



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



# NEWS & VIEWS



## Before the window closes

For years savings banks have talked about increasing access to finance. Today, policymakers are not only listening; many of them are also doing the talking. Why? Because the financial crisis showed that the big, supposedly too big to fail banks were no better than rudderless dinghies and that the consumer wasn't just forgotten but treated as if he were expendable. It's a bitter irony that subprime loans benefitted everyone except the very customer they were purported to benefit.

Policymakers feel they must not only make amends to consumers; they must do all they can to prevent another crisis. They've learned that these two missions are not mutually exclusive: the way to increase a financial system's stability is by including more people in it. This formal recognition of the mutually reinforcing policy objectives of financial stability, financial inclusion and consumer protection is a major step toward fully inclusive financial sectors worldwide. It's also a gaping window of opportunity, and savings banks will take up the challenge.

Savings banks are perfectly suited to lead the access to finance push, because they can play to their strengths: they inspire trust; provide customers with not only a safe place to save but with experts who can shepherd them through a plan to accumulate savings; offer superior security and privacy for their customers' financial transactions and are very strong in relationship banking; combine a mix of long- and short-term savings with money transmission and can often grant loans in ways their competitors cannot; and, perhaps most important, their success depends on the long-term satisfaction of their customers.

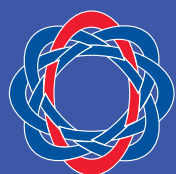
But savings banks have to go out and get more of them. Now. Because our competitors are not waiting to take advantage of this window of opportunity. Other financial and non-banking institutions are reaching out to the lower income earners and previously excluded populations. Savings banks can turn this threat into an opportunity. For example, some see mobile money operators and other non-banking institutions as an existential threat to traditional savings banks, but they actually present an opportunity to forge efficient, win-win partnerships with institutions that have complementary expertise – which savings banks can tap to reach more customers.

Given that those who make the rules are lending their ears in unprecedented fashion, now is also the time for savings banks to communicate with policymakers, legislators and regulators. For instance, since regulators play a valuable role in defining risk management rules, when a bank finds a solution that clearly eliminates risk from a process, it should show the solution to the

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WSBI believes in the potential of savings banks and will support their efforts to invigorate their banking products and services and develop attractive offers for their clients.



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

regulator, champion it, and aim to negotiate on other matters of concern – say, a potential partnership limited by regulation. With all the talk of financial access, there's no time like the present for a savings bank to show they're committed to doing what policymakers are calling for: including more people in the financial system.

WSBI and ESBG believe in the potential of savings banks and will support their efforts to invigorate their banking products and services and develop attractive offers for their clients. Because customers are not waiting. Neither will policymakers. Especially after the worst of a storm has passed, their attention can shift, and who knows what course they'll plot next, and when. We only know that they will. And when they do, like all windows of opportunity, this one, too, will close.

Chris De Noose  
WSBI - ESBG Managing Director

## ESBG welcomes its newest member!

At the 6 May ESBG General Assembly in Warsaw, Poland, ESBG had the pleasure of welcoming the newest member of its international family of banking institutions: **The Swedish National Savings Banks Association**, or "Sparbankernas Riksförbund", which represents 62 savings banks and 10 savings bank foundations.

Together with Swedbank, ESBG now has two Swedish members, and a total of 29 members in 25 European countries.

## In Memoriam

It was with great sadness that WSBI learned of the passing, in April, of Diogal Pouye, who was for many years La Poste du Senegal's representative to WSBI. Among other functions, he was vice-president of WSBI in charge of microfinance, president of the African Regional Group and President of the Groupement des Caisses d'Épargne et des Chèques Postaux, a division of UEMOA, the Union Economique et Monétaire Ouest-Africaine. Mr Pouye was a dynamic colleague, an ardent believer in the value of postal financial services, and a good friend to WSBI members and staff. To all of Mr Pouye's family, friends and colleagues, WSBI expresses its deepest sympathy for their loss.

# New EU financial watchdogs snarl, and show their teeth



Laura Whiskerd

For those not in the know, as of 1 January 2011, the European Union has been subject to a new system of financial supervision, set up in the aftermath of the financial crisis.

Following roughly a year of negotiations surrounding this legislative package, the newly established supervisory architecture consists of a European Systemic Risk Board (ESRB), responsible for the assessment and macro-prudential oversight of the build-up of systemic risk within the Union, and at the micro-prudential level a European System of Financial Supervision (ESFS). This system comprises three new European Supervisory Authorities (ESAs), which replaced their predecessors: the three Level 3 (3L3) Committees. Thus the European Banking Authority (EBA) replaced CEBS, the European Securities and Markets Authority (ESMA) replaced CESR, and the European Insurance and Occupational Pensions Authority (EIOPA) replaced CEIOPS.

The recruitment procedures for each of the new Authorities are now in the final stages of completion. Following confirmation of these appointments from the European Parliament, each Authority (ESA) now has a Chairperson and an Executive Director firmly in place; the Executive Director being mainly responsible for the day to day running of their respective ESA.

Reflecting the European dimension, the appointments reflect quite a balanced mix across member states: EBA Chair Andrea Enria of Italy and Executive Director Adam Farkas of Hungary; ESMA Chair Steven Maijor of the Netherlands and Executive Director Verena Ross of Germany; EIOPA Chair Gabriel Bernardino of Portugal and Executive Director Carlos Montalvo of Spain; and ESRB Chair Jean-Claude Trichet, the European Central Bank President.

Renowned for being allocated with more extensive powers than was originally envisaged by the European Commission, and particularly the European Council, these new financial watchdogs have already begun to “stretch their legs” – and have set out on their work to improve and ensure effective financial supervision across the European Union.

On 18 March 2011, for example, EBA published details of the scenarios and methodology for the March-June 2011 EU bank stress test, one of its most immediate tasks. The publication sparked controversy, as EBA’s definition of eligible capital did not coincide with banking sector realities in all member states and thus generated considerable concerns that stress test results would paint a misleading picture of banks that are actually sound and stable.

The heated discussion that followed has once again reflected the complexities of the European banking market and thus of EU banking supervision – however, the compromise that eventually was reached ultimately highlights that compromise, flexibility and supervisory zeal are not incompatible. Nevertheless, by setting a tough 5% common equity Tier-1 benchmark for passing the stress test, EBA has certainly showed its teeth.

EBA is not the only ESA to have made a bold entry. ESMA, too, has already begun to exercise its powers – for instance, as of the second half of 2011, it will be empowered with full responsibility for the supervision of EU credit rating agencies. As such, ESMA has already consulted on its guidelines for the application of the important endorsement regime under the 2009 Regulation on Credit Rating Agencies, which is currently under review. This financial watchdog for securities and markets has indicated that it aims for its guidelines to be adopted beginning in the second half of 2011. Thus ESMA is also showing its teeth, and with its direct supervisory authority over CRAs in Europe, as well as a greater role in recognising and overseeing Central Counterparties (CCPs), it even has the potential to become the most powerful of the three financial watchdogs.

Yet it is not only the new watchdogs who need to catch up on their tasks – the banking industry, too, has to adapt to this new scenario. Here the EBA’s Banking Stakeholder Group will become an important platform and ESBG is reassured that two representatives of savings banks have been appointed as its members. Indeed, this stakeholder group is quite revolutionary as it seeks to bring together not only banking industry participants, but also financial services users and academics. This will open a new kind of discussion – which will perhaps pave the way for a new reflection: Will banking stakeholders begin chasing the watchdogs?

It remains to be seen how the work of the ESAs will progress, and just how much power they will eventually be able to exercise. For the time being, however, it is evident that they are sending a clear message to the EU: *We have sharp teeth, and we’re not afraid to use them.*

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# Is an EU mortgage credit Directive necessary?



Astrid Hagenah

At the end of March, the European Commission, DG Internal Market and Services published a proposal for a “Directive on credit agreements relating to residential property” (previously known as “Directive on responsible lending and borrowing”). It focuses on mortgage credit to consumers and on certain prudential and supervisory requirements for credit intermediaries.

The proposal has two pillars. The first deals with the pre-contractual phase of mortgage credit. It introduces numerous obligations concerning business conduct, staff competency requirements, advertising and pre-contractual information, and imposes new obligations on mortgage providers to thoroughly assess a consumer’s creditworthiness, based on criteria including income, savings, debt and other financial commitments, before the con-

clusion of a mortgage contract (or significant increase in amount of credit). If the assessment is negative, the mortgage credit must be refused and the consumer informed of the reasons for rejection. The proposal would also require mortgage providers to allow mortgage holders to repay their mortgage credit early, subject to certain conditions.

The proposal’s second pillar creates a brand new legal framework for credit intermediaries, by introducing an obligation for all mortgage credit intermediaries to be authorised, registered and supervised, and by establishing a passport system.

The proposal’s publication is no surprise. Savings banks have long since anticipated it, and the European Commission has been analysing the European mortgage credit market for years, initially with the objective of pursuing integration in the single market (through, for example, the 2007 White Paper on the Integration of EU Mortgage Credit Markets). Following the financial crisis, the Commission altered its focus to the restoration of trust and consumer protection in the European mortgage market. Savings banks have been consistently active concerning this initiative and have engaged with the European Commission through all of their consultative steps.

Exactly why have savings banks been so actively involved? European mortgage markets are inherently domestic in nature, which is attributable largely to consumer behaviour rather than to any lack of EU intervention. Therefore, although savings banks fully support measures that assist consumers, they find it difficult to understand the rationale for EU-level action. When it comes to mortgage credit, member states are closer to developments on the ground and have a better understanding and appreciation of cultural issues and customer behaviour patterns. Therefore, if action is necessary, member states are better positioned to intervene in the mortgage market. To this end, it is necessary to consider the existing provisions regulating mortgage credit in member states, in particular the large number of member states that very recently extended the scope of the Consumer Credit Directive to include mortgage credit.

Savings banks have a legitimate concern that further action at the EU level regarding mortgage credit could result in unnecessary costs without producing any real ancillary benefit.

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# A tale of two standard setters: IFRSs, GAAPs, and a critical year for convergence



Raphael Delli

In a 14 April interview<sup>1</sup> with the International Financial Reporting Standards Foundation, the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) clarified stakeholder concerns regarding the convergence of International Financial Reporting Standards (IFRSs) and US Generally Accepted Accounting Principles (GAAPs).

In doing so, the two boards demonstrated their increased collaboration since mid-2010, when they began working on proposals regarding impairment.

The two standard setters have made substantial progress towards completing the three remaining projects in their Memorandum of Understanding (financial instruments accounting – also known as IFRS 9 – leasing and revenue recognition), and in their joint project to harmonise US and international insurance accounting standards.

However – and surprisingly, given the limited comment periods of the last two proposals – both boards decided to extend their June 2011 deadline in order to allow for additional collaboration with stakeholders. They have yet to specify the new deadline, but it will respect the G20 and Financial Stability Board end-2011 time limit for completing convergence projects.

ESBG is satisfied by the decision, as it has always stressed, in accordance with the European Commission, that convergence should not be achieved at the expense of quality. However, while the Foundation interview with IASB and FASB addressed some stakeholder issues, it left others aside and revealed new ones. ESBG stresses that:

- some proposals lack sufficient clarity (such as those regarding impairment) or are incomplete (hedge accounting proposals do not include macro-hedging), which raises concern over whether the deadline is too short;
- planning an effective transition requires a significant amount

of time, and ESBG wonders whether the European Financial Reporting Advisory Group's comments on effective dates and transition methods will be considered;

- users of financial statements are not limited to investors, and further consultation should involve all stakeholders, including preparers;
- ex-ante consultation is very welcome but ex-post follow-up is of utmost importance; given the end-2011 deadline, standard setters are leaving less time for informed, fact-driven responses to the published final proposals;
- the majority of European stakeholders, ESBG included, are critical of the first phase of IFRS 9, as further analysis has proven that the use of fair value with respect to bank lending activities could be expanded.

Against this backdrop, ESBG is looking forward to the end of the year when the US Securities and Exchange Commission will decide whether to allow US companies to use IFRSs. If it does, it would give a tremendous boost to global accounting convergence; if it doesn't, the prospects could become seriously bleak. Thus 2011 is critical for convergence, as by its end both the US and Europe will have made their voices heard.

