

# NEWS & VIEWS

## The way forward for retail banking

**T**HESE ARE DIFFICULT economic times. Economies and people around the world are struggling with the consequences of a global recession. As such, major questions are being asked about the fundamental role of banks in society and what needs to change to prevent future crises. Though it is impossible to predict the future of retail banking, I am optimistic and confident that in the times to come, savings and regionally oriented retail banks will drive economic growth and development, as they have for the last two centuries. This edition of News & Views explores a number of the critical questions related to the future of retail banking.



Chris De Noose

In the context of the financial and economic crisis, a fervent global debate is ongoing about the proper role of banks in the economic system. One of the core issues of these debates is how to improve the regulation of the financial sector in all those areas where regulatory shortcomings are now recognised as having contributed to – or not having effectively prevented – the build-up of factors leading to the crisis. In both Europe and the United States, the supervisory architecture is currently under revision which will have a global impact. The events of the last two years prove that, especially in Europe and the United States, such a discussion on bank priorities is long overdue. Having worked with savings banks and regionally oriented retail banks around the world for decades, WSBI/ESBG is not surprised that during the last two years the validity of the savings banks' business models has been reconfirmed.

Specifically within Europe, there is a debate on the long-run integration of Europe's banking sector. This debate on the 'growing together' of Europe's national retail banking markets and on the economic aspects of market integration is of greatest importance for the sector and for Europe. The supervisory and regulatory revisions underway will have a large impact on some of the underlying conditions for this debate in ways which cannot yet be anticipated. Many of the issues being discussed in Europe – capital requirements, European wide payment systems, deposit guarantee schemes, supervisory rules, new regulations on alternative investment fund managers, etc. – are fundamental to the banking business.

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WSBI



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*Egyptian children who benefit from the Aflatoun programme*

Outside of Europe and the United States, the future of retail banking is also being shaped. Savings banks have been asserting their leadership in a variety of areas critical to economic development. This includes work to expand access to financial services, harness technology to change the way payments are carried out, educate the public and children about financial matters, and other important initiatives. The WSBI World Congress hosted by BancoEstado in Santiago, Chile in April of this year was an occasion to highlight some of the ground-breaking work by WSBI members in promoting financial inclusion, empowering economic growth, and successfully expanding the business of savings banks.

As the world becomes smaller due to technological progress, increased personal mobility, and deeper inter-connectedness of global systems, global and regional platforms for cooperation are becoming more important. Links between retail banks – and savings banks – in different parts of the world are becoming stronger. There are more and more opportunities for WSBI/ESBG members to learn from one another and work together to do business better, address common problems, and serve their communities better. This issue of News & Views highlights a few such initiatives such as efforts to deal with climate change, build on opportunities in the Mediterranean region, and develop further regional cooperation in Asia and Africa.

After two years of financial and economic crisis, the global focus on banking has clearly changed towards focusing on activities which stabilise and underpin the 'real' economies of various nations. In this way, the future of retail banking looks bright for savings banks and their traditional focus as financial intermediaries. WSBI/ESBG will continue to provide a platform for savings and responsible retail banks to work together for joint projects which make it possible for people and businesses to save, invest and create real value for the real economy. This is the future of retail banking.

Chris De Noose  
Managing Director WSBI-ESBG



## Retail Banking in Europe The Way Forward

### Lessons from the crisis & Priorities for the future

Europe and the world are striving to resolve the ongoing financial and economic crisis. Rules for the financial sector and views on the role of banks in the economy are undergoing significant changes. Savings banks and socially committed retail banks contribute to the ongoing efforts on the basis of their strengths and experience.

Soon, a new European Parliament and new Commission will begin their work and a new chapter of the political debate on financial services will be opened. Join the European Savings Banks Group (ESBG) for a day-long conference on "the way forward for retail banking in Europe".

# Tuesday, 22 September

Marriott Hotel – Rue Auguste Orts 3-7/Bourse – Brussels, Belgium

For more information: [www.esbg.eu](http://www.esbg.eu) or mail to [retailbanking@savings-banks.com](mailto:retailbanking@savings-banks.com)

**No registration fee**

# Keep an Eye on the Details: Building a new European financial supervisory architecture



Larisa Dragomir

Since the February report of the de Larosière High Level Group - which provided the broad outline of a possible future European supervisory architecture - the European Commission has consistently made efforts to flesh out the details of the new structure. The Commission has launched a second public consultation on a Communication issued on 27 May. The Communication describes specific aspects related to the scope, functioning, and interaction of the new micro- and macro-prudential authorities. ESGB contributed its views through a common position paper released on 15 July. The Commission will issue its final proposals on 23 September, which will then be considered by the Council and the Parliament. However, while the general approach is laudable, the details have still not been clarified – leading to uncertainty when discussing the future of supervision of the financial industry.

## General support for the Commission's approach

As has been consistently highlighted, there is a need to repair the apparent shortcomings in European supervisory arrangements. Particularly, bringing together macro- and micro-prudential approaches is appropriate. This would result in consideration of both the financial safety of individual institutions and of the system as a whole. At the same time, the reform of the supervisory architecture should not discard those features of the current framework that have worked well. The new architecture must acknowledge the comparative advantage of national supervisors in day-to-day supervision as a result of their proximity and their better knowledge of markets and intermediaries.

## A realistic timeframe

The current momentum for reform - triggered by an acute awareness of the risks

involved because of inadequate supervisory structures - should bring about changes. However, it is also essential to take the time to thoroughly prepare the future structures and avoid rushed measures. The ambition to have the new architecture in place by 2010 does not seem feasible. If the new reforms are rushed through without full consideration, there is a chance that the reforms could have unintended consequences.

## Some details that need to be addressed...

### Proportionality in the application of the common rulebook

ESGB has consistently supported the creation of a common supervisory culture in the EU. In principle, the idea that this common supervisory culture be underpinned by a European rulebook consisting of a detailed, harmonised core set of standards is welcome. However, the rulebook should not amount to a rigid framework or to overregulation. Any such rulebook should be devised in accordance with better regulation principles and applied proportionally – ensuring that the size, complexity, business strategy and riskiness of an institution are taken into account in the application of the rules.

### Clear lines of responsibility needed

The supervisory framework proposed by the Commission involves numerous bodies and fora as well as a range of decision-making, coordination and cooperation mechanisms. These can be effective only if competences are clearly delineated and clear lines of responsibility are drawn in advance. This is necessary to ensure that overlaps or gaps in the European supervisory framework are avoided and that all bodies involved are accountable for their actions.

### An effective macro-prudential body required for warnings and recommendations

It is critically important to establish a body explicitly entrusted with monitoring macro-prudential developments and issu-

ing warnings and recommendations. This is the reason for the proposed European Systemic Risk Board (ESRB). However, the proposals of the Commission so far are not specific enough. Substantial details are still pending. The necessary details must clarify the effects of the risk warnings and recommendations by identifying to whom these warnings and recommendations should be addressed. The details must also clarify the roles and responsibilities of Ecofin and of the micro-prudential authorities. Also, to guarantee follow-up on the recommendations and warnings it is crucial to determine how exactly the mechanism of 'act or explain' – mentioned in the Commission's Communication - will work. Appropriate arrangements should be in place so that the "non-binding competences" of the ESRB do not become in reality "binding powers" due to the actual pressures within the system. Furthermore, public disclosure of warnings and recommendations is not necessarily the best way to increase effectiveness as unintended consequences in the market may result.

### Powers of the micro-prudential authorities to be cautiously devised

In principle, the creation of the European System of Financial Supervisors (ESFS) as an operational network is a positive development. The ESFS will rely on the upgraded Level 3 Committees - the Committee of European Banking Supervisors (CEBS), the Committee of European Securities Regulators (CESR) and the Committee of European Insurance and Occupational Pensions (CEIOPS) - and the national supervisory authorities. The functions which are foreseen in the Communication for the new European supervisory authorities (ESAs) seem appropriate. However, the Communication is still too vague to allow for an accurate assessment of the underpinning mechanisms and concrete powers.

Many details still need to be determined and several aspects should be taken into account for further specification. For example, the new authorities' competence to adopt binding standards should be clearly circumscribed in EU sectoral legis-

lation. These new authorities should not have carte blanche responsibilities. Also, the mechanism for endowing technical standards with binding legal force should be transparent and provide sufficient guarantees to ensure accountability. Furthermore, the power to settle disagreements between national supervisors through binding decisions should be seen as a last-resort solution to be employed only if mediation and conciliation have failed. Equally, ESAs' enforcement competences and their powers in emergency situations should be precisely defined to avoid any abuse.

The ESAs should not be endowed with direct and binding powers against individual banks as long as several preliminary issues are not clearly specified. In particular, it is necessary to determine on which applicable law (e.g. which national legal system) the ESAs' concrete decisions will be based, as well as appropriate legal remedies and appeal procedures. Furthermore, credit institutions should have the possibility to be a part of discussions leading to concrete decisions by the ESAs which affect them. They should also be able to ask ESAs to mediate or settle disputes among supervisory authorities and to request that ESAs investigate cases of manifest breach of EU law.

#### **Industry should be represented**

Financial services actors should have a say in the supervisory process. Forthcoming legislation should explicitly foresee the participation of the industry in the new bodies. It is important that experts provide their practical insights with regard to both macro- and micro-prudential developments. This involvement could concretely take place through the participation of industry representatives in the advisory technical committee envisaged to support the work of the ESRB and through the takeover and formalisation inside ESAs of the current industry consultative panels.

#### **Crisis management solutions still pending**

The commitment that the powers of the new authorities do not impinge on Member States' fiscal responsibilities is largely supported by ESBG. This should be more clearly articulated in the forthcoming legislative proposals. At the same time, it is important to recall that there is an inex-

tricable link between supervision and crisis management. Efforts to establish a coherent and workable regulatory framework for crisis management in the EU should be pursued as a matter of priority.

#### **Costs for additional information should be kept at a minimum**

Substantial and reliable information and data will be essential for the effectiveness of the new structures. Their main information source should be the national central banks and supervisory authorities which by now have a large database on individual institutions and national financial systems, to which the banking industry regularly contributes. It is crucial that banks are not submitted to double reporting and the additional cost burden for information is kept as low as possible. Therefore, the ESRC should not be able to request infor-

mation directly from market participants. The envisaged central European database should not introduce a second set of disclosure requirements for banks which would simply duplicate the requirements (and costs) which are already required.

#### **The way forward**

Overall, the crisis has triggered a tremendous amount of momentum for change in the supervisory structure. While many of the general ideas which have been proposed are valid, the details of these proposals are still pending. The future of the EU supervisory framework faces serious and long-term questions that must be answered in the coming months.

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# WSBI Makes Proposals for the Reform of the Global Financial Sector

The economic and financial crisis that has swept over the world may lead to dramatic changes in the way retail banking is considered at the international level. Over recent months, WSBI has been taking part in a number of debates among policy-makers and stakeholders connected to the financial crisis. These stakeholders and policy-makers have included the United Nations, the G20, the International Association of Investors in the Social Economy (INAISE), the Finance Future Council and others. WSBI responded positively to the calls made to stabilize markets, support economic recovery, and to reform the global financial sector. At these occasions, WSBI reiterated the concern of savings banks that only a thorough analysis of the causes of the current market situation can lead to the definition of relevant policy, supervisory and regulatory solutions. This would require distinguishing between the different market players and their activities.

## Stable and sustainable markets

In the context of the crisis and potential changes in the global financial sector, the core elements which have contributed to the development of stable and sustainable markets need to be recognized, without discrediting all existing processes and structures. In particular, it is important to highlight the benefits and function of proximity banks. These banks innovate in order to serve their core market segments - retail customers and small businesses. They also support the real economy, reinvesting locally for the benefit of social and economic development. Equally important, the key role of pluralistic banking structures for the stability, sustainability and competitiveness of the financial system should be considered as a building block for the reform process.

## WSBI proposals

WSBI member banks' assets in the G20 countries amount to USD 11,044,348.03 million and non-bank deposits are USD 6,531,594.21 million. As such, these banks combine to represent a significant share of the global retail banking sector.

