take into account the diversity of banking players and of their ownership structures. Therefore, the planned harmonization of capital should not refer only to the model of banks organised as public limited-liability companies with shareholders and voting rights. The planned harmonization of capital should also take into account the diversity of ownership structures in the banking sector. In this respect, WSBI/ESBG welcomes the Basel Committee’s recent statement on the need to develop “appropriate principles” for the definition of the level of Tier 1 capital for non-joint stock companies.

WSBI/ESBG insists on the need to introduce the envisaged additional capital requirements only once the effects of the crisis have passed and markets have recovered. The timing is important in this matter to ensure the efficiency of the new measures and to avoid any counterproductive effects. In addition, any proposal to increase capital requirements should be preceded by an impact assessment; it will be of particular importance to assess the cumulative effects of all the envisaged measures.

Avoiding excessive leverage in the financial system

- WSBI/ESBG is of the opinion that the proposed introduction of a supplementary ‘leverage ratio’, in addition to the existing risk-based measures provided in the Basel II framework, may not necessarily lead to achieving the objective of limiting the build up of leverage in the financial sector. The details underpinning the envisaged additional simple metric for addressing leverage will be crucial for its effectiveness. WSBI/ESBG therefore would like to highlight the importance of a proper consultation process with the industry and of conducting an in-depth impact assessment, in order to identify the appropriate way to achieve the objective of avoiding excessive leverage in the financial system.

Remuneration policies in the financial sector



- WSBI/ESBG shares the views that compensation incentives within an institution should support long-term, firm-wide profitability. The current crisis has made it apparent that both the level and the structure of remuneration were factors which, in a number of cases, have encouraged short-termism and induced high risk-taking to the disadvantage of the interests of the firms and other stakeholders. Proportionate and adapted measures should be taken to prevent such inappropriate incentives. However, it should be remembered that remuneration policies are very institution-specific and a “one-size-fits-all” approach is not appropriate. Hence there is a need for principles-based regulation. Reaching an agreement on this topic would be an important step to restoring the credibility of the financial system in the eyes of the general public and to re-building much needed trust.

WSBI/ESBG and their member banks hope that these comments and suggestions will contribute to a constructive discussion. We would be pleased to have the opportunity to discuss these views with you, following the Pittsburgh discussions.

In the meantime we remain,

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'J. Olavarrieta'.

Jose-Antonio Olavarrieta,
President of WSBI

A handwritten signature in blue ink, appearing to read 'H. Haasis'.

Heinrich Haasis,
President of ESBG