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<sup>1</sup> <http://www.ifrs.org/News/Announcements+and+Speeches/IASB+FASB+interview.htm>.

# The draft SEPA migration Regulation: What is the cost of a fiction?



Norbert Bielefeld

Since the dawn of mankind societies have thrived on myths: Gilgamesh, Prometheus, Sisyphus and many others have populated the imagination of millions, and inspired many to act. The digital age's most common version of myths takes the form of bold mission statements and ambitious long-term visions: these, too, are meant to inspire and lead to action. But in this digital age these cannot be an excuse for completely ignoring economic and market dynamics.

In many respects the Single Euro Payments Area (SEPA) project belongs to the realm of myth. It is bold and ambitious. It is transformational, and therefore concerns the creation of a new order, although its actual genealogy, and the question of the supreme being governing it, remains in dispute. But there should be no doubt that SEPA will be created one day. The Regulation currently debated in the European Parliament and Council will set a date (or dates) by which the existing national credit transfer and direct debit schemes will be discontinued and replaced by pan-European ones. This Regulation will achieve for the demand side (corporate, SMEs, consumers, government authorities) what the supply side has already achieved through self-regulation.

However, several dispositions of the current Regulation induce well-founded fears. First, the Regulation proposal describes at some level of detail the objectives of the migration, i.e. the components of the credit transfer and direct debit schemes that may replace the existing legacy schemes. Yet that level of detail is too great for the technological neutrality that any good piece of legislation should adhere to, and too little to properly describe the existing, pan-European Rulebooks for credit transfers and direct debits. So there is some chance that Europe ends up with several Regulation-compliant yet incompatible payment schemes. This is not SEPA's intended manifestation.

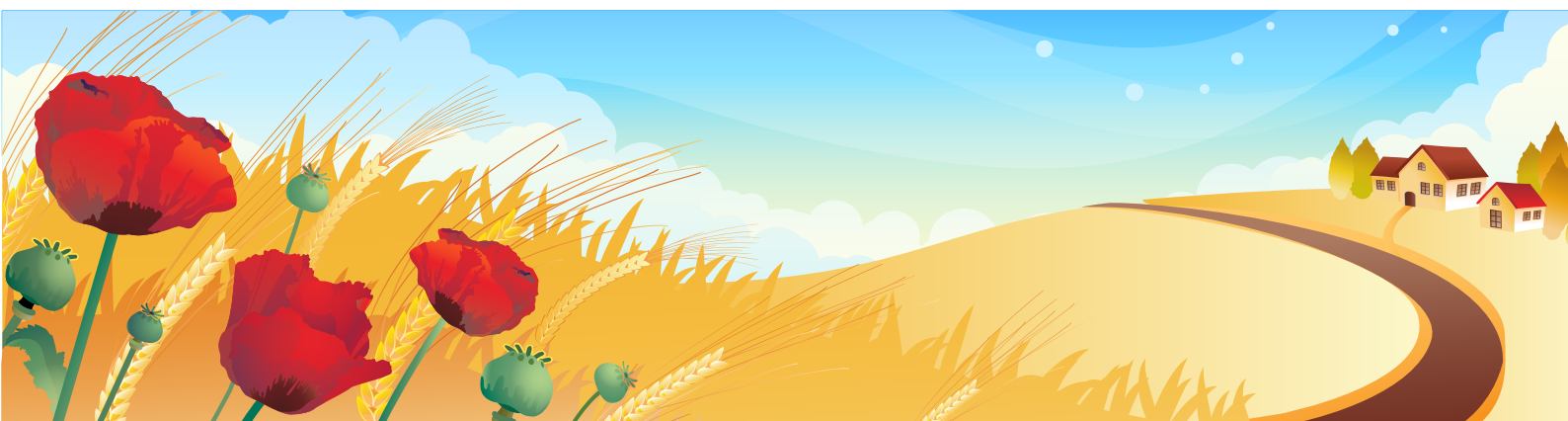
Second, the Regulation proposal redefines again the frontier for consumer protection, beyond what is today's practice for well functioning and well accepted national schemes. Yet the legislator tends to forget that a shift in consumer rights comes at the expense of the value proposition. Absent the possibility of repricing accordingly, e.g. a direct debit service payment, service providers will be left with no other choice than to either support it sparingly or via cross-subsidisation (that is, by using other revenues). This is not a good starting point for continued innovation.

Finally, the Regulation proposal prohibits debtor banks from being remunerated for the service they render to creditors for the presentment and payment of direct debit transactions; the same debtor banks are also prevented from recouping the costs they incur from their customers. Should the regulator choose not to hear the practical proposals made by the market, debtor banks will be left with no option but to cross-subsidise that service as well. And they will certainly have learned their lesson when the topic of innovation comes to the table.

In essence, the above dispositions are all beset by the same ailment: the desire to entertain the fiction that transformation can be free of charge. Alice is probably alive and well in Wonderland, but will you meet her in SEPA? Unless the migration Regulation proposal is redressed with respect to these fundamental questions, both customers and their providers might wait a long time for a Single Euro Payments Area. Today's competitive world, however, might not wait for Europe to find the answer.

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# Prepping for PRIPs



Caroline Gourisse

Traditionally, retail investors' risk appetite, and as a consequence their risk exposure, varies significantly across the EU. With the financial crisis, many "wrapped" products – such as the range of investment products known as Packaged Retail Investment Products, or PRIPs – came under intense scrutiny because they were not only risky but so complex that investors were unable to assess the level of risk to which they were exposed. In the US, the major focus was on securitisation, such as Residential Mortgage Backed Securities (RMBS). In Europe, structured term deposits or structured securities, such as Euro Medium Term Notes (EMTN) or certificates, are the main concern.

The financial instruments market is not easy for retail investors to navigate. Information on "distributed products" (those sold via a network) is complex, which makes product comparison a challenge and may lead not only to financial losses but also to mistrust of financial instruments. Having recognised the negative implications that this situation could have for the market and the ability of retail investors to make appropriate use of their savings, certain EU member states adopted additional legislative requirements in order to protect investors.

The European Commission, however, was unsatisfied. In 2007, it launched an initiative to improve the consistency of information requirements and sales rules for Packaged Retail Investment Products (PRIPs) at the European level. Targeting product complexity more than product risk, the initiative signalled a change in perspective on how retail financial products are conceived and distributed: protecting against risky products (e.g. equities) is not the same as protecting against complex products (PRIPs), which can be less risky but also less understandable. The initiative has accompanied efforts aimed at improving financial literacy throughout the EU in order to empower consumers to make better decisions.

The Commission has since sought out banking industry and consumer association perspectives. It presented its objectives in an April 2009 Communication and launched a consultation in November 2010 to prepare a detailed legislative proposal split into two parts: rules on the form and content of pre-contractual product information, addressed in a horizontal (cross-sector) legislative instrument applicable to all relevant products; and rules governing the sales process, through a modification of existing sectoral Directives.

Perhaps the most difficult aspect of this reform is to agree on the definition of a PRIP. The Commission defines a PRIP as a "product where the amount payable to the investor is exposed to fluctuations in the market value of assets or payout from assets, through

a combination or wrapping of those assets, or other mechanisms than a direct holding". Understood as the core of the retail investment market, PRIPs are a range of retail investment products whose European market at the end of 2008 was worth up to EUR 8 trillion. Although PRIPs can take a variety of legal forms, they typically combine exposures to multiple underlying assets; are designed to deliver capital accumulation over a medium- to long-term investment period; and entail a degree of investment risk, although some provide capital guarantees. More often, they can be categorised into four groups: Undertakings for Collective Investment in Transferable Securities (UCITS), unit-linked insurance life products, structured securities (certificates, EMTN) and structured term deposits.

The Commission's first challenge is to determine what products could be considered PRIPs. They are wrapped instruments, thus plain vanilla securities (cash equities, bonds) are excluded. A white list could be helpful for interpreting the legal definition of a PRIP and implementing future legislation, but it would be difficult to update adequately to reflect product innovation. It would be more appropriate to white-list product categories.

The Commission's second challenge is related to disclosure. It supports a horizontal instrument that defines pre-contractual requirements as broad principles applied to all PRIPs, with specific requirements for each type. Although no agreed common format for product information documents currently exists, there is consensus on the principles that should govern them: they should be short, cover all the key information investors need, and be presented in a clear, easy-to-understand format. Such documents should provide a reliable basis for informed decision-making.

The Key Investor Information Document (KIID), the standard investor reference tool introduced by the UCITS IV Directive, is a solid benchmark for disclosure practice. KIID should replace the summary of prospectuses in order to give the customer a consistent, easier-to-read "building block" of information. Moreover, the KIID description of risks should be written in a flexible and narrative style, and not based on the calculation of a synthetic risk indicator – or based at most on the calculations of Value-at-Risk models – in order to avoid the negative results that have been observed concerning the KIID document in its current form.

The third and last challenge for the Commission will consist of coordinating the various proposals and legislative deliberations to harmonise marketing regimes for this variety of products.

Regarding selling practices, the Commission supports extending the rules of the Markets in Financial Instruments Directive (MIFID) and of the Insurance Mediation Directive (IMD) for relevant products, whilst adhering to the MIFID benchmark.

# Teaching teens to trade responsibly

Indeed, MIFID offers a clear benchmark, as it contains rules on investment advice and on conduct of business covering, among other things, inducements. Nonetheless, additional work will be necessary to ensure the applicability of all MIFID rules to PRIPs and to establish how best to achieve a consistent and effective regulatory approach to all PRIPs, particularly those that are currently outside the scope of MIFID. Moreover, it is sounder for the whole chain if, whenever possible, the product manufacturer takes responsibility for preparing KIID.

The Commission's inter-services consultation on this issue is currently taking place, and a legislative proposal is expected by summer 2011. The proposal, and the establishment of the level 2 implementing measures by the European Securities and Markets Authority (ESMA), will deserve careful assessment by the savings and retail banking sector.

The Commission has already recognised that the implementation of this framework will entail significant costs for the industry. This is why the Commission already foresees the necessity of an impact assessment in order to provide a more detailed analysis of the impacts on the retail investment market.

Lastly, and most important, the overall goal of this initiative should be maintained: to protect consumers by ensuring that the information and selling provisions related to these investment products are neither too technical nor too intrusive.

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The financial crisis proved that enhancing the financial skills of European citizens has never been more important. A citizenry empowered with a strong grasp of financial matters, capable of making solid, responsible decisions, strengthens and stabilises the situations not only of individuals, but also families, communities, member states, and the Union as a whole.

Education begins with the young. This is the goal of European Stock Market Learning (ESML), an annual initiative offered by European savings banks and ESBG. Founded in 1998 as part of a collective savings bank effort to foster financial education in Europe, ESML conducts a ten-week securities portfolio management online simulation to teach high school students (aged 16 to 18) how stock markets function. Over the past decade, the initiative has expanded vastly: more than 250,000 students from seven European countries participated in 2010.

The students' regular high school teachers provide guidance on how the simulation works, but it is also a competition. In April, the Fédération Nationale des Caisses d'Épargne hosted the awards for the 2010 edition, in Paris. This year, for the first time, ESML added sustainability to the criteria for stock selection. Thus winning participants were not only those who accrued the highest total account value but also those who achieved the highest sustainability yield by the end of the competition.

At the award ceremony, WSBI-ESBG Managing Director Chris De Noose described the initiative as a unique opportunity to gain an insider's perspective on the financial markets and their major players through "learning by doing". Jonathan Faull, Director General of the European Commission DG Internal Market and Services and honorary European patron of ESML, stressed that financial education is more important than ever and that ESML proves it can begin in high school. He highlighted the importance of stock markets for the real economy, employment and growth, and the need for clear rules and supervision to make Europe a better market place.

The next edition of ESML will take place this autumn and will focus on the UN Decade of Education for Sustainable Development topic for 2011: the city.

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Joël Guerriau, President of Finances & Pédagogie and Managing Director of Fédération nationale des Caisses d'Épargne, and Chris De Noose, Managing Director of European Savings Banks Group, award certificates to the Austrian team, with their teacher Eva Fend and savings banks representative Stephen Rief.