Because of the significant role that members play in the global economy, WSBI developed specific proposals and views to contribute to the April 2009 G20 Summit in London. The Summit was central for the definition of a global plan for recovery and reform. WSBI specifically pointed out a number of important issues related to the plan for recovery and reform. First, it is crucially important to prevent distortions in competition linked to short-term crisis management. Further, it is necessary to define an adequate system to oversee and regulate systemically important banking institutions. This should, however, leave the central role to local supervisory authorities. Furthermore, it is important to enhance

sound regulation and strengthen transparency through initiatives related to credit rating agencies, hedge funds and accounting practices. In addition to these important points, the WSBI position also suggested further analysis of potential weaknesses of the Basel II Accord, though it is important that this analysis should not lead to questioning the Accord's basic principles.



Anne-Françoise Lefèvre

Regarding the reorganization of international financial institutions, WSBI welcomed the decision to expand the Financial Stability Forum's (FSF) mandate to include a more coordinating role to support cooperation between the different national and sectoral financial services authorities. The commitment taken by all G20 members to undertake a Financial Sector Assessment Programme (FSAP) report is also laudable. This will play a key role in increasing the effectiveness of efforts to promote the soundness of financial systems in all member countries.

As part of the specific debate at the UN level regarding the impact of the crisis on development, **WSBI called on the international community - and specifically international financial institutions - to encourage and enable developing economies to build up the relevant banking infrastructure to mobilize domestic savings efficiently.** This will help to finance development and reduce dependence on foreign savings. The importance of decreasing dependency on foreign savings should be one of the main lessons from the crisis and should be turned into a priority on the development agenda. This would involve a number of steps including (but not limited to):

- Facilitating the setting-up of banking institutions with wide distribution networks and delivery channels;
- Designing appropriate, valuable and convenient products;
- Promoting a savings culture, especially among households and young people;
- Deepening domestic markets via financial inclusion;
- Supporting technological innovation;

A strong commitment to these strategic objectives will contribute to the emergence of more socially-efficient financial systems that progressively drive developing economies towards a sustainable, stable, balanced and fair growth path. As the future of retail banking world-wide is shaped partly through the policy discussions in forums such as the G20, the fundamental importance of the characteristics of responsible, retail, and regional banking must be a focus.

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# Responsible Lending and Borrowing: a “new” approach in Europe?



Nadine Dauer

**The European mortgage credit market has attracted the attention of regulators and supervisors in the EU over the course of recent years. Since the beginning, the European Commission followed the approach oriented towards further integrating the European mortgage credit market. ESBG has consistently been involved with various initiatives of the Commission which addressed a broad range of issues. These issues included, for example, pre-contractual information, advice, assessment of creditworthiness, conduct of business rules, access and exchange of credit data, and credit intermediaries**

## A shift to a focus on “responsible lending”

Analysing the underlying reasons for the financial crisis and its effects on the EU credit markets, the Commission assumed that the high risk-taking business practices for mortgage lending in the U.S. were one of the origins of the financial turmoil. As a result, the Commission seems to have shifted away from its approach of “further integration” and focuses now on “responsible lending” by assessing the more general functioning of European credit markets in order to respond to the crisis. Despite all of the actions undertaken so far, the Commission points to the current financial crisis as evidence that irresponsible lending and borrowing can still take place in European credit markets.

In order to reflect these developments the Commission announced in its Communication entitled “Driving European Recovery” from 4 March 2009 that it would come forward with measures on responsible lending and borrowing before autumn of this year. This initiative aims to establish an appropriate framework to ensure responsible and reliable credit markets for the future and also to restore consumer confidence. The initiative has a broad approach and therefore, all initiatives conducted so far will most likely feed into this package.

## The Commission’s public consultation on “responsible lending and borrowing”

Finally, on 15 June 2009 the European Commission allowed a first look at the potential content through its consultation on “Responsible lending and borrowing in the EU”. Building on previous consultations, studies and policy developments

especially in the area of mortgage credit, the aim of the consultation is to gather information on outstanding issues and to deepen the Commission services’ understanding. The Commission is seeking information on business practices prior to and in the context of the lending transaction, on responsible borrowing and on credit intermediaries. In more detail, the consultation addresses issues of advertising and marketing requirements, pre-contractual information, risk guidance, product suitability, creditworthiness checks, advice standards and credit intermediaries.

It is promising that the consultation approaches lenders and borrowers at the same time. In general, a fair balance must be achieved between the responsibilities of consumers and lending institutions at the EU level.



Moreover, the Commission’s view that credit products should be appropriate to consumers’ needs and tailored to their ability to repay makes sense. This definition of responsible lending represents the essential interest of every lending institution and is already good banking practice.

The Commission’s perception on responsible borrowing is highly appreciated - recognizing that consumers have a responsibility to inform themselves about offered products, provide relevant, complete and accurate information on their financial situation to lenders and take their personal as well as financial circumstances into account when making their decision.

## Other aspects for consideration

The Commission’s efforts to enhance credit markets and to restore consumer confidence are important, especially in this crucial time of the financial crisis. Nevertheless, considering ESBG’s members’ lending experience throughout Europe, additional arguments should be taken into consideration.

First, U.S. business practices for mortgage lending, as being driven by riskier contracts to lower-income borrowers and not regulated mortgage brokers, is not comparable with European mortgage lending standards. Second, the Commission’s conclusions revealed to be drawn from examining irresponsible lending in the UK market. The UK market is designed similarly to the U.S. market but is very different from other mortgage markets in the EU Member States. Against this background the lessons learned from the financial crisis and its responses should reflect the actual weak points of the EU markets and not simply be transferred from the U.S. market.

A first in-depth discussion with stakeholders will take place at a Commission hearing at the beginning of September 2009. However, the Commission’s package on responsible lending and borrowing will most likely not contain any legislative proposals, such as a Directive. The final decision on actions and on the concrete measures will be left to the next Commission and is therefore not expected before early 2010.

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# Redefining the Landscape of Payment Systems: World Bank conference charts the course



Norbert Bielefeld

The 3rd World Bank Conference on payments held from 7-10 April in Cape Town brought together over 200 regulators, overseers and private sector representatives from 51 countries. The Conference was held against the background of payment systems moving from being a narrow channel for transferring funds to a much wider integrated network for transferring additional forms of value.

Because of this evolution, a less than optimal use of payment instruments and/or inefficient or poorly designed systems to process these instruments will ultimately impact systemic stability, economic development and growth. It was further acknowledged that the creation of networks and systems for retail payments can have a substantial role in supporting financial access in developing countries.

Particular highlights of the Conference were:

- The general deployment and the good functioning of real time gross settlement systems (RTGS) were praised for ensuring stability during the financial crisis. A clear future is seen for hybrid systems which combine finality and flexibility. However, more work is required in the fields of liquidity and credit policies to acknowledge the impact of monetary policy and enable RTGS to address the challenges of interlinkages notably with money markets and securities settlement systems.
- The Bank for International Settlements Committee on Payment and Settlement Systems launched work on the implementation of the Liquidity Guidelines with a focus on intra-day liquidity and on recommendations for central clearing counterparties, with a focus on over-the-counter derivatives. It is preparing an issues note on Retail Payment Systems, an analytical framework for post trade infrastructures, and a review of standards and recommendations in the light of its 2008 report "Interdependencies of Payments and Settlement Systems".
- Retail payment sessions discussed the necessary interplay between innovation and legislation, which leads to a functional rather than institutional approach to payment services. Experiences in remittances and mobile payments were shared along with discussions on how to improve access to financial services for the poor and unbanked. Participants provided examples of how Central Banks and public authorities can actively promote payment dematerialization by balancing co-operation and competition – notably in the context of a comprehensive retail payment strategy. For developing countries a merger of RTGS and retail payment systems was recommended.
- Speaking in the remittances session WSBI highlighted the remaining legal and regulatory obstacles to combating the informal market and enabling greater bancarization.
- Regional payment system integration projects such as SEPA, the SADC, COMESA, the West Africa Monetary Zone and East Africa Payment System projects, and the Arab integration project, were also presented.

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# 200

## 11th European Conference on Savings Banks History

### "200 years of Savings Banks: a model of Responsible, Regional Retail Banking"

9 June 2010 - Edinburgh (Lloyds TSB Scotland)

Next year the 200 year anniversary of the founding of the first savings bank in Ruthwell (Dumfries-Scotland) will be celebrated. To mark this event, the 2010 European Conference on Savings Banks History will be held in Edinburgh. Various national savings banks or savings banks associations indeed celebrate this year and next year their two centuries of existence. Taking the opportunity of this historically important event, ESBG and WSBI will organise its statutory meetings at the same occasion, respectively on 10 and 11 June 2010.

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# Financial Inclusion: ESBG's views on the access to a basic bank account



Astrid Hagenah

During the past few years, the topic of financial inclusion has increasingly been in the focus of policy makers at European level - showing the growing awareness of all parties involved. As a latest step, the European Commission launched its Consultation on "Financial Inclusion: Ensuring access to a basic bank account" in February 2009 and described the levels, causes and consequences of financial exclusion in the EU. Interested parties were invited to comment on the need and format of possible future policy measures.

## A part of the mission of savings banks

The promotion of financial inclusion is part of savings banks' mission. Caring for the general interest of society is the savings banks' initial vocation and is an integral part of their identity. As such, ESBG has been actively involved throughout discussions at the EU level and welcomes the EC's aim to encourage the further development of financial inclusion of all EU citizens. Many ESBG members have introduced specific, targeted schemes to ensure that the most vulnerable parts of the population also have access to necessary basic financial services. In this regard, the access to a basic bank account which enables the account holder to receive a salary and/or social benefits, make a certain number of essential payments and withdraw cash, is without a doubt one of the most crucial parts of financial inclusion.

ESBG shares the Commission's view on the need identified to take action to ensure access to a basic account and, in doing so, to foster financial inclusion. In order to meet this objective, the EC suggested four policy options, namely to:

- share best practices;
- have self-regulation;
- develop soft law or;
- introduce an EU regulation.

## Action should be taken at a local level

Considering the important commitment of its members at the regional and local level but also acknowledging the strong link to the wider problem of social inclusion, ESBG strongly advocates for a strict application of the principle of subsidiarity when addressing financial inclusion. Adhering to this principle means that the fight against financial exclusion should first and foremost be dealt with at national level. This is because the reasons for financial exclusion differ widely due to different cultural and historical as well as economic and social circumstances in the Member States.

Neither self-regulation nor regulation is the right approach to ensure and enhance citizens' access to basic banking services throughout the EU. With a view towards the "Better Regulation"

principle, there is no justification for any intervention at the EU level in Member States where financial exclusion does not occur. On the contrary, national solutions have to be found, responding to citizens' specific situations and needs when those citizens are confronted with or at risk of financial exclusion. In addition, the situation in those Member States with existing national regulation on financial inclusion clearly shows that total coverage cannot be reached by legislative means. Initiatives in this field should therefore always be taken on a voluntary basis and should never be imposed on banks. Financial providers should not be obliged to provide basic bank accounts as this would not only interfere with the principle of contractual freedom and the obligation to perform risk management, but also hamper the innovation of new products and services. Against the background of the different levels and reasons for financial exclusion in the Member States, a one-size-fits-all approach would not be an appropriate solution.

Access to financial services can and should be increased in various ways: by offering specific products and services, through providing adequate information, through financial education and by improving the level of financial literacy. When it comes to activities at the EU level, the Commission's involvement should be strictly limited to maintaining awareness on the subject and facilitating the sharing of information and best practices. ESBG stands ready to continue sharing its members' expertise in order to foster citizens' financial inclusion.