# Revolution no impediment to SME & project financing in the Mediterranean



Laurie Dufays

Neither the revolution sweeping the Mediterranean's southern rim nor the increasingly weak Union for the Mediterranean (UfM) project have discouraged major economic stakeholders and financial organisations from striving to improve investment flows in the region.

SME financing remains high on the regional agenda. The Maghreb needs to create approximately one million jobs per year over the next 20 years to prevent unemployment from rising above its current level. Therefore, besides needing a source of funding for SMEs, southern Mediterranean countries also need to create more SMEs.

SMEs face a major problem: the lack of involvement of the domestic banking sector, which is bound to conservative risk assessment policies. Though the market is liquid, economic growth measures lack important elements conducive to financing SME creation: guarantees, insurance schemes, local currency loans, exchange risk coverage and direct equity investment. The lack of reliable accounting data and collateral and the low level of equity make SMEs unlikely candidates for banking credits. In addition, the southern Mediterranean region's different legal and economic systems have few real ties between them.

On 16 March, in Barcelona, Spain's leading savings bank La Caixa, Morocco's Caisse de Dépôt et de Gestion (CDG), the Institut de Prospective Économique du Monde Méditerranéen (IPEMED), the French Caisse des Dépôts (CDC), and the European Institute of the Mediterranean (IEMed) presented the Euro-Mediterranean Investment Conference: SME & Project Financing in the Mediterranean. It brought together approximately 90 high-level participants, including financial experts, economic actors, multilateral and international institutions, and North African, Spanish and French chambers of commerce and corporations (such as Repsol and Gas Natural, and including GDF Suez CEO Gérard Mestrallet). Their aim was to identify tools to promote and accelerate investment in the Mediterranean, especially via SMEs, and to present their recommendations, in particular:

- an infrastructure guarantee fund initiated by the EU and based on investment projects bearing the UfM seal of approval;
- an SME guarantee fund financed by the southern Mediterranean region and focused on clusters of enterprises;

- modernising financial markets to harness local savings for long-term investment in Europe's Mediterranean countries (infrastructure/SMEs);
- mobilising public and private stakeholders of the northern and southern Mediterranean to propose joint initiatives on information-sharing and collaboration;
- establish a north-south Mediterranean union of credit insurers to act as an interface between insurance companies.

Last but not least, major stakeholders favour creating a Mediterranean development bank and establishing an international dispute settlement centre in the region.

In its presentation of its Bill & Melinda Gates Foundation programme, which aims to double savings accounts in ten developing countries, including Morocco, WSBI illustrated the need for strengthening skills and exchanging experiences in order to build banking sector capacity. This would contribute to the development and proper management of investment in the Mediterranean. It could also be the starting point for the creation of a network for training and pooling and sharing investment experience.

Fostering regional socio-economic growth and political stability requires transformation at several levels. WSBI can contribute by lobbying governments and central banks to change and adapt the fiscal, supervisory and investment security regulatory framework; promoting business cooperation in public and private investment and partnerships; and providing training and consultancy in risk management and financial education and to facilitate remittance flows.

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# Mobile payments: Europe is not left in the dust

You are unlikely to find a banknote-printing mobile phone in Nokia's (or any other handset manufacturer's) product development plan. Is this good or bad news for the future of mobile payments? Only 15 years ago few could have imagined that today just about everyone would carry a perpetually switched-on device enabling you to talk to and text anyone and even access the internet. The mobile phone's omnipresence in our daily lives has led many to compare it to that other ever present accessory, the banknote- and coin-toting wallet, and some have even predicted that one of them will have to go – and that it won't be the mobile. But as the years pass and pilot projects are announced but come to naught, the developed world has been left in the dust by the resounding success of mobile payments in Africa – though, admittedly, “resounding” in only one country thus far. Has something specific gone utterly wrong, or is the picture more complex?

The first variable to acknowledge in the mobile payments equation is infrastructure. In Europe, cashless point-of-sale and remote payments are conducted fairly easy, with widespread issuance and acceptance of debit and credit cards and fair market penetration by online and internet banking. Of course, the European landscape isn't homogeneous yet, and some policymakers would hasten to point out the need to enhance cross-border use of existing infrastructure and remote card payment security – areas in which room for improvement exists but that have little to do with the mobile payment discussion. This existing infrastructure implies that today the payment transactions described above are probably not the best candidates for migration to the mobile channel.

This brings us to the second variable, transaction value. Low-value (under EUR 25) point-of-sale cash transactions are generally described as cumbersome and costly. Most attempts to sustainably replace them with card payments have failed owing to process complexity and economics. Clearly, contactless or proximity payments via mobile phone are a possibility. But beware an additional variable: customer expectations. For the end customer the benchmark is banknotes and coins: they're accepted everywhere, he knows at first sight whether he has enough to pay, and if he wants to monitor his spending he can do so at a glimpse. To have a chance to compete, contactless/proximity payments via mobile phone would have to be universally accepted, the payment capability should be reloadable anywhere, anytime, and, ideally, a spending monitoring function (which can be supported superbly by mobile phone graphics and sounds) should be available.

In making customers more comfortable to move away from using cash for low-value payments, mobile phone manufacturers also

have a responsibility: they should stop wooing customers every six months or so with the charms of RFid (radio-frequency identification, which uses radio waves), NFC (near field communication, a short-range wireless technology), SIM (the subscriber identity module embodied in a circuit card), SE (single element, a tamper proof smart card chip), UICC (Universal Integrated Circuit Card, a smart card) and a few other technologies represented by cryptic acronyms and abbreviations. The product cycle of manufacturers may conflict with the consumer's need for stability in the process of thinking about their money, but some degree of stability should reign once the current wave of technology (especially NFC) has been deployed – which should help.

The final variable is cooperation between the banking payment industry and mobile network operators. Of course, in today's world, anyone can do anything – it's just a matter of acquiring the right regulatory licenses. But the need for efficiency and universal acceptance strongly suggests that cooperation between banks and telecommunications companies in areas of core competence is the better path to follow, which in turn suggests that solutions will develop first at the national level – which is perfect, considering that low-value payments are a part of daily life – and then perhaps hook up cross-border.

So expect a report soon that mobile payments have begun to displace cash for low-value transactions (and to become ancillary to low-value peer-to-peer transfers) in countries where 95% of the population has a bank account. Higher value propositions will follow, combining account-based payments and, for example, new forms of shopping experiences, whether in-shop or remotely. As for the mobile phone that prints banknotes – don't hold your breath.

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# Opportunity for WSBI members to commit to responsible investment



Anne-Françoise Lefèvre

The Principles for Investors in Inclusive Finance (PIIF) target investors or fund managers who support activities focused on expanding access to financial services for poor and vulnerable populations in developing countries. The objective is to encourage investment in institutions and projects that act in accordance with the interests of the client at the end of the value chain, and provide affordable and responsible financial services and products.

The PIIF include supporting:

- the expansion of access to a broad range of financial services (such as savings, loans, insurance);
- the integration of client protection in investment policies and practices;
- the fair treatment of investees;
- the inclusion of environmental, social and corporate governance (ESG) issues in investment policies and reporting;
- the promotion of transparency in all aspects, such as financial product pricing but also investee services, investment objectives, etc.;
- balanced long-term social and financial risk-adjusted returns.

The PIIF are aligned with the United Nations Principles for Responsible Investment (UN PRI) and have been developed by a core group of microfinance investors, including ESG-WSBI member SNS Asset Management, in consultation with CGAP and with the

support of HRH Princess Maxima of the Netherlands, the United Nations Secretary General's Special Advocate for Inclusive Finance for Development.

The PIIF were launched on 27 January 2011 at the Responsible Finance Forum organised by the Ministry of Foreign Affairs of the Netherlands, and have now been endorsed by more than 40 parties, most of whom are investment managers but some are asset owners and professional services partners.

By signing, investors, fund managers or organisations investing in microfinance investment vehicles signal their intent to uphold the PIIF in their own investments, and to support the actions of other actors in the value chain to implement them, including retail financial service providers, rating and benchmarking agencies, donors, and government regulators and policymakers.

WSBI members who engage in microfinance or other investment activities in developing countries are invited to consider endorsing this initiative. It will further demonstrate their involvement in responsible and sustainable operations, and strengthen their commitment to supporting the long-term interests of their clients. It will also enable them to network with like-minded institutions, also signatories of the PIIF, and share good practices and experiences.

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## Lessons learned from trying to increase financial access for the poor



Ian Radcliffe

A year after implementation commenced on the ten projects of the WSBI "Doubling Savings Accounts" programme – supported by the Bill & Melinda Gates Foundation – the first lessons are emerging. Members presented their own conclusions during a workshop that took place in Cape Town in November (see *News & Views*, February 2011), and Stephen Peachey, the Programme Technical Adviser, has since complemented these with a detailed analysis of

data from the beneficiary banks. The result was a study entitled, "Comparative review of the obstacles faced by savings banks trying to improve access for the poor", distributed to the ten banks in March and April.

The study has now been redrafted for the benefit of a wider audience and published as a paper that can be found on WSBI's website ([www.savings-banks.com](http://www.savings-banks.com)). Five key points are presented:

- unbanked populations are remote and scattered, making it difficult for banks to provide easy access to their services;

# Envisioning a pan-African brand of postal financial remittance services



Mamadou Diallo

How can post offices in Africa enhance their platforms to create an efficient financial services system under one recognisable brand that can compete with well established money transfer operators? That was the central question at the “Conference on the development of postal financial services in Africa”, organised by the Pan African Postal Union, a specialised agency of the African Union Commission responsible for the development of the postal sector in Africa, 7-9 February, in Ouagadougou,<sup>1</sup> with the support of local postal operator and WSBI member Sonapost.

WSBI contributed a presentation on the “Extension of banking services to the unbanked and underserved communities through the postal network”. This was a good opportunity for WSBI to present and clarify its view that completing the institutional reforms of postal financial services, building appropriate partnerships, and increasing the efficiency of postal networks would create a major force for financial inclusion.

Conference participants agreed on:

- calling on authorities to set up appropriate policies for the development of postal financial services and to encourage partnerships between postal financial services and other financial services providers, namely banks and microfinance institutions;

<sup>1</sup> The conference report can be found at [http://www.upap-papu.org/burkina\\_faso/reports\\_burkina\\_faso.htm](http://www.upap-papu.org/burkina_faso/reports_burkina_faso.htm).

- the need to create a network of pan-African postal financial services for remittances with a logo and brand and that provides efficient and competitive remittance services;
- enhancing telecommunications coverage through cross-border projects such as the e-Post initiative led by RASCOM (Regional African Satellite Communication), an intra-governmental organisation that operates satellite telecommunication services for Africa, and seeking to interconnect all African countries, including their rural and remote areas;
- encouraging innovation in information and communication technologies and the sharing of infrastructure between post offices;
- encouraging post offices to implement analytical accounting to be able to trace costs and revenues of postal financial services.

Conference attendees included more than 130 delegates and experts representing the postal administrations of 26 African and European countries, including WSBI postal members from South Africa, Benin, Senegal, Gabon, Cameroon, Guinea, Burkina Faso and Nigeria, and other stakeholders, such as representatives of central banks, international financial institutions, and regional economic communities.