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**Against the background of the different levels and reasons for financial exclusion in the Member States, a one-size-fits-all approach would not be an appropriate solution.**

# European Commission Proposal on Alternative Investment Fund Managers

## The end of an unregulated era at the EU level

**With the financial crisis, discussions regarding the possible regulation of hedge funds at the EU level have increased their pace. In contrast with the pre-crisis situation, the parties in favour of regulation now have the strongest voice. The International Organization of Securities Commissions (IOSCO) confirmed in June 2009 that the crisis is not a hedge fund driven event, but highlighted also that hedge funds pose regulatory and systemic risks. This statement mirrors the new political assessment of hedge funds within the European Union.**



Ulrike Kohl

### New proposal from the Commission on AIFMs

On 30 April the European Commission issued its proposal for a Directive on Alternative Investment Fund Managers (AIFMs), thereby opting for a scope which goes beyond hedge funds. The proposal captures all funds which do not meet the definition of a UCITS ('non-UCITS funds'). The emphasis of the Commission proposal is on the managers, and not on the funds themselves. All managers of non-UCITS funds above a certain amount will be subject to an authorization procedure and will have to fulfil certain requirements (e.g. capital, organizational, and transparency requirements). On this basis, the manager will be entitled to market an AIF to professional investors all over Europe. Furthermore, the proposal foresees that managers will have to fulfil additional requirements when they employ certain techniques or strategies - notably when managing a leveraged AIF or managing an AIF which acquires a controlling stake in a company (excluding small and medium sized enterprises).

The Commission proposal has been submitted to the Council and the European Parliament. The Council has already taken up discussions, with the Swedish Presidency committed to achieving as much progress as possible on this file. The newly elected Parliament will tackle the issue this autumn. In the previous parliamentary mandate the pressure to introduce regulation has been strong.

### ESBG's initial impressions of the proposal

ESBG is still finalising its position on the proposal. Overall, we share the Commission's views on the vulnerability of certain AIFMs related to a wide range of risks. The idea of developing a European framework for the oversight of risk management processes as well as for internal governance and transparency is a sound one. Regarding the concrete Commission proposal, there are a number of important observations that should be made:

1. The Commission has chosen to put the focus on fund managers. This means that the Commission has moved away from the traditional products-based approach. This policy change is regrettable, given that the product approach has proved successful in many cases.
2. The Commission proposal establishes rules for managers selling funds exclusively to professional investors. It is important to

clarify how these rules would interrelate with European and national provisions for managers selling funds to retail investors. A double or triple authorization and compliance under UCITS, AIFM and eventually national rules could be the result of this approach- potentially causing confusion. Legal clarity in this context is indispensable. Likewise, a clarification is necessary on the interrelation of the AIFM rules with other Directives - in particular MiFID and the Prospectus Directive.

3. The Commission states that open-ended real estate funds (OEREFs) fall within the scope of the proposal, noting that Member States can also allow the national sale of such funds to retail investors. In March 2007, a Commission convened Expert Group recommended the creation of an EU framework for OEREFs to facilitate their cross-border distribution to retail investors. This idea should be revisited for implementation in the future.
4. The Commission's proposal includes a number of provisions regarding depositaries and their liability. Notably it is proposed that the depositary shall be liable to the AIFM for any loss suffered by them as a result of its failure to perform its obligations pursuant to the proposed Directive, except if the depositary can prove that it could not have avoided the loss which occurred. The question arises as to how these provisions can be implemented. How it can be ensured that the depositary has access to the necessary information to fulfil its duties? Which circumstances are covered by the term loss of financial instruments and how can depositaries put the rule into practice. Some clarifications in the legislative text in these two contexts seem necessary to ensure the smooth functioning of the rules.

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## European Directive on Deposit Guarantee Schemes Remains High on Political Agenda

**The European Directive on Deposit Guarantee Schemes (Member State based deposit insurance systems) has been recently revised.**

ESBG believes that this revision represents an adequate response to the immediate challenges of the crisis situation. The revision of the Directive focused on three topics: increasing the level of coverage in terms of the amount of money, reducing the delay before depositors are reimbursed and abandoning the principle of co-insurance (where a certain percentage of losses is borne by the depositor). These changes are important contributions to the strengthening of depositors' confidence and to the enhancement of financial stability.

The European Parliament and the Council identified a series of other issues that should be further analyzed by the European Commission and possibly reviewed. The Commission issued a consultation paper to prepare its response to the Parliament and the Council. ESBG contributed to this consultation. As a general comment, each of these issues needs to be assessed carefully and action might be required only regarding some of the identified issues.

### Which depositors are covered?

For example, as regards which depositors are covered, ESBG agrees with the Commission's view that the verification of the eligibility criteria can be complex and time-consuming. This could potentially put into question the reduced payout delay (a reduction to four to six weeks is prescribed in the review of the Directive). Consequently there are benefits to harmonizing the list of eligible depositors contained in the Directive. Such harmonization would represent an opportunity to clearly define which categories

of companies or enterprises should be excluded from the scope of the Directive. It is important for small enterprises to be included, as their exclusion would have dramatic consequences for them, and have indirect impacts on local labour markets and local economies as a whole.

### How are guarantee schemes funded?

Another issue addressed in the consultation paper is whether to change how the deposit guarantee scheme is funded by harmonizing the funding mechanism among member states. Currently, the funding mechanism can take place after or before the funds are needed. Moving towards more harmonization of funding mechanisms would require sufficiently long transition periods. This is especially true now because in the current circumstances, it is important to avoid creating new procyclical effects. Even if the decision is made to harmonize the principal characteristics of the funding mechanisms, the details of the layout of the mechanisms should remain at the discretion of Member States.

### Should the coverage level be harmonised?

The Commission consultation document includes a discussion on whether to fully harmonize coverage level to EUR 100,000. The majority of ESBG members considers that minimal harmonisation, as it already exists, is useful and necessary. It allows a fair level of protection of depositors all over Europe. Notwithstanding this consideration, they agree with an increase of the coverage level to EUR 100,000, which ensures a high level of coverage all over

Europe. A full harmonization would, however, not sufficiently take into account that the economic circumstances vary from Member State to Member State. A certain amount of money has a different meaning in each Member State. More importantly, the majority of ESBG members believes that existing systems should not be weakened (through a mandatory reduction of the amount of coverage), as this would be counterproductive for consumer confidence and could endanger financial stability. Finally, in any case they consider that a full harmonization of the amount of coverage would only be justified if its absence would lead to competitive distortions. It is not clear to them that this would be the case with the minimum harmonization envisaged.

On the other hand, some ESBG members have expressed concerns regarding the competitive distortion that diverging coverage levels are provoking. Therefore they are in favor of a fixed coverage level at EUR 100,000 in order to prevent abnormal shifts between countries and institutions and avoid distortions of competition. In their opinion, even if most depositors are already covered by EUR 100,000, a higher legal coverage - in particular for foreign branches - might provoke confusion and unjustified shifts of customers between institutions. Those members conclude that full harmonization would be the best option for a real single European financial market.

ESBG expects the Commission to prepare a very detailed impact assessment on this point, before taking any decisions as regards this question.

National schemes have the advantage that they are close to customers, which strengthens confidence. They have a second important advantage, namely local actors are responsible for them. In addition, ESBG questions whether a Community scheme could be justified according to the principle of subsidiarity (intended to ensure that decisions are taken as closely as possible to the citizen) and the principle of proportionality. Specifically in examining the different proposals made by the Commission regarding possible structures of a pan-EU Deposit Guarantee Scheme, none of the options are acceptable for European savings banks. ESBG is in particular concerned about a European-wide scheme or a complementary "28th regime" (a European-wide alternative to national schemes). This would be a radical disruption compared to the current approach and its advantages outlined above. Along the same lines, ESBG would not support any of the options proposed as regards the scope of a potential pan-EU Deposit Guarantee Scheme. ESBG is especially concerned by the possible creation of a scheme which would apply to cross-border banks only. In ESBG's view this would lead to competitive distortions by creating a non-level playing field. This would provide large cross-border institutions the "credibility" of an EU scheme while the "smaller" national schemes which would be responsible for small and medium-sized domestic institutions would be perceived as less secure.

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# The Business Model for Mobile Payments: A growing channel for retail bank transactions

One of the critical questions for the future of retail banking is what channels will be used by customers to access their accounts and pay for goods and services. For payments, the mobile phone is providing a new channel with immense opportunities. Today there are an estimated four billion mobile phones in the world. They are increasingly being used to receive bank statements, obtain transaction information, initiate and execute payments. It is estimated that by 2012 mobiles will be used to pay for USD 250 billion in transaction value. The sheer magnitude and possibility within this market has the potential to redefine competition between players (manufacturers, telecom companies, banks, other service and content providers).

## What are mobile payments?

At a basic level, mobile payments can be described as when a customer uses a mobile phone to access their account and transmit the payment instruction. Mobile payments may also be used to transfer the means of payment (e.g. by stored credit on a phone) or to access other payment-related services such as confirmations and account statements. Thus, mobile payments act as a channel rather than a payment instrument or payment scheme.

The rapid adoption of this new technology and related services clearly demonstrates that the convenience, user friendliness, and perceived low costs of mobile phone payments have mass customer appeal. It is vital that retail based financial institutions investigate how to provide their customers with the opportunity to utilise mobile payments. This will likely aid both customer recruitment and retention.

The rapid increase of consumer use of mobile payments systems must be approached with awareness and caution so that key social and policy questions are not ignored: e.g. financial stability, security and integrity of the payment systems, a level playing field, etc.

## Categories of mobile payments

The core segments and potential applica-

tions for mobile payments can be broken into two categories. The first category is face-to-face payments which can include paying for tickets for transportation, tickets for events, restaurants, shopping, parking, etc.

The second category involves remote payments and includes payments of utility bills, air-time top-ups (phone credit), on-line purchases, remittances, etc. As can be demonstrated from this short list, the possibilities for mobile remote payments are vast.

## Implementing mobile payments requires partnerships

In order to provide mobile payments and banking services to customers, banks will need to form partnerships with mobile network operators. Financial institutions should take the lead. Would-be bank partners must acknowledge that mobile network operators are agile at integrating new technology and applications and are marketing-savvy. With these partnerships the essential question will move from "who holds the account" to "who actually owns the customer franchise with respect to core banking services".

## Differences in developed and emerging markets

While mobile technology is being adopted globally, there is significant divergence of developmental drivers between developed and emerging markets. For developed markets, mobile payments replace cash for very low value transactions, due to very low transaction costs. As this becomes more common, if all these low value mobile transactions are processed as though they are cards the result would be billions of transactions. This would require the traditional payments system to be drastically rescaled. A technical solution is required to handle the transactions in bulk. For example, 50 transactions could be pre-authorized while only the total is processed. The solution must be a combination of phone and card functionality. Since no massive adoption is expected before 2011 at best, companies need to leverage existing cus-

tommer relationships and motivate retailers. Developed markets also have the benefit of liberal environment which encourage "cross border" solutions.

For emerging markets, the primary issue at stake is how to displace the use of cash for transactions and holdings – allowing the money to be injected into the formal economy. For most emerging markets this is the first widespread cashless transaction system where end users benefit through low value high-frequency transactions. Thus, the business case is dependent upon transaction volumes and market-share. Solutions must balance convenience and security - making Know Your Customer standards critical. Challenges and risks such as low levels of IT competence, limitations to agent or subagent roles, and being left out of the next phase must be addressed. For these markets, remittances will often be the first application for cross border payments.

The future of retail banking will undoubtedly involve new channels of payments, new ways of communicating with customers, and new technologies. Mobile payments are one of these technologies with the potential to have a large impact on the global retail banking sector.

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## Cross Border Cash Transport in the Eurozone The missing link

When the euro was introduced on 1 January 2002 as the single currency for then 12 Member States, citizens traveling abroad in one or another of these Member States could begin enjoying the convenience of using the same currency.

Yet since even before the introduction of the euro, little has changed for wholesale cash distribution. Mostly unknown to citizens – and not often thought about - how cash is distributed in each country simply remained the same. Only the currency changed to the euro, while the system for distributing that currency was unchanged. Over the years, in response to demands from the banking industry, the Eurosystem and National Central Banks have begun to harmonize processes and conditions for distributing and recycling euro cash. But eight years after the introduction of the physical euro, it is still impossible for professional cash transporters to cross a border between two eurozone Member States.

As a consequence, it is impossible for cash transporters to choose the shortest route to collect (respectively: deliver) cash from (for example) merchant locations and deposit it (respectively: withdraw from) at the nearest bank or Central Bank branch. Thus cash transporters spend more time on the road - increasing the risk of attacks and the threats to public security. They drive longer distances - further exacerbating the negative carbon footprint of cash. As a further consequence, national cash transporters, often heavily concentrated, operate comfortably within their borders, removed from competition.

### Single euro zone for payments, but not for transport of money

One could have expected the European Commission to address this situation in advance of the introduction of the euro. They were keen with Regulation 2560/2001 to make the price of cross border credit transfers and cash withdrawals (and now direct debits) equal to the price of intra-national transactions (i.e. SEPA). The result of this missing link in the regulations is that the banking industry has to invest in SEPA, while it is prevented from reaping the efficiencies of a genuine wholesale euro cash zone, whilst the general public, customers and staff remain unnecessarily exposed to higher attack risks.

In the immediate near term there is a requirement to allow professional cross border cash transport for “border areas”, or “border corridors”, spanning perhaps 100 kms on each side of a border. The argument that such transports would only represent a small fraction of total cash transport – and thus that there would be no case for legislative attention – is moot. Indeed, as professional cross border cash transport is generally prohibited today, actual opportunities are difficult to quantify. In addition no business case considerations were taken into account when Regulation 2560/2001 was formulated or revised. Professional cross border cash transportation should be permitted on the basis of the same logic that equated prices for in-country and cross border payment transactions.

### Transport would decrease - not increase - security risks

The extremely important security requirement dimension should not be misused either. It has been demonstrated that there is no relationship between the type of security measures for cash transportation implemented by a given Member State, and any low number of attacks registered in the same Member State. In other words, no single security measure can be claimed to act as a final deterrent, hence any difference in cash transportation security measures between two Member States may not be used as an argument – i.e. the argument that if services were rendered by an out-of-country transporter security risks would increase is not valid.

### Encouraging signs?

The European Commission’s June 2009 White Paper is an encouraging sign that legislation could soon bring about the necessary conditions for cross border cash transport by professionals to become possible. This would allow for a true internal market for professional cash transport to emerge in the medium term, allowing for a coherent approach to payment instruments in SEPA.

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# Fair Value Accounting: Future challenges

**Fair value accounting - the estimation of the value of an item as if it were a transaction taking place under current market conditions (also known as mark-to-market) - has been under great scrutiny over recent months and has been viewed by many as exacerbating banks' difficulties by being far too complex and by creating pro-cyclical effects and financial instability. In addition, the need for a higher degree of harmonisation between the EU and United States (U.S.) accounting requirements has been expressed in the ongoing discussions.**

## Impetus for change: The financial crisis

A first step to coping with fair value during the crisis was made at the end of 2008 when the European Commission responded to the urgency of the situation by adopting several amendments to important international accounting standards (IAS 39 and IFRS 7) made by the International Accounting Standards Board (IASB) concerning the reclassification of financial instruments. However, already then, stakeholders and the Commission expressed the need to not only focus on fair value but to carefully continue monitoring all accounting issues which could impact on the stability of financial institutions and financial markets. In addition, numerous stakeholders expressed the need to reflect upon the application and impact of the concept of fair value in an in-depth and unprejudiced manner.

Tackling the issue of fair value more in detail, the IASB announced a package regarding IAS 39 and launched a first proposal on the derecognition of financial instruments in March 2009. The IASB suggested replacing the current mixture of risk and rewards, control and continuing involvement of IAS 39 with a new, single concept. In April 2009, the U.S. Financial Accounting Standards Board (FASB) unilaterally introduced important revisions regarding the definitions of when markets are inactive and when transactions are distressed. As a response, the IASB published new guidance on the application of fair value in inactive markets and proposed a single source of guidance which would replace all the existing fair value measurement guidances contained in different International Financial Reporting Standards (IFRS). As second step regarding the classification of financial instruments, the IASB launched its proposal on the revision of IAS 39 in July 2009. In addition, the IASB is currently assessing users' and preparers' opinions concerning the inclusion of the price of the credit risk when measuring liabilities. The challenges of the different methods to report impairment in the value of financial assets are also under scrutiny. A separate IASB Exposure Draft on hedge accounting is expected in late 2009.

## The future of fair value in Europe

Against the background of the financial crisis, ESBG has seen the need to respond to the exceptional situations in the markets at the end of last year and has strongly supported the actions taken by all parties - especially the IASB and the Commission - in order to

achieve a more flexible application of fair value accounting rules.

However, a thorough reconsideration of the existing accounting rules is of utmost importance. Therefore, the recent initiatives aimed at assessing and reviewing fair value accounting in the long term are welcome. The approach of fair value accounting should be simpler, more user friendly, standardised, flexible and practical. It should reflect more convergence between the EU and the U.S. Thus, the urgent nature of the needed changes should in any case not undermine the quality of those changes. They also still must accurately and reliably portray the transactions typical for the financial industry.

In addition, more clarity is needed within the IFRS when defining fair value. Some of the existing standards only provide limited guidance on how fair value should be measured. In this respect, the IASB's attempt to achieve a single source of guidance for all fair value measurements is a positive step. At the same time, it is a concern that despite the strong commitment of all stakeholders for simplification, the very short timeframe for responses to the IASB's consultation might lead to less quality than expected.

A higher degree of harmonisation between fair value requirements and supervisory requirements is also necessary in order to diminish reporting burdens for both preparers and users.

Recent years have shown that over-reliance on market value not only significantly increases pro-cyclicality, but also results in providing an inaccurate image of a company's situation. Possible remedies to these pro-cyclical effects include reclassifications, buffers or dynamic provisioning. Without a doubt, more analysis of the relationship between accounting and pro-cyclicality is needed, especially in imperfect markets. In any case, the quality of information needs to be preserved in order to restore stakeholders' confidence in financial reporting.

Looking ahead, ESBG is convinced that the long term issues of accounting - namely pro-cyclicality, the complexity of fair value as well as the need of transparency - have to be carefully assessed in order to achieve well functioning, stable and globally accepted solutions for financial reporting.

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The approach of fair value accounting should be simpler, more user friendly, standardised, flexible and practical.

# The Capital Requirements Directive: Still on the top of the agenda of EU policy-makers

**Within the context of the crisis, there has been a major push to reform core aspects of European-wide banking regulations. One of the core directives related to banking is the Capital Requirements Directive (CRD). Changes to the CRD will have a direct and lasting impact on the future of retail banking in Europe.**

The first review of the Capital Requirements Directive was intensively debated during 2008 and the first half of 2009. This culminated with the adoption by the European Parliament in May and the formal approval by the Council in July 2009 of the so-called "CRD 2" – which amends and adds to the CRD. Consequently, Member States will have to transpose and apply the new rules on large exposures, securitisation (retention and due diligence), hybrid capital instruments and colleges of supervisors as of 1 January 2011.

At the same time as the legislative process that led to the adoption of CRD 2, the Commission started preparations for further changes to the CRD to reflect additional concerns brought to light by the financial crisis. These concerns refer particularly to the inadequacy of the current rules that address complex securitisation exposures and trading book activities, as well as the inappropriate incentives stemming from remuneration policies in the financial services sector. To tackle the shortcomings the Commission conducted several consultation processes in spring 2009. In parallel, the Basel Committee has consulted on proposals to amend the Basel II framework on the same aspects. Final proposals were issued on 13 July 2009 by both the Commission and the Basel Committee. Within the EU, these legislative proposals – known now as "CRD 3" – are being considered by the European Parliament and the Council of Ministers.

## Major points in the "CRD 3"

The Commission's proposal for "CRD 3" contains a number of important points:

- It contains rules on higher capital requirements and a strengthened supervisory process for re-securitisation positions, which are considered to entail higher risks than straight securitisations.

- It proposes to reinforce disclosure requirements related to securitisation positions.
- It aims to correct shortcomings in the internal models used for calculating capital requirements for market risk.
- It introduces a framework constraining supervisors and credit institutions to consider the implications of remuneration policies for effective risk management.

## ESBG's views on "CRD 3"

ESBG's views on these topics have been expressed in a series of position papers prepared within the framework of the various consultations organised by the Commission and the Basel Committee. These are available through [www.esbg.eu](http://www.esbg.eu). Below are some of the most fundamental points.

### On the treatment of securitisations

Concerning the treatment of securitisations, ESBG broadly supports regulatory endeavours to address shortcomings revealed during the crisis. However, ESBG also has consistently highlighted that securitisations – when not carried to excess – are a valuable diversification and risk transfer mechanism that has proven helpful and will continue to be useful in the future. Therefore, ESBG thinks that new legislation should address observed excesses but not stigmatise securitisations altogether. Also, additional disclosure requirements have to be considered carefully, as they do not necessarily improve information, but run the risk of overburdening firms.

### On proposals related to the trading book

With regard to proposals related to the trading book, ESBG has consistently stressed that the new rules should by all means avoid a one-size-fits-all approach. Furthermore, the substantial increase of capital requirements for the trading book

may discourage banks from shifting from a standardised approach to a model-based approach on market risk. This is because capital requirements will be much higher for banks utilising a model-based approach for their trading book. This would be regrettable and a step backwards compared to the current regime. Any approach that would see capital requirements for the specific risks in the trading book being determined exclusively under the rules for the banking book is unacceptable.

### On remuneration policies

Related to regulatory proposals on remuneration policies, ESBG believes that compensation incentives should be aligned with the long term interests of the financial institutions and that ultimate responsibility for remuneration policy rests with the institutions themselves. The regulatory focus should be on those functions and staff categories which have the potential to expose an institution to excessive risk. Imposing capital add-ons is not the proper way to ensure compliance with remuneration principles.

## Upcoming – "CRD 4"

In July, in parallel with the legislative debates on "CRD 3" the Commission launched a public consultation on further aspects to be included in an amended CRD. An initial consultation document for "CRD 4" contains the Commission's proposals on countercyclical provisioning, incremental capital for residential mortgages denominated in a foreign currency, and the removal of national discretions and options from the CRD. In the short and medium term, further amendments can be expected with regard to the introduction of a leverage ratio, capital buffers, and the definition of own funds.

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## Interchange Fees and the Pursuit of SEPA

**European policy makers and regulators promote SEPA (the Single Euro Payments Area) as the true Shangri-la for payments. The ideal is that any type of payment will be made and received anywhere, costs will be extremely low, competition will thrive, there will be no boundaries to innovation, and society will benefit to the tune of hundreds of billions of euros.**

The benefits of SEPA can only be achieved through support by the banking payment industry. Already in 2002, the industry had begun a co-operative initiative to deliver the schemes and framework to support SEPA. The pan-European SEPA Credit Transfer Scheme went live in January 2008, and the SEPA Cards Framework went into force at the same time. The SEPA Direct Debit will become available in November of this year - once the transposition of the Payment Services Directive into the legislation of EU Member States has created the necessary conditions for its operation.

### Shifting the costs entirely from the customer to the service providers

The Payment Services Directive does not just enable pan-European direct debits. First and foremost, it shifts responsibility for payment transactions away from customers (merely called "payment service users" in the Directive) towards payment service providers. In essence this is done at no cost for the customer. Furthermore, the revision of Regulation 2560/2001 approved in April on cross border payments confirms that intra-EU cross-border transactions may not be priced differently from comparable in-country transactions. The revision does this by extending the 2001 dispositions for credit transfers and ATM cash withdrawals to direct debits. Thus regulators have provided (even if belatedly so) for "Kevlar-plated" customer protection in advance to the profound market transformation that SEPA will represent.

### Drastically changing the business model late in the game

With customer protection in place, it comes as somewhat of a surprise that regulators are now drastically challenging the business models for the provision of payment services – at least in the field of direct debits and payments with cards. Two and a half years after informing the European competition authority of its plans for the SEPA Direct Debit Scheme, the banking payment industry was informed that the intended default interchange mechanism would not be acceptable beyond 2011 – although no significant transaction volume is expected to be registered any earlier. Interaction between the same competition authority and the two large international card schemes also points to a decrease in interchange fees in the future.