#### CONTACT

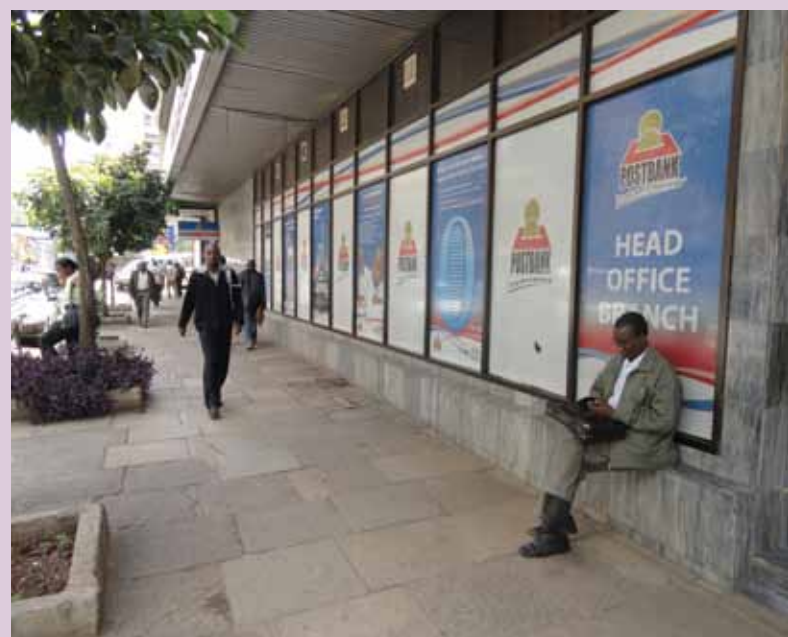
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- to meet the programme’s goal, participating banks must consider partnerships with mobile money operators or savings groups;
- products and services must be simple and affordable;
- bank staff must become the pro-poor marketers of first resort, despite training’s surprisingly high cost;
- and banks must become more assertive in the face of inappropriate regulation.

Thus banks must take a much more proactive approach, as it is no longer a question of what keeps the poor from accessing banks but rather what keeps banks from providing access for the poor.

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# Consumer protection on retail banking policy international agenda

As a result of both the global financial crisis and policymaker intentions to increase financial services outreach to vulnerable individuals, several initiatives are taking shape at the international level to foster financial services customer empowerment, protection and education. WSBI closely follows developments in this field, and will work with members to emphasise consumer protection as an integral part of their business offer.

In the wake of the financial crisis, Consumers International, the worldwide federation of consumer groups, chose to dedicate both the 2010 and 2011 editions of World Consumer Rights Day (WCRD) to fair financial services. Consumers International markets this celebration as an opportunity for its member organisations to press governments, industry, international organisations and the media to address consumer concerns about financial services.

WCRD 2011 was also part of Consumers International's Consumers for Fair Financial Services global campaign to increase consumer access to stable, fair and competitive financial markets. As part of this campaign, Consumers International formulated recommendations to the G20 on the enhancement of consumer protection in financial services, calling in particular for clearer contracts, charges and practices; effective redress and dispute resolution; measures to promote stability and safety of consumer deposits and investments; competition in financial services; better information design and disclosure and universal access to basic financial services.

WSBI shares a number of these objectives, but has diverging views on how to achieve some of them. For example, it agrees that financial service providers must provide their clients clear and understandable information on contracts and charges. However, WSBI opposes standardising contracts, because such action would stifle innovation and competition between providers, both of which benefit consumers. Standardisation would thus contradict Consumers International's call for greater competition in financial services, which WSBI shares.

WSBI also supports the principle of providing access to financial services for all. However, this should not amount to a call for the introduction of a right to an account, especially not at the EU level. This would go against the contractual freedom of banks, and would not be in line with their sustainability objectives. In addition, it could lead, as has been the case in the past, to providing access to non-usable or inconvenient accounts, which could remain dormant. WSBI believes that the best way to achieve universal access has to be defined at the national level.

WSBI and Consumer International exchanged views in April 2011 and agreed to continue their dialogue, based on further initiatives that could be taken on both sides, and on policy progress.

One of the upcoming key events will be the adoption of the G20 common principles on consumer protection, planned for October. The G20 mandated the Financial Stability Board (FSB) and the OECD to work on this issue, and a public consultation will shortly be launched, to which WSBI will contribute.

Consumer protection is also on the agenda of financial inclusion policymakers in developing countries. Their 2011 Forum, co-organised by CGAP, the Alliance for Financial Inclusion (AFI), OECD and the Central Bank of Malaysia, took place 5-6 April and examined the crucial role of consumer protection and financial education with respect to low-income consumers of financial services. The challenge is to ensure that financial inclusion results in enhanced consumer welfare and the development of a fair and responsible market. As part of its contribution to the discussion on financial education, WSBI emphasised the need to combine financial capabilities with financial access, to enable people to implement the financial education lessons they learn.

Following up on the Forum, AFI set up a Working Group on Consumer Empowerment and Market Conduct, whose main objective will be to develop consumer protection guidelines for central banks. WSBI considers this can be achieved through a balanced approach between a conducive regulatory environment for fair customer treatment, and responsible financial service provider behaviour, including self-regulation measures.

In addition to taking part in policy discussions, WSBI believes members, especially those outside Europe, need to be mobilised not only on the above issues but also on the long-term benefits that a comprehensive and balanced consumer policy could bring to the quality of services and consumer loyalty. Developing fair and open relations with all consumers is of particular concern to WSBI members, and WSBI will help them take the necessary steps to improve their business practices.

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# Investing today in the clients of tomorrow: youth financial inclusion

WSBI and its members are involved in several youth financial inclusion initiatives to fill the financial access gap, improve the well-being of children and invest in the clients of tomorrow. WSBI supports both policy initiatives conducive to children and youth access to relevant products and services, and the development of adapted youth products by member institutions. These activities include facilitating and promoting financial education, but they go even further, because the young, like everyone, need not only the ability to act, but also the opportunity, through access to adequate banking services and institutions. ChildFinance and YouthSave are pursuing this goal.

## ChildFinance: promoting ChildFriendly banking products



ChildFinance is a global movement which promotes social and financial education for children and their access to safe financial products and services. Its target is to reach 100 million children by 2020 through a multistakeholder approach. ChildFinance has already benefited from the support of institutions such as UNICEF, OECD, the World Bank, and several major banks, financial regulatory authorities and banking supervisory bodies.

ChildFinance's goals for increasing financial inclusion and access for children include:

- encouraging and promoting "ChildFriendly" banking services to be used for the practical application of the lessons learned through financial education;

ChildFinance is a global movement which promotes social and financial education for children and their access to safe financial products and services. Its target is to reach 100 million children by 2020 through a multistakeholder approach. ChildFinance has already benefited from the support of institutions such as UNICEF, OECD, the World Bank, and several major banks, financial regulatory authorities and banking supervisory bodies.

- establishing criteria for the development of ChildFriendly banking services and independently certifying them as Child-Friendly, based on two main principles, namely:

- empowering and protecting children and youths;
- providing banks with flexibility for product development and delivery;

- advocating for regulatory and legal support from financial regulators and policymakers in facilitating and creating banking access for children.

WSBI has contributed to the development of ChildFinance's strategy and now wants to encourage its members to join the initiative and consider developing ChildFriendly banking products.

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WSBI members interested in directly supporting the ChildFinance initiative and developing "ChildFriendly" products are invited to get in touch with WSBI.

## YouthSave: developing and testing savings products accessible to low-income youth

YouthSave is a programme funded by the MasterCard Foundation and run by a consortium involving Save the Children, the Center for Social Development at Washington University in St. Louis, the New America Foundation and CGAP. It works with local financial institutions and researchers to develop and test formal sector savings accounts for adolescents aged 12-18 in four countries: Colombia, Ghana, Kenya and Nepal. WSBI collaborates closely with the programme, as three out of the four YouthSave partner financial institutions – Kenya Post Office Savings Bank, HFC Ghana and BCSC Colombia – belong to the WSBI network, and WSBI serves as a member of the YouthSave Expert Advisory Board. WSBI spoke with YouthSave Director Rani Deshpande. →

# Interview with YouthSave Director Rani Deshpande

## What are the objectives of the YouthSave programme?

Our overarching goal is to shed light on whether youth savings accounts (YSAs) represent a truly sustainable development intervention. That question really has two parts: Do YSAs have development impact? And are they financially sustainable? We'll be looking at both. We'll look for development impacts in the realms of mental health, education and school results, and attitudes and behaviours towards sexual risk-taking, which have been observed among young account holders in early research on this issue. On the sustainability front, one of the main questions is whether there is a hard business case for these products, the assumption being that if there is, financial institutions would have an incentive to offer them without public subsidy. And if there is not, then how much, if any, public or donor subsidy is justified by the development impacts? These are some of the questions we will be investigating.

## Why was it decided to work in Kenya, Ghana, Nepal and Colombia?

As you can probably tell, the project has a number of simultaneous goals that require partners and locations with a number of different strengths. The YouthSave Consortium members have been developing this idea for several years, and so had come up with a long list of countries that met basic minimum criteria like political and macroeconomic stability and a conducive regulatory

environment while providing an adequate level of geographic and cultural diversity. From this group, we short-listed countries based largely on the existence of a pool of potential financial institution and research partners, and then finally selected our four countries based on a deeper evaluation of particular potential partners – since they really are the linchpin to the success of this project.

In the end, I think this diverse set of countries will enable us to see whether the hypothesised relationships between youth savings and development hold up in a variety of different contexts, and how commercial sustainability may vary depending on the regulatory and competitive environment.

## What are the key early lessons of the programme? What in your view are the three main challenges it will have to face?

It is still very early for us – all of our partners have not even completed market research yet – but based on findings so far, we've been struck by the commonalities between the demand profiles of youths across countries. First of all, by 12 (the youngest age sampled in our research) many youths are saving already – in small amounts, and informally, but they are saving. Their savings goals include both daily needs – school supplies were an especially common use of short-term savings – and longer-term goals. Education again figured very strongly here – both to continue their studies if they were in school, or to resume school for those who were not attending.



This raises an interesting challenge for product design, because youths indicated a simultaneous desire for short-term liquidity, and for help with savings discipline to accumulate larger amounts over the longer term. Our financial institution partners are all using different combinations of product features to respond to this challenge, and I am looking very much forward to seeing how youths in turn respond to the products on the ground.

That in itself will be another key challenge I think the project will face – seeing and dealing with how market research results actually translate into customer adoption. As we all know, what people say and what they do can often be two quite different things. There have been other examples in the industry of well-researched, systematically designed youth savings accounts that, for one reason or another, failed to achieve significant uptake. So we need to remain vigilant to the actual reaction of young customers to the products, and make good use of the pilots to address any shortcomings in design and delivery.

#### **Are there any specificities of the WSBI member business model that support the programme's development?**

I think it's not a coincidence that three out of four of our partner financial institutions ended up belonging to the WSBI network. When we were selecting financial institution partners, we were looking for professional management, scale, sustainability, and an orientation towards reaching lower-income people. Our project has both development and commercial objectives, and I think that's something we have in common with WSBI member institutions.

#### **How does the programme approach the financial capability of young people, and will financial education be part of the effort to ensure product uptake?**

Different institutions have different interpretations of what "financial capability" means, but I think one of the most useful frameworks conceptualises it in terms of a combination of individual attributes – knowledge, attitudes, behaviours and skills – and opportunities to exercise or deploy those attributes. The extent to which those opportunities exist for particular individuals depends on the institutional context in which they find themselves. In a sense, creating appropriate, accessible youth savings accounts is changing that context, creating an opportunity that didn't exist before.

However, we recognise that individual skill-building may also be necessary to help youths take advantage of the opportunity. Group-based trainings or workshops have been quite popular among other programmes for this purpose, and we will likely also

include them in our efforts. But given their cost, we may need to limit them to particularly marginalised youth. To build awareness and skills among the whole population of account holders, we are considering tools like internet- and SMS-based mechanisms, radio and TV shows, and street theatre. That's in addition to the normal sorts of media the financial institution partners will use to promote the product itself. We're also designing some of these tools to reach the parents of account holders, since market research and experience have shown that their understanding and support of youth savings efforts will be critical to their success.



# WSBI contributes to the debate on fair and responsible microfinance

In the current challenging context for microcredit, the Microcredit Summit Campaign has launched a proposal for an international Seal of Excellence to promote the core vision of microfinance for poverty outreach and transformation. Launched in 1997, the campaign is a multistakeholder platform of individuals and institutions involved with microcredit and increasingly with microfinance in general. The campaign aims to help meet the UN's Millennium Development Goals for 2015, with a specific focus on enabling 175 million of the world's poorest to benefit from microfinance, and on ensuring that 100 million families rise above \$1-a-day poverty, thus lifting half a billion people out of extreme poverty.