### Unforeseen consequences of regulation?

It strikes the casual observer that in both instances justifications provided by the competition authority are rooted in lessons drawn from the past, from current situations in a limited number of countries, and/or for a limited number of payment instruments. Admittedly, there is no economic theory available that would model the transformation of multiple payment landscapes over a number of years (each with their differing sets of habits, practices and laws) into an "internal market for payments". In the absence of such a model, to rein in (or outlaw) interchange on top of customer protection provided by other legislation could be perceived as good policy.

However, such a move actually changes a number of other variables. There is little doubt that – as any living body would – payment service providers will adjust over time to the new environment that has been created for them. But at the end of the reaction chain that they have set in motion, will regulators find their intended Shangri-la, or will SEPA become a never ending quest?

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# SAVINGS BANKS ACADEMIC AWARD 2010

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An initiative of the  
European Savings Banks Group



## Debate Continues on Description Documentation and Selling Practises for Packaged Retail Investment Products

In April 2008 the European Commission released its Communication on packaged retail investment products. In this document, the Commission criticizes the current situation for neither providing a coherent basis for the protection of the retail investors nor ensuring level-playing field between the different types of retail investment products. As a consequence, the Commission envisages a horizontal approach -covering many categories- to be applied as regards both mandatory disclosures and selling practises for all packaged retail investment products. This would include investment (or mutual) funds, unit-linked life insurance policies, retail structured securities and structured term deposits.

The Commission specifies that it plans to use the UCITS "Key Investor Document" disclosures (KID) and the Markets in Financial Instruments Directive (MiFID) as benchmarks for the areas respectively of disclosure and selling practises. The Commission envisages introducing horizontal measures in the form of the Lamfalussy legislation that would combine uniform principles and core requirements for all relevant products or actors, while allowing the detailed content and form of the requirements to be adapted to the specificities of different products. Thus the general framework for the different types of documents would be the same, while the detailed descriptions would vary according to the product. In conclusion, the disclosure requirements would thereby aim to achieve some level of harmonization and standardization which would allow for comparisons between products, though with some tailoring of detailed rules to reflect the particular features and legal forms of products.

Furthermore the selling of packaged retail investment products would be regulated by an extension of the relevant provisions of MiFID.

The Commission recognizes in its Communication that the challenges going forward will relate to:

- Ensuring a clear designation of the products that fall within the scope of the future rules.
- Effectively allowing for the interrelation of these new rules with existing sectoral legislation.

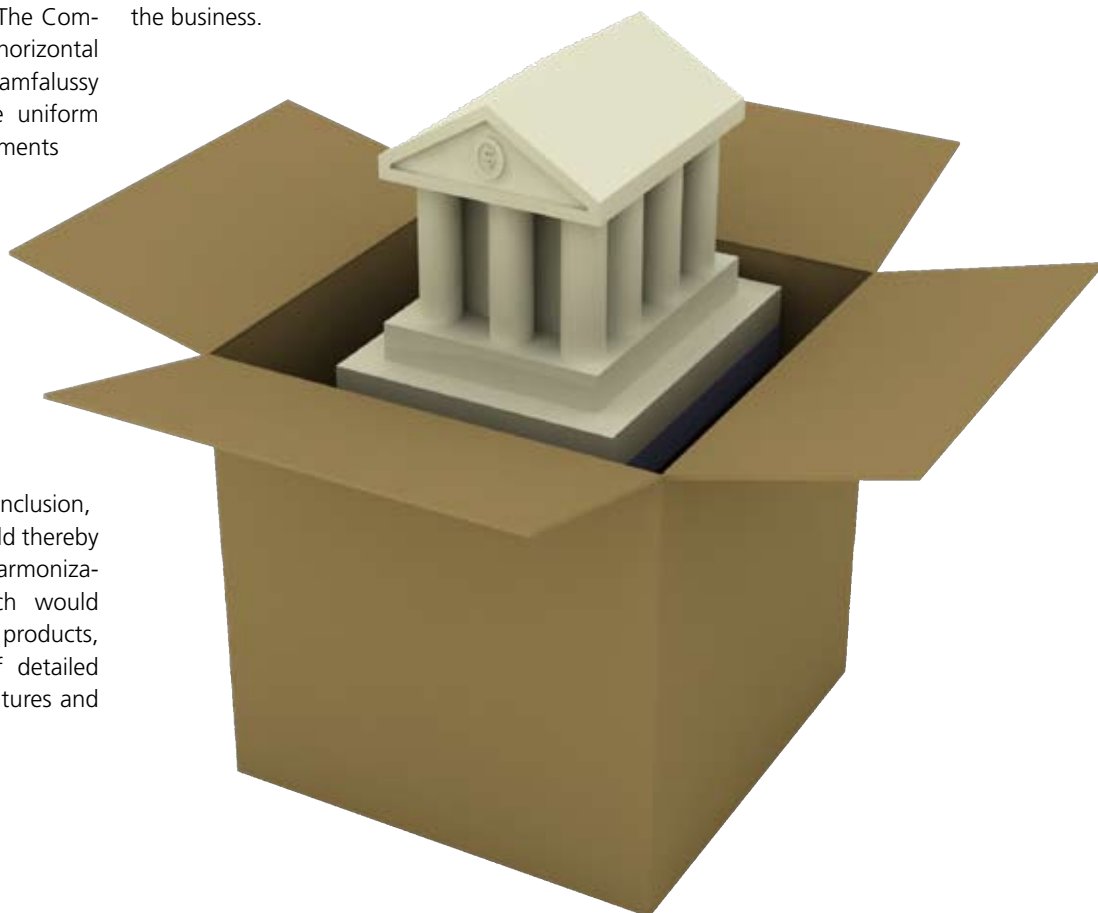
ESBG fully agrees with this identification of the two key challenges and believes that it is crucially important to have legal clarity regarding them. In addition the envisaged adaptation of the requirements to different products is also of crucial importance. The rules need to be sufficiently flexible to be suitable to all products concerned without harming the functioning of the business.

Finally MiFID has only been implemented since November 2007 and UCITS KID's implementing details are still being developed; therefore lessons still need to be learnt and a prudent, not hasty approach is necessary.

There will be a Commission contribution by the end of 2009, open for consultation. ESBG looks forward to the discussion on how to improve selling and disclosure practices for all packaged retail investment products.

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## Benefits of Diversity in Europe's Banking Sector: A new study investigates Europe's savings banks

On June 26 the Centre for European Policy Studies (CEPS) – a leading Brussels-based think tank - released its study “Investigating Diversity in the Banking Sector in Europe: The Performance and Role of Savings Banks”. The study was conducted by an international and high-profile research team, composed of Dr. Rym Ayadi (CEPS), Prof. Reinhard H. Schmidt (University of Frankfurt) and Prof. Santiago Carbó Valverde (University of Granada).

News & Views sat down with Rym Ayadi, the study's lead author and Senior Research Fellow/Head of the Financial Institutions and Prudential Policy Unit at CEPS, to discuss the findings of the report and their implications for the way forward for retail banking in Europe.

### Dr. Ayadi, why did you decide to investigate the diversity of Europe's banking sector?

We developed our research question almost three years ago, long before the onset of the current crisis. At that time, the political discourse surrounding the integration process of Europe's banking sector was very different. There was a broad push for bigger, pan-European, shareholder owned banks. Yet, while this was very prominent politically, empirical evidence was divided and academic research even showed that major cross-border bank mergers often destroy value, deteriorate solvency and do not necessarily benefit customers and employees.

On this basis, we thought Europe's banking sector should be investigated from a broader and more comprehensive perspective – focusing on more than just competition and bank financial performance. We believed that the impact of diversity among market players on financial inclusion, growth and stability merited much more attention than it was receiving at the time.

### The study focuses on the role of savings banks in Spain, Germany, Austria, Belgium and Italy. Why did you choose these countries?

Savings banks are an important 'traditional' part of the European banking landscape. We wanted to compare the role of savings banks in a wide variety of countries. We focused on a sample of countries where savings banks are prominent - Spain, Germany and Austria. This also allowed an investigation into different variations of the savings banks model. In order to more

clearly capture the effects of savings banks from a wider economic point of view we analysed Italy and Belgium where, due to political decisions, savings banks have largely disappeared.

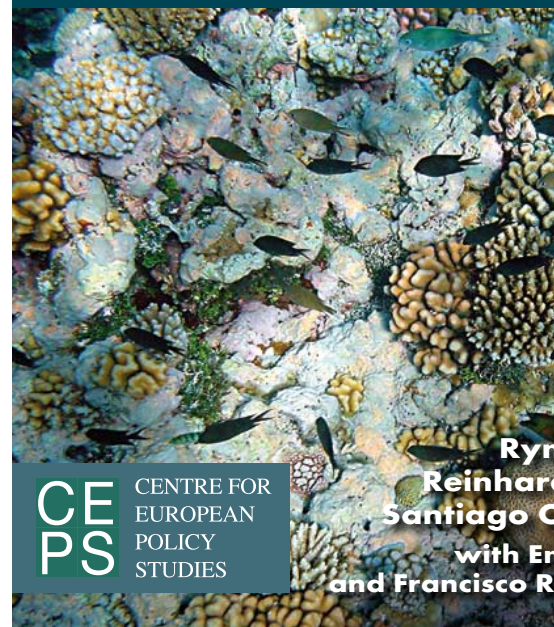
### What are the key results of your study?

Our study reaches two main conclusions. Firstly our analysis of competitiveness, profitability, efficiency and earnings stability in the five national banking sectors shows that competition throughout the sector is intense and that savings banks perform at least as well as their commercial peers. Secondly, we investigated the effect of savings banks on broader economic and socio-economic terms. To do this, we compared the three countries where savings banks play an important role (Spain, Germany and Austria) with those two countries where the savings banks sector has been largely abolished during a politically motivated process (Italy and Belgium). The overarching result of this comparison is that it is economically and socially beneficial to have savings banks. This is due to their characteristic as 'dual-bottom line' institutions, whose objectives reach beyond profit maximization and include wider social and economic objectives and regional development.

Based on these results we find that savings banks are a valuable element of the European financial system and that diversity in the banking sector contributes to financial inclusion, regional growth and stability. Our results definitely show that it is possible to combine profitability with an active contribution to social welfare and society's well-being.

These conclusions are stable over time since we analysed data from 1996-2006. Of course, it would be very interesting to reassess the savings banks' contribution to financial stability in context of the financial and economic crisis.

## Investigating Diversity in the Banking Sector in Europe: The Performance and Role of Savings Banks



**CEPS** CENTRE FOR EUROPEAN POLICY STUDIES

Rym Ayadi  
Reinhard H. Schmidt  
Santiago Carbó Valverde  
with Erwan  
and Francisco R.

### Were you surprised by the results?

When we began our research, I thought that it was likely that a diverse banking sector would be better for overall economic performance and also had the hypothesis that "dual bottom-line" institutions like savings banks are beneficial for financial inclusion and economic development. Yet, what was surprising for us was that our results would be as strong and robust as they turned out to be. We did not expect such clear evidence that diversity in the banking sector aids in achieving multiple positive objectives such as financial inclusion, stability, contribution to growth and profits for the banks themselves.

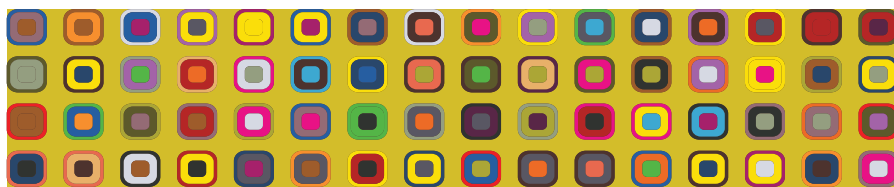
### What do you see as the way forward in integrating Europe's retail banking sector?