On 25 March, WSBI in cooperation with the European Microfinance Platform (e-MFP) hosted a debate with Sam Daley-Harris, Director of the Microcredit Summit Campaign, and about 50 Belgian and Luxembourgish microfinance stakeholders, including representatives of the European Commission.

The proposal for a microfinance Seal of Excellence seeks to promote the core vision of microfinance: focused on the clients, servicing the poor and contributing to positive changes in the lives of the most vulnerable. It builds on existing market initiatives (MFTransparency, the Smart Campaign's client protection principles, the Social Performance Task Force, etc.) and suggests using systems for validation that have already been developed for rating social performance of microfinance institutions (MFIs).

While strongly supporting the development of a fair and responsible microfinance market that fights social and financial exclusion, WSBI expressed some concerns about the confusing, and possibly costly, operational framework for microfinance resulting from the multiplication of self-regulatory initiatives. The discussion also highlighted the importance of savings, strongly underlined in the rationale for the Seal of Excellence initiative. WSBI does fully support this approach, which recognises the diversified financial needs of low-income categories of the population. The seal itself should reflect this crucial aspect, through the introduction of criteria linked to the ability to mobilise savings as part of the core features of MFIs bestowed with such a seal. Recent market developments have indeed demonstrated the importance for poor people to have access to a safety net in case of extreme need, and the relevance for MFIs to have diversified sources of funding.

Sam Daley-Harris announced the upcoming Global Microcredit Summit to be held in Valladolid, Spain, 14-17 November 2011.

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**MICROCREDIT SUMMIT CAMPAIGN**

A Project of RESULTS Educational Fund

WSBI invites you to join the Global Microcredit Summit, which will take place 14-17 November 2011 in Valladolid, Spain. Confirmed participants include H.M. Queen Sofía of Spain, Nobel Laureate Muhammad Yunus, Sir Fazle Abed of BRAC, and WSBI Managing Director Chris De Noose.

Registration rates increase 1 July 2011.

*For more information go to <http://www.globalmicrocreditsummit2011.org>.*



Tuesday 10 May

### The work of savings banks in microcredit in Europe

# Microcredit

## A savings bank tradition



Laura Gutierrez

On 10 May ESBG and the European Microfinance Network (EMN) presented “The work of savings banks in microcredit in Europe”, a conference featuring four European savings banks that finance micro- and small enterprises. It targeted mainly key European policymakers interested in gaining a greater understanding of the work of savings banks in microcredit.

Raymond Maes, Acting Head of Unit “Youth Employment, Entrepreneurship, Microfinance Facility”, DG Employment, Social Affairs and Inclusion at the European Commission, emphasised in his keynote speech the important role of savings banks in promoting employment and combating social exclusion, particularly through their use of microcredit as a tool for financing European small business entrepreneurs.

The 10 May event also provided the opportunity to formulate key messages regarding future policies in the field of microcredit.

Presentations made by the different panelists revealed that savings banks’ involvement is critical for the microfinance industry to grow, adopt professional standards and reach large numbers of clients. Against this backdrop, Chris De Noose, ESBG Managing Director, concluded during his closing speech that it is important that savings banks continue to be involved in future EU microfinance programmes and communications and in the design of new capacity building instruments that may complement existing financing instruments. Mr De Noose equally highlighted the importance of those EU instruments aimed at reinforcing the collaboration between banks and MFIs. The overall message that derived from the various interventions is that savings banks have an important role to play in the development of the microfinance sector in Europe, as well as the means to increase their current activity in the provision of this inclusive finance tool.

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## Savings and retail banking blog online

In March, WSBI and ESBG launched their blog “Bank on it!” (<https://retailbankingblog.wordpress.com>), featuring articles on a wide array of hot topics in retail banking – Basel III, financial inclusion, SEPA migration, accountancy rules – and portraits of retail bankers “in the field”, such as the portrait of the ESBG’s member in Kvevlax, Finland. Check it out! Post a reaction or better still: send us an article and become one of our guest bloggers!

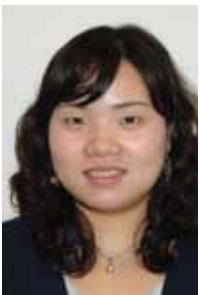
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Adinan Maning, CEO of Bank Simpanan Nasional Malaysia and Chairman of WSBI Asia-Pacific Regional Group, addresses the Regional Group meeting.

## Asian WSBI members reflect on their market positioning



Mina Zhang

The National Bank for Agriculture and Rural Development (NABARD) of India hosted the 2011 meeting of the WSBI Asia-Pacific members on 10-11 February in Chennai. Attendees included more than 40 delegates from ten WSBI member institutions (NSI and NABARD India, KFSB and Dongbu Savings Bank of Korea, Korea Post, BSN Malaysia, Macau Post, NSB Sri Lanka, GSB Thailand and VBARD Vietnam) and representatives of interested stakeholders, such as the Reserve Bank of India, the Central Bank of the Philippines and the Alliance for Financial Inclusion.

Discussions on the Basel III Accord confirmed that the “one-size-fits-all” approach is not appropriate given the specific characteristics of smaller, regional banks as compared to big commercial banks. Participants agreed that the capability of supervisors in risk management assessment is key to the financial stability of any given country, and that supervisory capacity must be strengthened, which should prove more efficient than introducing new regulation. Some concerns were also expressed about the potential impact of meeting Basel III’s higher capital requirements, which could increase bank exposure to riskier activities.

WSBI members also highlighted financial inclusion opportunities. First, the APEC inclusive finance initiative was launched in November 2010 and focuses on measures relevant to microlending such as credit information, financial literacy and consumer protection; on the role of government, market players and APEC institutions in grass root savings mobilisation; and on innovative business cases for financial inclusion, such as business loans linked to remittances.

Successful banking beyond branches (BBB) experiences such as mobile phone banking in the Philippines were presented. It seems there is a business case for financial institutions to use BBB to achieve financial inclusion, although most of the models have run for a short time and are still in the exploratory stage. Key elements for financial institutions to develop successful BBB include attractive pricing and value propositions for agents and customers, appropriate product design that meets the needs of low-income people (convenient, affordable and reliable), clarity in responsibilities, technology that lowers transaction costs, incentives to build customer confidence, the capability to afford the potential risks of partnership (such as reputation and operational risks), and proactive interaction with regulators to shape/develop the proportional regulatory framework for BBB.

Attendees also exchanged information on successful retail banking practices, such as online financial services developed in Japan and by WSBI members Korea Post and BSN Malaysia, and the diversification of savings products as developed by WSBI members GSB Thailand, NSB Sri Lanka and VBARD.

The meeting provided an opportunity for members to better understand the background of the microcredit crisis that erupted in Andhra Pradesh, and to learn lessons from the Indian experience.

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## Microcredit recovers from crisis

The exponential growth of Andhra Pradesh State's microcredit sector – driven by a combination of government support for financial inclusion, an intense focus on consumption loans without properly assessing client debt repayment capability, and substantial international capital inflows – led to fierce competition between microfinance institutions. These included commercially-driven microlenders, for whom protecting customers against the risks of loans from multiple providers and from overindebtedness was not a priority. As a reaction to media reports of microfinance institutions' alleged coercive practices, which led to a public outcry and backlash in October 2010, the local government issued an ordinance partially suspending

the operation of some microfinance institutions and allowing borrowers to stop their loan repayment.

Indian microfinance players taking part in the WSBI meeting recommended that microcredit should be combined with livelihood creation skills and income-generating activities to help clients break out of the vicious poverty cycle. Livelihood creation should be encouraged through capacity building, training, financial education and marketing support. Participants reaffirmed their confidence in microfinance, which should not be seen as a stand-alone poverty alleviation tool. It has to be provided in combination with the development of income-generating activities, and not only for consumption purposes.

**MARK THE DATE : 5 October 2011**

**Don't miss the latest developments in the retail banking sector!**



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# Vietnamese poor gain access to financial services



Weselina Angelow

Since January 2011, in the small rural northern province of Bac Ninh, so-called Communal Cultural Points have provided formal financial services to the poor in partnership with Vietnam Postal Savings Service Company (VPSC), a WSBI member and subsidiary of VNPost. The project is part of the “Doubling Savings Accounts” programme, carried out by WSBI with funding from the Bill & Melinda Gates Foundation.

## 85% of rural households in Vietnam are unbanked

People living in Vietnam’s remote rural areas have limited access to formal financial services. Farmers sell their crops during the summer and in those few months need to earn enough money to support themselves for the whole year. Lacking access to appropriate financial services, they save their money by simply keeping it at home, or, though the practice is unsafe and ultimately unprofitable, lend their spare money to black market lenders.

## Products tailored to the poor’s needs

Savings products on offer include fixed term deposit accounts, collective monthly savings, and, in the near future, an online access savings account tailored to the specific needs of the poor, with both low minimum deposit requirements for customers earning irregular incomes and an incentive scheme for the tellers who offer these products. VPSC offers one of the lowest interest rates



among all financial institutions in Vietnam, and the forthcoming merger with Lien Viet Bank (on 1 July 2011) will allow the new entity to offer customers even greater incentives.

## Establishing partnerships to deliver proximity without compromising sustainability

In order to reach the poor, VPSC partnered with the local network of Communal Cultural Points (CCPs), which are local cultural centres where people can socialise, read books and magazines, arrange for bill payments and receive remittance transfers. Bac Ninh is a test case for converting CCPs into the country’s most far-reaching distribution channels for new pro-poor products that offer safer and more profitable investments compared to lending on the black market. CCPs are expected to handle more than 30 transactions per day. In order to do this safely, they will require an internet connection. The merger with Lien Viet Bank may establish other strategic partnerships, such as with mobile money providers. This will allow phone to phone transfers, consumer to business payments, phone to bank account transfers and vice versa via cash-in and cash-out capacity.

## Making staff the marketers of first resort

Personnel tend to promote products only when customers ask about them. VPSC recognised that CCP staff should become marketers of savings products and agreed to pay incentives to tellers when they open new accounts. A \$0.20 CCP agent commission per fixed-term and monthly deposit would significantly increase agent pay (by about 25%); the same commission per instant access savings account opened and a 5% commission per transaction would more than double the agent’s salary.

## Profitability: a question of cutting costs, remaining sustainable and avoiding risk

In order to create a product the poor can afford, costs need to be drastically reduced without causing the bank’s profit margins to disappear. Cross-subsidisation is one way to serve the poor cost-effectively on a large scale, but it is not the ultimate solution. At the same time operational risks need to be reduced. Local postmen, in charge of carrying out money transfers, are trusted by the population because they have been working in the same place for a long time. However, when the number of transfers increases,

# WSBI WORLD CONGRESS



post offices need to hire additional employees on a temporary basis, increasing fraud risk. VNPost requires VPSC to use incentives to induce dependable, stable personnel behaviour, and to extend the network of CCPs offering savings services.

In the long term, to deal with fraud risks, all post offices and CCPs will need internet connections. The project will adopt an IT service compatible with the core banking system of Lien Viet Bank. CCPs will have access to a basic version of the online instant access savings account. WSBI funding will cover point of sales terminals for approximately 200 post offices/CCP outlets, plus servers and interfaces for the core banking system.

#### The way ahead

Project activities in Bac Ninh Province are proving the feasibility of the basic concept and will test both the market and the type of communications needed to reach clients. This summer the Bac Ninh test case will be developed further and three more pilot projects will be rolled out in a northern, southern and central region of Vietnam. Lessons learned in the first pilot will be applied to the others and to the new opportunities arising from the forthcoming merger. Lien Viet Postbank, as the new merged entity will be known, hopes to open three million new accounts over the next two years. The WSBI project aims to create 150,000 new accounts in the hands of the "moderately poor" (who earn \$2.00-2.60/day) and "near poor" (\$2.60-5.30/day) across three Vietnamese provinces by 2014.

#### Marketing: speak the language of the poor

The poor represent an unconventional marketing group. The language banks often use is too technical and too wordy. Some of the poor are illiterate or have a low level of education. Advertising material has to be visual and tailored to the customer. This is why the project's marketing strategy addresses different target groups. Each newly opened CCP invites the local population to a launch ceremony to learn about the new product. Leaflet content and design are being improved to target potential new customers. Meanwhile, a television ad campaign has been launched to make the new distribution channels and products known among community leaders, who will then promote them amongst members of their communities.

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# Innovation and diversification as strategic priorities for WSBI African members

The 2011 WSBI Africa Regional Group meeting, held 16-17 March in Libreville, Gabon, at the kind invitation of the Gabonese Post, addressed a crucial question: How can WSBI members maintain their leadership in serving low-income populations in a rapidly growing and competitive environment? WSBI Africa member delegations and external stakeholders focused on three key areas.

First, members confirmed their interest in mobile phone banking and branchless banking as new distribution channels with the potential to increase financial inclusion. The regulation of electronic money is high on the agenda of regulators, as presented by the Central Bank of African States. Participants shared successful experiences, including innovative partnerships in mobile money for the distribution of social grants in remote areas (Airtel in Niger), the challenges posed by anti-money laundering rules (i.e. photographs), the competition to sign up agents, and the administration of multiple partners for the provision of mobile money services (Postbank in Tanzania and Kenya).

Second, innovation and diversification of services are crucial for business expansion and supporting access to finance. Funding opportunities for innovative projects exist, such as the Microfinance Trust Fund of the African Development Bank. Participants cited successful experiences in the diversification of products and services accompanying organic expansion (HFC Bank Ghana, Al Barid Bank Morocco), and in choosing specific niches, such as youth finance (Finance Trust Uganda).

Third, regarding international remittances, members reiterated their willingness to lower transaction costs and develop added value services on top of the usual cash-to-cash remittances. Exclusivity clauses imposed in the past by some dominant money transfer operators should no longer be seen as a hurdle, as such dispositions are anti-competitive.

Additionally, a strategic brainstorming session on "How to optimise the potential of WSBI members to fill the access to finance gap?" defined an action plan for WSBI and its members by addressing the following questions: What are the challenges and opportunities for WSBI members in the current business and policy environment? How can WSBI members improve their institutions in order to efficiently provide financial services to all, including low income populations? What support could WSBI offer its members to achieve their access to finance objectives, and how could the potential of the WSBI network be leveraged?

These questions spurred the formulation of three strategic priorities: produce at very low cost, by proposing re-engineered process and operating models that lower the costs of producing and distributing financial services; developing business models for partnerships, by providing members models that enable them to

engage in win-win and efficient partnerships, if so they wish; and completing institutional reforms, by mitigating regulatory/legislative obstacles to put members on an equal footing with other financial services providers, and by formulating best practices for corporate governance.



Mamadou Diallo

To address these priorities, three working groups have been set up with WSBI African members. They will develop an action plan and present it at the 2012 Africa Regional Group meeting.

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Meeting attendees included more than 50 delegates from 20 WSBI Africa member institutions (Banco de Poupanga e Crédito Angola, Savings Bank Botswana, Sonapost Burkina Faso, Caixa Economica de Cabo Verde, Société Nationale des Postes et des Services Financiers Comoros, HFC Bank Ltd Ghana, Kenya Post Office Savings Bank, Postbank Lesotho, Caisse d'Epargne Madagascar, Al Barid Bank and Caisse de Dépôt et Gestion Morocco, Fonds d'Impulsion de la Micro-Finance and Postefinances Senegal, Postbank Tanzania, Postbank, Finance Trust Uganda, and Pride Microfinance Ltd from Uganda, Natsave Zambia, People's Own Savings Bank Zimbabwe) and external stakeholders (African Development Bank, Central Bank of Nigeria, Banque des Etats d'Afrique Centrale, Airtel Gabon, La Poste Congo, Banque de l'Habitat, BGFI and Gamifi SA Gabon, Groupe La Poste France, Groupe Chaka/Money Express Senegal).

Alfred Mabika Mouyama, Chief Executive Officer of La Poste Gabon, was appointed president of the WSBI Africa Regional Group for the period 2011-2014.



# Successfully serving a rising middle class

## An interview with Banco Caja Social Colombia President Carlos Upegui



**Firstly, as BCSC was founded in 1911, we would like to wish you a happy 100th birthday! Does this mean BCSC is one of the oldest banks in the country? Can you describe very briefly the structure of Colombia's financial sector, and how your institution has evolved over the past century and the progress it has made?**

The bank was born as the "savings section of the Workers Association" of San Francisco Javier (which has evolved into the Fundación Social). It was founded by Father José María Campoamor, S.J., with the aim of supporting the development of the working class community at that time. Although many current banks were founded before 1911, our bank is still run by its original owners, and in that sense, BCSC is one of the oldest banks in Colombia. Today, the fact that Fundación Social is still the owner of the bank also guarantees that the latter is deeply committed to its social mission to meet the financial needs of Colombian working-class populations, allowing them to be the primary actors of their own development.

BCSC is one of 20 banks that exist in the country, and, according to its high volume of deposits and loans, it is one of the country's leading companies. Since its inception the bank has gone through a lot of changes, but if I had to sum it up, the secret to success lies in its ability to adapt to the changing environmental and market conditions, and to keep fighting to maintain its social function.

**How do you see the future and what are BCSC's strategic priorities going forward?**

Like many other countries in Latin America, Colombia is witnessing the rise of a middle class, as this segment represents about 90% of the households with the highest potential for growth and receives the poorest customer service with respect to financial services provided by the formal banks. The bank has been successfully serving this segment of the market for 100 years, and the financial results have been in line with this sector. In this respect, those who have been successfully serving this segment of the population will be in a better position to attract them.

The reasons for the relatively low levels of bankarisation (62% according to the latest report of Asobancaria) are numerous, among which are the interest rate caps, but also the lack of a genuinely significant product line that is affordable and accessible to all segments of the population. Therefore, we are working hard to deepen our knowledge of this market and innovate our products and services in order to keep strengthening our leadership.

**What is the role of BCSC's Fundación Social? How does this model influence the bank's strategy and activities?**

As previously said, Fundación Social is the owner of the bank; although we have other global shareholders like IFC (International Finance Corporation – World Bank Group) and JP Morgan Chase, the Fundación is the major shareholder in the institution. Fundación Social is a private and non-profit entity whose mission is to help overcome the structural causes of poverty in Colombia by building a more humane, prosperous and just society. It owns and manages profit-making business enterprises, which focus on banking, insurance and housing, and seeks to significantly influence solutions to social problems. Thus, even though these companies' primary objective is to generate a profit, they also focus on addressing strategic needs for the development of working class communities. This is precisely the model that guarantees the alignment of the bank's business strategy with its social mission.

**We understand that BCSC wants to increase financial inclusion among the poor and microentrepreneurs. Do you offer them specific products and services and, if so, how do you adapt these to their specific needs? Do remittances comprise an important part of your business?**

Yes, it is necessary to adopt a segmented approach to the working class market, and to understand it thoroughly to be able to serve it successfully. That is why we have developed, and are still developing, appropriate products, services, customer service models and distribution channels for the different segments, in accordance with their needs. Remittances are a product demanded by some segments, and we want them as part of our comprehensive product line.

**What does WSBI membership bring to BCSC?**

WSBI is a strong global voice for retail banking and, more important, in the sector of financial services, whose aim is also to achieve social objectives. Financial inclusion, financial education and appropriate regulatory frameworks are properly analysed and assessed, and best practices are shared with the members. It is an institute that has not only strengthened contacts with academics, donors, governments, and associations, but also facilitated contacts regarding issues that are important to the bank.



# Helping ICBC customers enjoy worldwide service

Interview with Weiping Li, General Manager, Personal Banking Department, Industrial and Commercial Bank of China



**The Chinese government expressed concerns on the rapidly increasing property prices and has responded with a number of measures to prevent the development of a real estate bubble. How does the government's measure to curb lending impact ICBC's housing finance portfolio? What actions does ICBC take?**

Since 2010, the Chinese government has rolled out a number of major control policies and measures in succession in response to overly high property prices and their rapid increase in some Chinese cities. It applied them comprehensively to curb excessive housing demand and increase the effective housing supply, ensuring the sound and healthy development of the market. Along with the successive unveiling of the government's control measures, the wait-and-see atmosphere on the market intensified, personal home purchases declined, and mortgage resources were reduced. As a result, growth of the ICBC's personal housing loans displayed a declining trend. During the market's adjustment, the probability of "false mortgage" and "false down payment" increased, the market value of some loan collaterals fluctuated violently, and the repayment willingness of some individual customers declined. These raised ICBC's minimum risk control requirements.

In response to the government's control measures and changes in the market, ICBC actively changed its thinking on personal loans, accelerating their structural adjustment. On one hand, while continuing to expand the gross scale of personal housing loans, it lent strong support to the development of high-yield products such as personal consumer and business loans to upgrade the yield and overall contribution of personal loans; and on the other hand, it exercised stricter risk management of personal housing credit projects. It continued improving the strict separation mechanism between the front, middle and back offices, and ensured the application of independent examination and prudent credit granting principles. Regarding the lending process, ICBC strictly abided by the business access criteria pursuant to requirements of the pertinent regulations; regarding business operations, it strictly followed regulations, ensured the authenticity of transactions and compliance of loan purposes, and prevented various "false mortgages"; and regarding management measures, it continued improving the IT application in credit management, encouraged electronic approval operation, and used the internal rating approach to enhance credit risk management.

**With the increasing globalisation of the Chinese economy, more and more Chinese go abroad for investment, trade or tourism. What does ICBC offer to meet cross-border personal finance needs?**

In recent years, Chinese enterprises and individuals sped up their pace of "going global", and international cultural exchanges and business activities increased noticeably as China continued to open up. Against this background, the financial demands of customers going abroad – for foreign exchange settlement and sales, remittances, loans, investment, wealth management services, bank cards and information consulting, all to facilitate their overseas study, migration, investment, work, business, labour or tourism – witnessed explosive growth. The global operating network of ICBC expanded rapidly, and 196 overseas branches were established in 28 countries. By building an internal-external joint action mechanism for cross-border personal financial services, ICBC continuously enhanced the understanding of and service interactions between domestic and overseas institutions, tailored domestic and overseas integrated financial service solutions to customers, provided various financial services, including property financing, remittances, bank cards, wealth management and information consulting through overseas institutions to domestic customers after they went abroad, and thus met the ultimate goal of helping ICBC customers to enjoy worldwide service. To be specific, ICBC offers the following main products and services:

- 1) Account opening witness. ICBC domestic institutions provide witness service for the customers' opening of overseas accounts, based on cooperation between the domestic and foreign institutions. At present, the bank's domestic institutions may provide account opening witness service to the customers opening accounts with overseas institutions in Hong Kong, London and Singapore. In the future, the bank will continue expanding the scope of cooperating overseas institutions and enable our customers to enjoy the global "one-stop" financial services of ICBC.
- 2) Deposit-taking. The deposit-taking service provided by ICBC overseas institutions includes primarily: demand and term deposits denominated in both domestic and foreign currencies, small savings for lump-sum withdrawal, time-demand optional deposit in multiple currencies, and call deposits. In addition to traditional banking deposits, ICBC (Asia) and ICBC (Macau) provide a number of new deposit means, such as current accounts and offshore deposits, and interest withdrawal on deposited principal.

- 3) Loan service. At present, among our overseas institutions, ICBC (Asia), ICBC (Macau) and ICBC (Indonesia) may provide personal loan services, which primarily include housing, consumption and business loans. Apart from the three overseas subsidiaries, the Luxembourg branch offers personal mortgage loan service and the Frankfurt branch provides personal unsecured loans.
- 4) Bank cards. ICBC overseas institutions maintained rapid development of bank card services, and have obtained the functions of issuing and acquiring on Unionpay, VISA and MasterCard brand bank cards. At present, ICBC (Asia), ICBC (Macau), the Frankfurt branch, ICBC (Indonesia), the Paris branch and the Spain branch (Madrid) have successively issued these brands' international debit cards and credit cards abroad. In the future, ICBC overseas institutions in Japan, France, Spain and Canada will issue bank cards.
- 5) Investment and wealth management products. The existing wealth management products of our overseas institutions primarily include: overseas fund, insurance and securities agency service, foreign exchange trading and structural derivatives. ICBC (Asia) and ICBC (Macau) have the most developed types of investment and wealth management products, and in addition offer bond investment and gold trade account services. The Hanoi branch and the Luxembourg branch offer foreign exchange trading and gold trading services.
- 6) E-banking service. ICBC (Asia) and ICBC (Macau) have the most complete e-banking channels, offering services such as internet banking, telephone banking, ATMs and POS. In addition, 16 overseas institutions, including ICBC (Indonesia), the Frankfurt branch, the Singapore branch, the Seoul branch, ICBC (London) and the Luxembourg branch, have initiated internet banking services.