I think the current crisis, but also the results of our study show that we need to recon-

sider our approach to the integration of the European retail banking market. Any vision for retail banking sector integration should include sector diversity and take into account the important role played by 'dual-bottom line' institutions in their economies. What is most important is to realise that banking is not just an activity to drive money to shareholders and that 'bigger' banks are not always better or safer banks. To sum up, we must reach a balance between the objectives of competition, efficiency, inclusion and stability for sector integration to be realistic and beneficial.

## Diversity Sector e and Role Banks

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# World Thrift Day

## October 31st 2009

Every year, savings institutions around the globe celebrate World Thrift Day on 31 October. The day's celebrations highlight the importance of savings and their role in economic prosperity.

The tradition began in 1924. At the end of the first International Thrift Congress in Milan, it was decided to mark this date, 31st October, as the 'World Thrift Day', a day that should be devoted to the promotion of 'Savings' all over the World.

If you are interested in more information about how your institution can mark World Thrift Day, contact WSBI/ESBG's communications department through

[info@savings-banks.com](mailto:info@savings-banks.com).



## New WSBI Member in Albania: Banka Kombetare Tregtare



The Banka Kombetare Tregtare (National Commercial Bank) from Albania recently joined WSBI. News & Views spoke with Kaan Pekin, the Treasury & Financial Institutions Group Head to learn more about their institution.

**Mr. Pekin, could you please introduce Banka Kombetare Tregtare to our readers?**

Banka Kombetare Tregtare (BKT) is a leading bank in Albania and the first Albanian bank to expand into another country – into Kosova (also spelled Kosovo). We have 56 branches and agencies in Albania along with 12 branches in Kosova. While our bank was officially founded in 1993 – some branches have been operating since 1920's. It is a fully-fledged commercial bank.

**Banka Kombetare Tregtare is a leading bank in Albania. Can you describe what distinguishes your bank from others in your country?**

In terms of network coverage, BKT is the 2nd largest and a very well regarded bank. The British magazine: Finance Central Europe chose BKT as the best bank in Southeastern Europe for the last two years in a row. This is the first time an Albanian bank has earned such a distinction. We are constantly working to be a pioneering and leading bank in Albania and in the region. This includes offering new products to the market. For example, we were the first to offer credit cards with EMV (European Mastercard and Visa) chips – instead of those which require signatures.



**Your bank is owned partly by the European Bank for Reconstruction and Development, partly by the International Finance Corporation, and partly by the Çalik-Seker Consortium. Can you describe the history of the bank and how you operate as stakeholder driven?**

We now have three major shareholders following the privatization in 2000. These shareholders allow for conservatism – a longer term and less risky approach to banking. We are one of the most conservative banks in the region – not only Albania - in terms of avoiding risky activities and focusing on traditional banking activities.. We benefit a lot from this traditional approach.

**Can you describe how your bank has been successful in improving its performance?**

BKT works closely with numerous stakeholders in the government, international community, and private sector to foster economic development in Albania. This includes partnering with several projects in cooperation with Ministry of Agriculture, Ministry of Economy, Ministry of Finance. USAID, the German Development Bank (KfW), EBRD, the Italian Development Corporation and others. The main goal is to support Albanian SMEs, agribusinesses, contribute to energy sector development. We were the first bank in Albania which offered a loan to a municipality with USAID guarantee – for local development projects.

**Albania has a large expatriate population living in other countries. Does your bank have a large amount of business dealing with remittances or clients abroad?**

Albania actually has the highest level of remittances as a percentage of GDP in the world. To facilitate these flows from Italy, we have signed bilateral agreements with a number of banks. On the retail side, BKT was one of the first banks to offer mortgage loans to immigrants living abroad. That said, remittances are not a huge part of the banking business, as most are transferred outside the formal banking system.

**How is your bank being affected by the current economic crisis?**

Like all other banks, we have been affected – with a slight increase in the ratio of non-performing loans. However, the central bank of Albania has again rewarded BKT with the top score in evaluation. Generally speaking, Albania is less integrated with the regional and European economy which has been an important buffer to the crisis in addition to the conservative nature of our banking.

### Key facts on the Republic of Albania

Albania is a republic located on the Adriatic and Ionian Seas just north of Greece

**Population:** 3.18 million

**GDP:** USD 13.52 billion (USD 21.82 billion PPP)

**GDP per capita:** USD 3714 – USD 6800 PPP

**Area:** 28,748 square kilometres

**Capital:** Tirana

**Currency:** Leke (approximately 90 Leke/USD)

### Key facts on Banka Kombetare Tregtare (National Commercial Bank)

**Creation:** Formed in 1993 by the merger of the Albanian Trade Bank (BTSH) and the National Bank of Albania (BKSH) although some constituent banks date back to the 1920's. The bank was privatised in 2000.

**Total assets:** USD 1.15 billion

**Total number of customers:** 220,000

**Number of branches:** 56 branches and agencies in 16 main cities of Albania and 12 branch/agencies in Kosova (also spelled Kosovo).

**You have a focus on social responsibility. Can you describe your activities in these areas?**

We have a strong commitment to social responsibility – especially education. Human resources are the most important asset of our bank and our country. We have a strong commitment in student sponsorship – including our FASTIP study program. We provide scholarships for students studying economics, marketing, bank management and other courses and have trainee programs as well. We also sponsor the One Citizen One Tree program working to increase the amount of trees in the capital and around the country.

**You have recently joined WSBI and plan to join ESBG in the coming months. What motivated you to join and how do you think this membership will aid your bank?**

We are constantly working to be pioneers of the banking sector in Albania and thus it is important for us to work within ESBG and WSBI to cooperate with other member banks, be involved in training programs, and also we plan to be involved in specific projects that are within the organization.



# National Savings and Credit Bank in Zambia: Banking the unbanked

Mr. Leonard Mwanza is the Managing Director of the National Savings and Credit Bank of Zambia. He was one of the attendees of the 2009 WSBI World Congress in Santiago, Chile. We spoke to Mr. Mwanza about his bank and about its role in the economic development of Zambia.

## Key facts on the Republic of Zambia

The Republic of Zambia is a land-locked country in Sub-Saharan Africa

**Population:** 11.8 million

**GDP:** USD 15.23 billion / USD 17.39 billion PPP

**GDP per capita:** USD 1465 /USD1500 PPP

**Area:** 752,614 square km

**Capital:** Lusaka

## Key facts on National Savings and Credit Bank

**Creation:** 1973

**Total assets:** USD 30 million

**Number of branches:** 27

**Mr. Mwanza, could you please introduce the National Savings and Credit Bank to our readers?**

The National Savings and Credit Bank is a 100% government owned institution which was established in 1973 through an act of parliament, chapter 423 of the laws of Zambia. At the moment, we offer mostly savings products to our customers, but we are also expanding to include credits – including microcredits for individuals and companies as well as salary loans (short-term loans in advance of an expected salary).

**You came to Chile to the World Congress which is focused on access to finance. What does your bank do to ensure that people in Zambia have access to finance?**

Our clientele is made up of people from various social groups. This includes public servants, middle class families, cooperatives, farmers associations, small and medium enterprises and women’s associations. Extending access to finance to poorer and marginalised populations is central to our core function as a bank. Our mission is “to promote increased access to financial services in rural and urban areas, mobilization of savings and offering of prudent credit to foster economic growth.”

**The National Savings and Credit Bank is relatively new. How large is your network? Are you expanding?**

We are currently operating 27 branches in 9 different regions in Zambia. We plan to open seventeen more branches in rural areas

in all the 9 regions in the near future as part of the rural financing strategy being promoted by the Zambian Government. It is especially important for our mission to reach out to clients in rural areas. Through expanding our services, we can make sure that unbanked people throughout the country have access to financial services. It is very important for the growth of the Zambian economy for people to be included in the formal economy and formal banking system. We are committed to being a facilitator in helping Zambia grow.

**What is the greatest benefit to your organisation of being a member of WSBI?**

Because the bank has gone through various challenges in the past and we have the passion to serve the Zambian people wherever they are, we are very interested in getting support and staff training from other WSBI members and the WSBI staff. We are also interested in sharing experiences regarding branch organisation and being actively engaged with other WSBI members in the region and throughout the world.



*Minister of Finance & National Planning, Dr Situmbeko Musokotwane, officially opening NATSAVE Lukulu Branch, in Western Province of Zambia*

# Bolivian Union of Financial Entities of Savings and Loan Institutions: Growing from the grassroots

At the 2009 WSBI Congress, News & Views had the opportunity to find out more about UNIVIV – The Bolivian Union of Financial Entities of Savings and Loan Institutions. Humberto Zambrana Zenteno, President of UNIVIV together with Ronald Quinteros Limpias, Director of Mutual La Paz and Carlos de Grandchant Suarez, General Manager of Mutual La Primera sat down with us to discuss the activities of their member institutions

**Mr. Zambrana Zenteno, how would you describe your institution?**

UNIVIV is a group of financial institutions based firmly in the grassroots – an association of savings banks in Bolivia which are based in the community. Initially, our members were community based organisations and cooperatives which collected small savings from people in the community in order to recycle them as credits. Many such cooperatives exist in Bolivia – especially among poorer communities – and UNIVIV works to represent their interests and expand access to finance among poorer people.

**UNIVIV members deal with very small savings amounts and offering access to finance among poorer populations around Bolivia. Can you describe more about the business model of your members?**

Carlos de Grandchant: Our member institutions work predominantly within the building sector – providing credit for housing loans. Most of the people who are members of the cooperatives are economically middle and lower class. This includes small shop owners, civil servants, teachers, etc. Overall, we collect very small amounts in savings which are for short terms and then distribute small amounts in credits for longer terms. This business model means that our member institutions must be very good at assets and liability management in order to be successful.

**And how successful are the members of UNIVIV?**

Ronald Quinteros: Traditionally, many of the commercial banks have not been interested in taking up the role of financial intermediaries for poorer people in Bolivia. In this condition, the cooperative institutions have grown and been successful. For the last 40 years, not one of the institutions has gone bankrupt – resulting in a high degree of confidence among the public. I believe that it is a sign of our success that many commercial banks are now interested in becoming involved with the activities which our members have been active in for decades. This may result in increased competition but we think that our strong reputation and connection with the communities we work in will have a great impact.

**What do you see as the benefit of being members of WSBI?**

Humberto Zambrana: Being members of WSBI, our organisation has the opportunity to interact with people and institutions from different countries. Additionally, the project to double the amount of savings accounts for poor people is exciting for us. Furthermore, we face the challenge that our members are cooperatives and do not have full banking licenses. This limits the variety of credit and savings products we can offer. We hope that we can work with WSBI to convince the government to grant our members full licenses. We have been members for quite a while and we appreciate the window that WSBI provides towards the international world of retail and savings banks.



## Key facts on Bolivia

**Population:** 9.77 million; 35% under 15  
**Area:** 1.099 million square kilometres  
**GDP:** USD 18.94 billion / USD 43.08 billion PPP  
**GDP per capita:** USD 1938 / USD 4500 PPP  
**Capital:** La Paz

## Key facts on UNIVIV

**Creation:** 1993; Set up as a non-profit association comprised of Bolivia's main mutual savings and loan institutions  
**More about the organisation:** UNIVIV is made up of 8 mutual savings and loan institutions with 30 offices around the country.  
**Number of savers with associated members:** Approximately 40,000

# The Caisse des Dépôts et Consignations of Senegal



The Caisse des Dépôts et Consignations of Senegal became a member of WSBI during the recent World Congress in Chile. News & Views had the chance to interview Mr Diagne Mamadou Falilou Mbacké, Director General, to talk about the activities of this institution in Senegal.