ICBC will continue developing new systems and new products for overseas individual customers, and make full use of the accelerating pace of the renminbi's progress to enrich the product line of cross-border investment retail business.

**With the development of the Chinese middle class, savings products and services have to evolve. How is ICBC diversifying its products and services in response to the market's changing demand? As the General Manager of ICBC's Personal Banking Department, how do you see the potential of wealth management in China?**

Expansion of the middle class in China brings vigorous demand for wealth management. Along with the development, enrichment and improvement of Chinese capital markets, a number of new wealth management products were developed, and the Chinese middle class demands strict requirements on asset management as part of a wealth management philosophy. Customer demand creates vast potential and determines the direction for the trans-



*ICBC Headquarters*

formation of ICBC's retail banking business. In recent years, the bank followed a customer-centric philosophy, accelerated the construction of a personal wealth management service system, and continuously satisfied the diversified demand of customers for products and services. It improved the product line, quickened the pace of product issuance, and rolled out a number of new wealth management products to meet market demand. In 2010, ICBC sold RMB 2.3 trillion of wealth management products, launched 736 RMB- and foreign currency-denominated wealth management products, sold 122 funds on behalf of fund companies, sold 49 tonnes of precious metals, and accomplished a turnover of 10,976 tonnes under the agency trade business. The turnover of account precious metals added up to 12,148 tonnes. While accelerating product innovation, ICBC further enhanced wealthy customer services. In June 2010, it launched the "ICBC Wealth" private assistant service for wealthy customers, which currently includes five services: family comprehensive insurance, travel and private business assistance, golf and luxuries service customisation, global medical assistance and Chinese vehicle roadside assistance. By the end of 2010, 308,800 wealthy customers subscribed to private assistant services, and vendors had successfully handled 2,468 private assistant service applications. These services won widespread acclaim from customers and expanded ICBC's influence in the high-end customer service market.

In addition, for famous persons, ICBC created an extensive service carrier and built a brand new charity financial service platform. The club builds a professional investment and wealth management platform for customers, an interaction platform between famous persons and their fans, and a high-quality social platform for famous persons. Leveraging the charity financial service platform, ICBC integrates the principles of public welfare and charity into its business and social responsibilities.

During the more than 20 years since China's reform and opening-up began, the Chinese economy has averaged 9.6% annual growth, which is unparalleled in world economic development history. By the end of 2009, the GDP of China reached RMB 33.53 trillion, the second greatest in the world. In the process of rapid economic development, a large number of affluent persons emerged, and the population base will continuously expand and grow along with the development of the Chinese economy. In such circumstances, the affluent population will inevitably want to preserve and appreciate wealth. Consequently, the Chinese wealth management market is vast and promising, with huge potential, and it will certainly become one of the most important wealth management markets in the world in the 21st century.

**Why do you value WSBI's network?**

ICBC has maintained long-term and friendly contacts with WSBI, and boasts a long record of cooperation that has led to a strong relationship. Since joining WSBI, ICBC has enhanced its cooperation with global financial peers in various countries by attending meetings and making exchange visits. In 2002, ICBC hosted the 9th plenary session of WSBI members; in 2010, it attended the 200-year anniversary celebrations for savings banks in Scotland, and in October 2009, the managing director of WSBI visited the ICBC Personal Banking Department. In addition, ICBC also maintains close business contacts with WSBI members. For example, last year, ICBC established correspondent bank ties with the National Savings Bank of Sri Lanka. These activities contribute to ICBC's expansion and its international influence among peers by virtue of the WSBI international platform, facilitates the promotion of a prosperous and booming ICBC, and helps drive the diversification and modernisation of global retail banking.



*Yongyuth Tariyo (middle), First Senior Executive Vice President, received Dongbu Savings Bank executives.*

## Government Savings Bank of Thailand and Dongbu Savings Bank of Korea employee exchange

The Government Savings Bank of Thailand (GSB) and Dongbu Savings Bank of Korea (DSB) began implementing their 2010 co-operation agreement with a study visit by a Dongbu Savings Bank delegation to GSB in November 2010.

During the three-week study visit, DSB executives had the opportunity to study GSB's core business, financial services range, and product development targeting retail customers and SMEs. CSR projects and foreign exchange and market research were also presented, and a visit of GSB upcountry branches was organised.

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**ICBC**

**中国工商银行**

# WSBI-ESBG measures its carbon footprint



Fiona Joyce

WSBI-ESBG has concluded recently a two-year exercise on measuring the carbon footprint of its Brussels headquarters. This is a logical extension of its work on environment and sustainable development and, in particular, the adoption of a Charter for Responsible Business, the follow-up Guidance Framework on Climate Change for members, and the series of climate change-related workshops that it organised in 2009 and 2010.

The carbon footprint work was done with the valuable support of experts from WSBI-ESBG's French member Banques Populaires-Caisses d'Epargne (BPCE), who are accredited consultants for the "Bilan Carbone®" or Carbon Footprint method of ADEME, the French environment and energy management agency. Bilan Carbone® methods are similar to those of the Greenhouse Gas Protocol. The carbon footprint or CO<sub>2</sub> analysis was carried out on 2008 and 2009 WSBI-ESBG activities in four areas: energy consumed internally (electricity and gas used for heating purposes); travel (home/office commuting and business travel); supplies (paper, various purchases and services); and IT equipment. This represented a total of 389 equivalent tonnes of CO<sub>2</sub> in 2009. This equates to about 11 tonnes per employee, which compares well with the Belgian average of between 11 and 14 equivalent tonnes of CO<sub>2</sub> per inhabitant. The result in 2008 was 425 equivalent tonnes of CO<sub>2</sub> or 12 tonnes per employee. The carbon footprint breakdown in 2009 in the above mentioned areas was:

- 75 equivalent tonnes of CO<sub>2</sub> for energy consumed internally;
- 267 equivalent tonnes for employee travel of which 246 equivalent tonnes for business travel;
- 23 equivalent tonnes for supplies and procured services; and
- 24 equivalent tonnes for IT equipment.

The detailed report prepared by BPCE shows a reduction in energy usage of 3% in CO<sub>2</sub> tonnes between 2008 and 2009. This is mainly due to energy efficiency improvements in the WSBI-ESBG building. CO<sub>2</sub> tonnes from travel increased by 5% between 2008 and 2009, though this equates to a reduction of 2% when one takes into account the reduction of the emission factor for aeroplane travel. In absolute terms the frequency of travel was the same in 2008 as in 2009, and fell slightly in 2010. All in all, the total frequency of travel has remained constant at between 230-250 trips per year over the last five years, during which the number of staff has remained relatively constant at 30-35 persons.

In sum, in its capacity as a service organisation, WSBI-ESBG is not a significant emitter of CO<sub>2</sub>. The Bilan Carbone® established with the valuable cooperation and expertise of BPCE shows that the main source of emissions are business travel (69%) and energy

use (19%). The scope for an ambitious CO<sub>2</sub> emission reduction plan is very limited, because of the small size of WSBI-ESBG's carbon footprint and the fact that business travel, which is one of the main sources of CO<sub>2</sub> emissions, is essential to the mandate and core activities of WSBI/ESBG.

In light of the Bilan Carbone® exercise, WSBI-ESBG does, however, commit to containing its carbon footprint by continuing to monitor very closely the level of business travel and substituting audio or video conferences whenever possible; implementing energy efficiency measures each time that work has to be carried out on its building; continuing efforts to raise awareness amongst staff on everyday habits in the office and at home in order to stimulate a collective effort to reduce energy consumption; and internalising expertise supplied by BPCE.

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# Financial education initiatives of Spanish savings banks

The Spanish savings banks and their representative association CECA (Spanish Confederation of Savings Banks) have developed various initiatives in the field of financial education. This article focuses on the Spanish Network for Financial Education or Red Española de Educación Financiera (hereafter, Red).

Red was launched in response to the interest that various international organisations, such as the OECD, the European Commission and the European Parliament, have shown in financial education, which can be a means for member states to boost the benefits of the single market to consumers.

The network started its activity in 2009 with the main aim of creating a platform where professionals could share their projects and experiences. CECA launched two concrete initiatives to achieve this objective: the organisation of regular stakeholder meetings to update progress; and the launch of Red's website.

## Conferences on financial education

Since Red's launch, CECA has organised two stakeholder conferences. The first was held 26 March 2009 and introduced the Red network and its objectives. Conference sessions also dealt with financial education within the educational system and financial education as a tool for financial inclusion. Representatives from several savings banks, Women's World Banking and the Comisión Nacional del Mercado de Valores presented their financial education projects targeting households, immigrants and the young.

One year later, on 23 March 2010, the second conference focused on European initiatives such as Dolceta and including financial education networks such as Eurofinas, and Finances & Pédagogie in France. In addition, an Aflatoun representative explained its activities in the field of social and financial education of children. Red's website was also presented.

## Website and social networking

Red's website ([www.rededuccionfinanciera.es](http://www.rededuccionfinanciera.es)) offers stakeholders a comprehensive resource that tracks all financial education initiatives (projects, events, news, documents, newsletters, internet links, etc.) in Spain. Launched in 2009, the site gathers all the information financial education professionals need to know. Most initiatives are those of savings banks, as they are major providers of financial education. While the site focuses on education professionals (teachers, managers, etc.), it is open to anyone who wants to share projects and ideas – or find them, as it is intended as a database of Spanish initiatives. In addition, a newsletter is published two to three times a year to keep users updated on the latest news.

To enhance website promotion, CECA created profiles on the three main social networking sites: Facebook, Twitter and LinkedIn. New information posted on Red's website is immediately posted on its Facebook wall as well, which is also linked to Twitter, so users of any of these sites can be informed about what is new on Red's. On LinkedIn, several fora about financial education at the highest level (e.g. AFI's group on financial education) have registered lively participation.

Savings banks took advantage of their regional presence and their proximity to the clients to distribute (electronically and/or physically) a range of guides (developed by CNMV and Banco de España) containing basic economic information to inform customers about issues such as thrift, banking products, etc.

## The future

Two years after its launch, Red's aim is still to disseminate knowledge on financial education programmes. The promotion of the webpage and conferences is a key priority. Achieving this goal requires improving content and updating relevant financial education issues. Finally, it is crucial to continue with sectoral initiatives that have started so positively.

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# The Government Savings Bank of Thailand (GSB) and sustainable development



Since its inception over 98 years ago, GSB has been committed to fulfilling its mission to promote savings in accordance with King Rama VI's original intention. As a state-run bank, GSB has always been involved in several projects to support the government's policy of fostering sustainable economic and social development for the benefit of all Thai people. While working diligently on behalf of clients and shareholders, the bank has served all social classes, respected workers and acted responsibly toward the environment. GSB will continue this social mission by implementing a multifaceted Corporate Social Responsibility (CSR) policy that includes:

- Financial products that promote quality of life: GSB emphasises developing and upgrading the quality of life at the grassroots level by providing credit, disseminating knowledge, and developing skills that help individuals earn their living. The bank has also given financial support to community enterprises and cooperatives, and provided training and consultancy to develop management skills.
- Financial products for energy conservation: GSB offered credit to a project that uses a hybrid system to generate clean and renewable energy, which has helped the community conserve energy and cut costs. GSB is also involved in efforts to reduce

global warming, by participating in campaigns and by defining energy saving codes of conduct in GSB offices, such as turning off lights and electrical appliances when not in use, recycling, and using email instead of paper-based communication.

- Establishment of comprehensive financial service projects: GSB implemented the "Bank for Society" concept to offer various financial services through community banks. Each community bank is set up according to local needs and is owned by the community, whose members are entitled to invest their assets in the bank and contribute ideas for its improvement. The concept emphasises community financial discipline and savings, which are considered vital to the country's economic development.

In addition to its social and environmental responsibility policies and activities, GSB complies with international social reporting standards. The bank compiled a CSR report, based on Global Reporting Initiative (GRI) standards, that communicated bank policies, operations and operational outcome evaluations to both internal and external stakeholders.

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## MARK THE DATE

- **Postal Savings Forum: Brussels, 29-30 November 2011**



# ICBC and CECA collaborate on account opening and business channelling

On 26 January 2011, the Industrial and Commercial Bank of China (ICBC) and the Spanish Confederation of Savings Banks (CECA) signed an agreement to open accounts in their respective currencies and channel payments between China and Spain for clients involved in business between the two countries.

Since 2009, the Chinese government has been promoting the use of the Chinese local currency for the settlement of cross-border transactions. Doing business in renminbi (RMB) has emerged as a means for business cooperation, especially for international banks. So far, ICBC has opened over 200 RMB nostro accounts for correspondent banks, taking the lead in the market.

This alliance will foster business collaboration between ICBC and CECA. For example, Spanish savings banks and their customers will be able to use RMB for settlement, trading and investment, and by opening euro accounts with CECA, ICBC will improve its ability to channel payments between China and Spain more efficiently and at lower cost.

Given the increased trade and direct investment between Spain and China, ICBC opened a branch in Madrid in January 2011. The cooperation agreement signed with CECA complements ICBC's presence in Europe. It will strengthen strategic cooperation between the two institutions and generate a win-win situation for both Spanish savings banks and banks in China.

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## Postbank South Africa prepares for bank licence

Since early this year, Postbank South Africa has been preparing to compete with other financial institutions, after obtaining legislative approval to operate as a retail bank and to provide full banking services for minimal charges to the poor. Though Postbank has its own strengths, among them a customer base of more than 6.2 million, the task will not be without its own challenges; key among them are governance and risk management issues in addition to ensuring a strong capital base.

Accordingly, Postbank will have to introduce risk management and customer deposit protection systems that satisfy the central bank's requirements. It will also have to demonstrate that it has appointed and trained the appropriate executives to manage its affairs and operations. WSBI has provided Postbank with three courses: Strategic Risk, Risk Management and Performances, and Operational Branch Management. Participants emerged very satisfied from the training. They emphasised the need for on-site coaching throughout the implementation process. This is a critical step for obtaining the banking license from the central bank. If Postbank so requests, it can count on WSBI and its banking experts for the deployment of its risk management strategy and operational policies.

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# Get out from behind the counter!

Waiting behind the counter and serving a few customers a day are a thing of the past. Bankers need to go out to meet their clients and sell them products. That is what branch managers and officers in Benin have recently been learning under the guidance of French experts from the French Groupe Caisse d'Epargne and within the framework of a cooperation agreement between WSBI, FNCE and the Caisse Nationale d'Epargne of Benin (CNE). Training was coupled with practical experience in the field: serving clients in the branch and presenting CNE products, resulting in 136 meetings with clients and 85 sales after only four days.

Participants were very satisfied, as in addition to product sales they experienced cross-selling for the first time. Practising in the branch was also an occasion for them to see concrete results generated by their own actions. Several recommendations stemmed from the training in order to improve logistical aspects and client services. Future expected outcomes will be evaluated at the end of the year.

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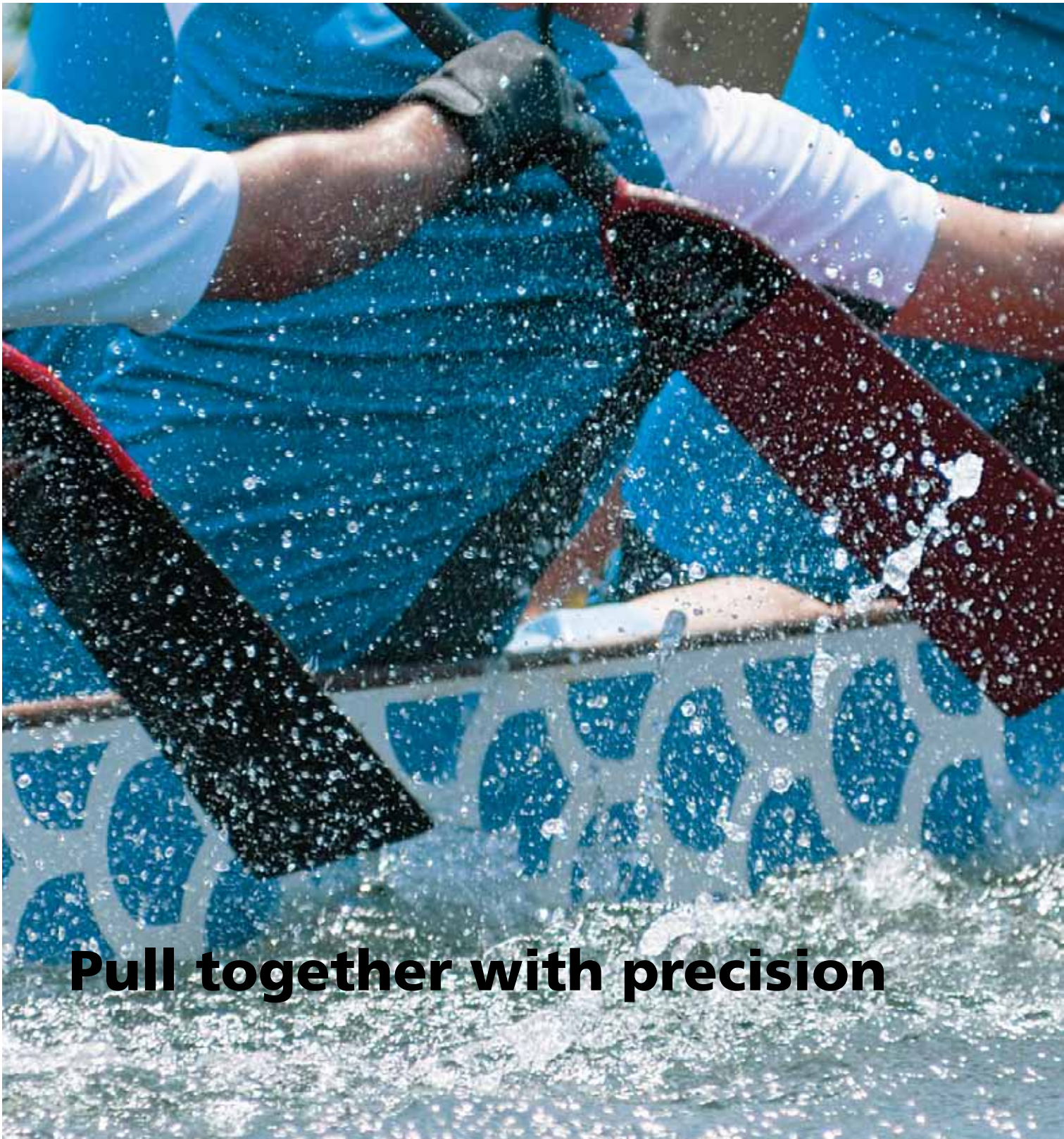
## TRAINING CALENDAR

### 06 2011

20		SALES AND MARKETING	ALBANIA -BKT
21-22-23		OPERATIONAL RISK MANAGEMENT	ALBANIA -BKT
28-29-30	National Training	HUMAN RESOURCES AND LEADERSHIP	Retail Business Unit Managers Branch and Risk Operation Managers, Financial Controllers, Auditors

### 07 2011

18-19-20	National Training (sectoral)	MANAGING ELECTRONIC BANKING RISKS	UKRAINE National Centre for the Training of Bank Personnel
21-22	National Training	OPERATIONAL RISK MANAGEMENT	ALBANIA -BKT



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# South East Europe's flourishing banking sector



Ian Radcliffe

As in other European countries in transition, the banking sectors in most South East European (SEE) countries grew quickly throughout the 1990s until about 2009; in the more recent years some countries even recorded annual growth rates of 5% or more. However, the region was not immune to the global financial crisis and subsequent recession, with two obvious results; significant loan portfolio contraction and a rising level of non-performing loans.

Research by, amongst others, the EBRD and IMF has shown that the deteriorating macroeconomic environment was only partly responsible for these trends; it also revealed significant deficiencies in the way the banks were governed. The growth model in several countries emphasises quantity before quality, and a lesson learned from the crisis is that the banks need to change strategy and focus more on sustainable growth.

An important aspect of this strategic adjustment should be to reduce the levels

of lending and deposit-taking in foreign currencies. These are very high; the EBRD estimates that in 2008 between 50% (Bulgaria) and 70% (Serbia, Albania) of all loans were done in a foreign currency, which leaves the borrowers heavily exposed to currency fluctuations. Indeed, several countries experienced strong depreciations throughout 2008-2009, challenging the long-term sustainability of this growth model associated with transferring currency risks to end-borrowers, reflected in foreign exchange-induced credit risk.

Furthermore, the risk management function of many banks needs improvement. This includes improved assessment not only of the borrower's capacity to repay the loans (as mentioned above, rapid growth of the credit portfolio was often more important than building up secure assets), but also of maturity mismatches between assets and liabilities, related party exposure, etc. The roles of the parent banks – about 90% of all banks in SEE are foreign-owned – and the banking regulators and supervisors should also not be underestimated.

The WSBI-ESBG Training & Consultancy Services Department has recently been quite active in SEE. Following a request

from our Albanian member BKT, we provided a successful and highly-appreciated training programme on Branch Management which was broken down into five modules: (1) Strategic Aspects and Marketing Policies, (2) Customer Services, (3) Risk Management and Credit Risk Management for SMEs, (4) The Management of the Branch and (5) a Branch Management Simulation. Discussions are ongoing to follow up on this.

Furthermore, ESBG is involved in EBRD's "MSME Finance Framework for Western Balkans and Croatia – MSME Credit Advisory Services". In addition to channelling the proceeds of an EBRD credit line to micro-, small and medium-sized enterprises, this facility assists local participating banks to improve their institutional capacity by addressing the areas of weakness identified above. To date, ESBG has provided assistance to two participating banks: Opportunity Bank Serbia (September 2009-August 2010) and Bank for Business in Kosovo (February 2011-ongoing).

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Situation May 2011

## IMPRESSUM

Responsible editor: Chris De Noose, Managing Director.

Editor: Dirk Smet, Communications Manager & Lee Gillette, Adviser Communications  
Design & Lay-out: Malou Doumen

This newsletter is distributed to 4000 individuals in over 90 countries, including all member organisations of WSBI and ESBG.

Published quarterly by WSBI and ESBG, Brussels, Belgium.

## WSBI - ESBG The global voice of savings and retail banking

WSBI (World Savings Banks Institute) is one of the largest international banking associations and the only global representative of savings and retail banking. Founded in 1924, it represents savings and retail banks and associations thereof in 90 countries (Asia-Pacific, the Americas, Africa and, Europe via ESBG, the European Savings Banks Group). It works closely with international financial institutions and donor agencies and promotes access to financial services worldwide – whether in developing or developed regions. At the start of 2009, assets of member banks amounted to almost €9,000 billion, non-bank loans to €4,300 billion and non-bank deposits to €4,600 billion. Together, member banks conducted operations through more than 160,000 outlets.

ESBG (European Savings Banks Group) is an international banking association that represents one of the largest European retail banking networks, comprising about one third of the retail banking market in Europe, with total assets of more than €6,000 billion, non-bank deposits of €3100 billion and non-bank loans of €3300 billion (1 January 2009). It represents the interests of its members vis-à-vis the EU Institutions and generates, creates and manages high quality cross-border banking projects.

WSBI and ESBG members are typically savings and retail banks or associations thereof. They are often organised in decentralised networks and offer their services throughout their region. WSBI and ESBG member banks have reinvested responsibly in their region for many decades and are a distinct benchmark for corporate social responsibility activities throughout Europe and the world.



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