**The Caisse des Dépôts et Consignations is a young institution. What is its role and why was it set up?**

The Caisse des Dépôts et Consignations (CDC) of Senegal is a public institution with special status set up by law no. 2006-03 of 4th January 2006. Under the authority of the Minister of the Economy and Finance, CDC enjoys both a legal status and financial autonomy. Several important sectors of the economy were finding it difficult to obtain traditional credit from their bank, the government therefore created CDC as a credible alternative, which is less expensive and easier to access. Four assignments prioritising the interests of the public have been assigned to CDC:

- (i) social housing
- (ii) city policy
- (iii) servicing of equipment belonging to local authorities
- (iv) financing SMEs/SMLs

**Senegal is a country with approximately 12 million inhabitants. Will your institution have sufficient influence on the population to accomplish its mission?**

The legislator has authorised CDC to collect and manage resources which are sustainable, plentiful and inexpensive, principally made up of the following funds:

- Deposits by the National Savings Bank, within the limit of the working capital
- The National Retirement Fund (FNR) of civil servants
- The retirement funds of those who are not civil servants or working for local authorities
- Funds of the notary public
- Funds of the registries
- Garnishment seizures
- Cautions
- Various deposits
- Security deposits made by users from public service agents

- Retirement funds, insurance funds with management authority or any fund constituted by law

Besides the resources listed above, it's important to mention CDC's own resources that have mainly been obtained thanks to investment activities. In addition to the planned opening of a regional branch in Thiès (the second largest city in Senegal after Dakar) at the end of 2010, the signature of the agreements currently under negotiation with the Public Treasury and PosteFinances (a subsidiary of SN LA POSTE), enabling the use of their network, would facilitate the access to CDC's services for all partners and clients throughout the country.

**One of your missions is to finance social housing and SMEs. Could you provide some concrete examples of how you will go about this?**

It is important to underline the fact that CDC only began opening branches to the public in June 2008. Up until now, the priority has been to identify and recover the resources assigned to CDC by law, to ensure there are sufficient funds to accomplish its financing projects. The first projects for financing social housing and SMEs should be taking place some time in the third trimester of 2009. Various types of targeted management operations have already been decided:

- a. Social housing: promoter funding, joint financing with promoter, mixed financing/joint financing, cooperative financing, refinancing, and buyer financing.
- b. For SMEs/SMLs: the following forms of intervention are reserved for the financing of those SMEs/SMLs viewed as high risk by the formal banking system. These include redeemable loans, acquisition of holdings (simple or preference shares), equity loans, associates' current accounts, short-term securities, lease-purchase items, lease-purchase prop-

erty, and partial guarantee securities of loan portfolio to enable traditional bank credit to be obtained.

**Stimulating employment and innovation are two other important aspects of your work. Could you provide more details on this?**

CDC is sometimes called upon to invest in projects which are innovative and which will generate employment. These projects can initiate further significant private investments which would not be possible without minor intervention from CDC. For example, integrated regeneration zone projects (Zones d'Aménagement Concerté) for social housing, the regeneration of industrial sites for business incubators of SMEs and Research and Development (R&D) projects to stimulate research and innovation, especially in those sectors demonstrating strong development potential that place great importance on environmental issues and sustainable development (clean energy, telecommunications). In the form of private/public partnership structuring projects, in support of initiatives submitted by the government and/or local authorities (e.g. construction of road, sanitary or school infrastructures, construction of shopping centres, etc.).

**Could you also explain in detail the role of CDC's cooperation with financial institutions in your country?**

The direct impacts of CDC's involvement include enabling more favourable conditions for accessing credit in general, in particularly through the availability of long-term resources that are better suited to the investment needs of SMEs/SMLs, competitive rates and the need for less restrictive guarantees than those from traditional banking finance projects. In fact, over a period of 15 months which ended on 31st December 2008 an exceptional exercise was conducted in which more

# Savings Banks from West Africa Take Stock of the Reform Process of Postal Savings Institutions and Identify New Joint Projects

On 9 and 10 July, the Banque Populaire pour l'Épargne et le Crédit (BPEC-SA) from Togo hosted the 11th meeting of the WSBI West African Monetary Union (WAMU) group. The meeting was attended by delegates from Société des Postes from Benin, Société Nationale des Postes from Burkina Faso, Caisse d'Épargne Côte d'Ivoire, Postefinances Senegal and La Poste from Togo.

Following the 2008 WSBI Seminar on the restructuring of postal savings institutions and postal checking institutions in the WAMU, there has been a major development. The Council of Ministers of the Union issued an "official statement" urging the reform of postal financial services in order to protect customer deposits. WAMU monetary and financial authorities consequently invited national governments to make the decision regarding the restructuring of postal financial services into banks within a maximum of 12 months. WSBI welcomed this major step forward, but has called on the West Africa Central Bank (BCEAO) for clarification of the process and timetable. Although there has been no major breakthrough so far, participants in the conference noted with satisfaction that member institutions are pursuing their restructuring's efforts.

A number of other joint initiatives were discussed such as completing the opening correspondent banking accounts, organizing a seminar on "the right to an account" ("droit au compte") and others. Participants also exchanged views on the possibility of initiating new and joint projects such as setting-up a mutual fund, pooling together financial resources to obtain a license for consumer credit software and setting-up a sub-regional mechanism for the promotion of financial education in partnership with the French Savings Banks Federation (FNCE). Participants welcomed the support from FNCE, with whom 4 bilateral agreements have been signed so far with member institutions in Burkina Faso, Côte d'Ivoire, Senegal and Togo.

Finally, as part of the meeting, Mr. Elie Tagba ABISSI from Togo was appointed as the new chairperson.

As the countries of the West African Monetary Union move forward, postal institutions and savings banks will play a major role in ensuring access to financial services and in stimulating economic growth. The expected institutional changes will enable WSBI members to continue to lead the way.

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than 36 billion CFA (approximately 78 million USD) were placed in public Treasury deposits within the local banking system, and more than 6 billion (approximately 13 million USD) was allocated for other financial products such as short-term securities, structured products, negotiable debt instruments (Treasury bonds), for both Senegal as well as several other countries in the West African Economic and Monetary Union; namely Mali and Côte d'Ivoire. CDC is also expanding to develop new financing and guarantee measures still within the scope of its operations and as a result is contributing to the boom of certain financial products. Among the products targeted by CDC, relevant examples include lease-purchase, factoring, the financing of public markets and capital risk/development.

Typical last question, why did you become a member of the World Savings Banks Institute and what are your expectations of the organisation?

CDC became a member of WSBI for the following main reasons:

- to work at bringing all members of WSBI closer to the ideas of economic development;
- to contribute towards improving regular exchanges of information and experiences among the members;
- to benefit from the solidarity and support of the group for the development of the activities of CDC at both a national and international level;
- pride of belonging to an organisation which is world-renowned, strong, credible and which upholds shared development values.

#### Key facts on the Republic of Senegal

The Republic of Senegal is the farthest country to the West of the African continent, bordering the (North) Atlantic Ocean, Guinea-Bissau, Guinea, Mali and Mauritania.

**Population:** 12.17 million

**GDP:** 13.9 USD billion/ USD 21.9 billion PPP

**GDP per inhabitant:** 1142 USD / 1600 USD PPP

**Area:** 196.712 km<sup>2</sup>

**Capital:** Dakar



# Global Financial Crisis and the Mobilization of Savings in Africa: A role for savings banks?



Huges Kamewe

On 6 and 7 April 2009, the Caisse de Dépôt et de Gestion (CDG) from Morocco hosted the 15th meeting of the WSBI Africa Regional Group at the same time as celebrating its 50th anniversary. The meeting brought together more than 50 delegates from member institutions from Botswana, Cameroon, Comoros, Côte d'Ivoire, Ethiopia, Ghana, Gabon, Kenya, Lesotho, Senegal, South Africa, Tanzania, Uganda and

Zambia. The member institutions were joined by representatives from non-member private and government institutions, such as the Ministry in charge of Moroccan Diaspora, the Financial Education Fund from South Africa, the Making Finance Work for Africa Partnership and the Millenium Challenge Corporation from the United States.

The discussions focused on the topic "Global financial crisis and the mobilization of savings in Africa: a role for savings banks?". From the discussions, it was apparent that - in general - African economies have been spared from the first round of casualties because banking systems were not exposed to the complex financial products that hastened the world into this global crisis. However, the worse might be yet to come as the economic outlook

has tended to turn gloomy for most African countries.

Participants recognized that economies which have managed to build a strong savings base will demonstrate greater resilience to the crisis. The mobilization of domestic savings to sustain investment levels is unambiguously an important challenge for most African countries, particularly in this evolving context. A major pillar for such policies should gear towards promoting financial inclusion and fostering the "savings culture". The increasing economic role of diasporas, whose financial transfers to home countries could be potentially affected by the current global economic downturn. Thus, ways to optimise the use of migrants' savings were discussed.

Although the mobilization of savings is a challenge for the whole financial industry, participants unanimously recognized that the situation is more advantageous for savings banks. In addition, most savings banks in Africa have been entrusted by national authorities with the mandate to mobilize savings from the public. Therefore innovative strategies that could help to better serve the mass market were also discussed.

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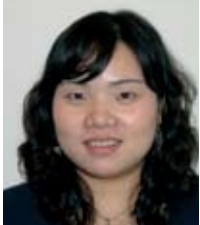
## New regional group President

Finally, the participants thanked Mrs. Nyambura Koigi, Managing Director at Postbank Kenya for carrying out the duties of the position of Regional Group President over the past three years (2006-2009). The participants also appointed Mr. Landrick Oteng Sianga, Managing Director of Botswana Savings Bank to take over for the next three years (2009-2012).





# Sustainable Retail Banking Offer in a Challenging Financial Environment: The focus for WSBI Asian Members



Mina Zhang

On 29/30 June the Government Savings Bank of Thailand (GSB) hosted the 15th meeting of the WSBI Asia/Pacific Regional Group in Bangkok. It brought together delegates from 9 member organisations from Indonesia, India, Iran, Korea, Malaysia, Sri Lanka and Vietnam as well as non-member institutions, including an important Thai delegation, international and regional financial institutions and development agencies, academics, CSR experts, technology service providers, etc. to discuss how to maintain a sustainable retail banking offer in a challenging financial environment.

A number of regional trends as well as common challenges and opportunities brought by the current context were highlighted within the meeting.

Perhaps the most pressing topic regards the current economic and financial crisis. The current crisis is threatening development in Asia due to the region's high reliance on exports and exposure to international financial markets. The development strategy in the region should therefore move in new directions, namely increasing domestic consumption and investment. In this respect, it is essential for savings banks to deepen the range of their services - insofar as they are allowed by their respective charter - to support domestic economic and financial infrastructure development (e.g. working capital, project finance, equity investment, advisory services etc.).

Within the current economic context, the commitment to CSR is needed more than ever. Savings banks have already been doing well in integrating CSR into their business and considering CSR as part of their strategy for long-term profitability and sustainability. WSBI members agreed that microfinance is part of their commitment to provide broad access to finance and core services for the poor, rather than part of their CSR activities.

As part of these activities related to access to finance, savings banks have been providing innovative products and services to reach the unbanked. Despite the challenging global economic climate, the opportunities for WSBI members are there, in particular on the provision of savings products to the bottom of the economic pyramid, as the needs for microsavings are much stronger than needs for Microcredit.

Utilizing new banking technologies (e.g. smart cards, mobile phone banking, etc.) presents great potential for savings banks to further broaden access to finance. Additionally, using the branch-less banking model and developing institutional partnerships - with telecoms operators for example - will increase the presence of and accessibility to savings banks' services. For this, it is critical to develop a sound and scalable business model. For example, this will involve working with well-regarded and long-standing members of local communities and villages to act as reliable and efficient agents.

The meeting was also an occasion to discuss the possible next steps on ongoing business cooperation initiatives, namely the project to facilitate remittances and the development of a cross-border ATM network.

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*From left to right : Mr. Lersuk Chuladesa, President and CEO of Government Savings Bank of Thailand; Mr. Wisudhi Srisuphan, Chairman of the Board of Directors of the Government Savings Bank of Thailand; Chris De Noose, Managing Director, WSBI; Mr. Yongyuth Tariyo, President of WSBI Asia/Pacific Regional Group, Senior Executive Director of the Government Savings Bank of Thailand*



## New regional group President

The participants thanked Mr. Yongyuth Tariyo, Senior Executive Vice President of the Government Savings Bank of Thailand for carrying out the duties of the position of Regional Group President over recent years and appointed Mr. Maning Adinan, CEO of Bank Simpanan Nasional from Malaysia as the new President for the next three years (2009-2012).

## Collective Redress: The phenomenon of mass litigation in Europe

As the Single Market becomes more integrated, consumers and traders increasingly purchase and provide services across Member States' borders. Consumers therefore face different systems of justice and ways to enforce their rights if they fall victim of breaches of European Community (EC) law. It goes without saying that access to justice, law enforcement and the judicial system need to reflect this integration process to provide consumers with the needed confidence for cross-border transactions.

Against this background, the European Commission believes that the present situation in the EU for consumer redress is unsatisfactory. The Commission deems that victims of EC consumer and competition law infringements who have suffered relatively low-value damages and are scattered across Member States rarely obtain compensation for the harm they suffered. In this respect, consumers are often deterred from bringing individual action for damages to court due to the costs, lengthy procedures, uncertainties, and risks involved. In order to address these problems and to foster consumer rights enforcement, the Commission has introduced several initiatives for collective redress mechanisms at the EU level. Two Directorate-Generals (DGs) of the Commission are working in parallel on the matter. The future of retail banking in Europe will be impacted by whether and how these new mechanisms will be designed as well as integrated into the existing legal landscapes and traditions/cultures.

### Addressing violations of EC competition rules

Already in April 2008, DG Competition (DG COMP) published a White paper on damages actions for breach of the EC anti-

trust rules. Aimed at enhancing the current compensation system in place, it recommends two additional mechanisms for collective redress: a representative action and an opt-in collective action. In addition, in this White paper the Commission presented recommendations for the access of evidence, the binding effects of national competition authorities' decisions and the calculation of damages. The following year in March, the European Parliament adopted a resolution on the White Paper pointing at several issues such as the legal basis, the primacy of antitrust enforcement and the need for a horizontal approach on collective redress. Notwithstanding the Parliament's concerns, DG COMP made the first move with an internal draft proposal for a Directive on collective actions for damages for breach of antitrust rules at EU level. The Commission proposal is leaning generally towards US-style class actions – though it will likely introduce an opt-out representative action mechanism. A revised proposal of the DG COMP is now expected before the end of 2009.

### Addressing violations of EC consumer protection rules

In parallel with DG COMP, the DG for Health and Consumers (DG SANCO) issued a Green Paper on consumer collective redress in November 2008. The Green Paper evaluated the existing consumer redress mechanisms and identified financial services as the main sector in which consumers find it most difficult to obtain collective redress (telecommunications, transport and package tourism were the other sectors identified). To close the identified gaps, the Green Paper presented several policy options varying from no action to an EU-wide judicial collective redress mechanism. Taking into account the feedback received, DG SANCO launched a

new consultation on consumer collective redress in May 2009 which finetuned the suggested policy options.

### The way forward on collective redress

The Commission's initiative to bring collective redress into discussion is a welcome move. Available effective dispute resolution and redress mechanisms are important to increase consumers' confidence. Additionally, it stresses the importance of victims' rights to be compensated for a harm suffered due to business misconduct.

At the same time, European collective redress measures could result in the misuse of unmeritorious claims and lead to disadvantages for the Single Market. The various actions proposed should foster a level playing field of reasonable redress mechanisms. They should not introduce a system similar to the US-style class action system which is not consistent with EU legal traditions and would bear the risk of litigation abuse in Europe. Regarding the parallel initiatives of the Commission, it should follow an integrated or horizontal approach on collective redress rather than developing sector specific solutions.

The introduction of an EU-wide framework of judicial collective redress would also have numerous implications on the civil procedural laws at national levels. The Commission's initiatives would face legal challenges as these initiatives might go beyond the Commission's mandate.

Judicial collective redress should be a matter of last resort if consumers cannot adequately enforce their rights through individual judicial action or out-of-court mechanisms. As such, ESBG is supportive of assessing and monitoring the future



It goes without saying that access to justice, law enforcement and the judicial system need to reflect the integration process to provide consumers with the needed confidence for cross-border transactions.

impact of existing EU legislation, such as the Small Claims Regulation and the Mediation Directive - both of which still need to be implemented in the Member States. Moreover, considering that many ESG members have developed internal dispute resolution schemes, it would be beneficial to further advance out-of court settlement procedures at the national level towards Alternative Dispute Resolution Schemes for collective redress.

Future developments of collective redress may have a significant effect on the retail banking industry in Europe. As such, ESG looks forward to continuing to play an active role in the discussion.

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**12th Annual  
Postal Savings Banks Forum  
3/4 November 2009**

**Brussels, WSBI/ESBG Joint Office**

The Postal Savings Banks Forum serves as a platform for promoting experiences and best practices, creating networking opportunities and developing possibilities of cooperation between its members.

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# ESBG Workshops on Climate Change Challenges and Opportunities

**Climate change is one of the main environmental challenges, which needs to be tackled in order to safeguard the planet and the survival of humanity. Financial institutions can and should demonstrate leadership in the fight against climate change as a key building block of the global economy. This is expected more and more by Stakeholders (governments, customers, investors and employees) and it requires the introduction of a climate change related strategy on the part of financial institutions. ESBG members are committed to playing a significant role in this global effort.**



Fiona Joyce

On June 15 and 16, ESBG organised two very successful climate change related workshops in Brussels where ESBG members exchanged information, experience and best practices on the challenges and opportunities presented by the introduction of a climate change strategy in their organisations.

## Workshop: The Carbon Footprint of Financial Institutions

This first workshop on 15 June focused on the "carbon footprint" of financial institutions and implementing a climate strategy. Financial institutions can begin to develop a climate strategy by measuring their own carbon footprint, i.e. their level of greenhouse gas (GHG) emissions and setting up targets and a reduction plan to reduce these emissions. They can also contribute momentum to the global effort by incorporating the environmental dimension into banking offers to customers, their own operations and processes, relations with suppliers as well as in their role as institutional investors.

### Measuring and Managing the Carbon Footprint

Measuring and managing the carbon footprint of a financial institution requires a clear governance structure, the allocation of dedicated human and financial resources and support from the top management and Board. The key to success is motivating and empowering staff to change their mindsets and make smart decisions about energy saving in their daily lives. This needs to be backed up by concrete data on the amount of carbon emission reductions achieved as well as the value to the business to ensure that the momentum and motivation continue.

It is also important to communicate externally on the emission reduction targets and policies in place as well as on progress in meeting these targets. This communication shows the financial institution's commitment to sustainable business and enhances its reputation with customers and other external stakeholders.

When measuring their carbon footprint, financial institutions should examine both their direct and indirect emissions with recognised national or international tools such as the GHG Protocol. Direct emissions are from GHG sources owned or controlled by the organisation, such as energy used for the heating and cooling of buildings and travel in company owned vehicles. Indirect emis-

sions are caused by the organisation's consumption of electricity as well as those from sources not owned or controlled by an organisation, but which occur as a result of its activities. These include travel by rail/air, transport of purchased goods, employee commuting, lending and investments.

Some concrete steps to reduce carbon emissions include:

- Energy efficiency measures that reduce the energy needed to heat and cool buildings and reduce the amount of electricity used to power computers and illuminate offices.
- Using renewable sources of energy and electricity.
- Encouraging travel substitution schemes. This could mean encouraging business travel by rail rather than air, where it makes sense. Travel substitution can also mean the substitution of physical meetings by virtual meetings where possible and encouraging employees to use public transport or other more carbon-friendly means of commuting to work rather than driving cars.
- In addition to these reduction schemes, some ESBG members offset remaining emissions through purchasing carbon offsets and schemes to plant trees.

### Incorporating climate change into relations with suppliers

Relations with suppliers constitute one of the most important sources of indirect emissions for financial institutions. These sources can be related to transport of funds for ATMs, production and delivery of IT and office supplies, paper, catering etc. Accordingly, procurement strategies should incorporate the environmental dimension. This includes procuring locally where possible and reducing the number of trips in any one delivery period. It also means looking for suppliers which have or are willing to incorporate corporate social responsibility (CSR), including environmental considerations, into their business activities. This may include environmental management systems along the lines of those certified by the International Standards Organisation (ISO) 14001 standard.

## Workshop: Environmental Risk Assessment and New Business Opportunities

The second workshop on 16 June focused on environmental risk assessment and the new business opportunities (including socially

responsible investment, SRI) related to climate change. One of the conclusions of the workshop was that tackling climate change required a compelling vision backed by a strategy. A study by Carbon Trust and McKinsey in 2008 about the value of tackling climate change was also noted: "tackling climate change could create opportunities for a company to increase its value by up to 80% if it is well positioned and proactive. Conversely it could threaten up to 65% of value if the company is poorly positioned or a laggard."

### Considering Environmental Risk

Environmental risk is the probability that an unwanted event occurs and produces adverse effects on the environment. One of the main direct sources of environmental risk for a bank is reputation risk if a project financed by a bank causes environmental damage. Another example is a non-performing loan risk due to new environmental protection regulation.

Financial institutions have to develop internal mechanisms to control these risks. These mechanisms must be compatible with the bank's usual risk management mechanisms but avoid using the classic financial rating of the company concerned. This does not work because of the complex and multifaceted nature of environmental risk, the fact that there is no historical data to apply a statistical inference and the speed with which environmental regulation changes. This means that there are no tools sophisticated or differentiated enough to integrate the environmental component in the traditional financial risk analysis model.

Methods to assess environmental risk could, for example, be based on a credit portfolio analysis by sector of activity and consider variables related to activities producing emissions, the use of resources, the direct and indirect impact on the surrounding environment, and new environmental regulation and possible environmental taxation.

### Opportunities with Socially Responsible Investment

Socially responsible investment (SRI) covers ethical, responsible investments, sustainable investments, and any other investment process that combines investors' financial objectives with their concerns about environmental, social, and governance issues

There are several approaches to SRI via different investment vehicles. These are dominated by investment funds: i.e. ethical, theme, sustainable, solidarity and social funds. These investments are generally attractive to wealthy as well as well-educated young customers.

In 2008, the total volume of SRI assets under management in Europe was EUR 48,730 million. Market volumes for SRI investments were highest in France, followed by the UK, Belgium and Switzerland.

At the workshop, Hamburger Sparkasse presented a case study on how they market and sell SRI investments to clients. Natixis

Asset Management shared its approach to SRI asset management, including its approach to research and its integrated SRI offer. ASN Bank discussed their approach to climate change and their experience with Trucost – a leading environmental data provider specializing in determining the impact of company activities on the environment - on calculating the carbon footprint of their investment funds.

### Other New Business Opportunities Related to Climate Change

New business opportunities arise in the area of energy markets, in particular, finance for renewable energy projects. There are opportunities in the area of property including the financing of the eco- design and construction of new buildings or retrofitting and renovation of existing buildings in order to meet new energy standards. There are also possibilities for loans for better insulation and for renewable energy such as solar or photovoltaic panels. There are also opportunities in the area of transport, in particular the financing of more energy efficient engines and design. Further, carbon markets present a new area of finance and, in general, the financing of mitigation and adaptation measures taken by governments to combat climate change mean new business opportunities.

Most of these opportunities are based on lending, which is one of the core businesses of banks. Thus there is no need for banks to invent a new business language to avail of these new business opportunities. The prerequisite for success is a compelling vision and a clear strategy, including a careful analysis of the potential risks and opportunities.

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# The Mediterranean Region New Opportunities for Cooperation



Laurie Dufays

Since 2000, the Mediterranean Region (in this context mainly the Middle East and North Africa) has witnessed positive economic changes: an average growth rate of 5% over recent years (including 2008), a drastic reduction of inflation from 20% in the 1990's to less than 5% in 2007, and a decrease in public debt from 80% to 60% of GDP over the same period. These successes have been achieved thanks to favorable global conditions characterized by high oil prices and FDI from Persian Gulf Countries. The results are also due to the implementation of institutional, legal and trade conditions, which were necessary for an attractive business climate.

The European Union (EU) and its member states have also been instrumental in these changes by being involved in cooperation initiatives favouring North African and Middle-Eastern economies. These initiatives include MEDA – an instrument for economic cooperation between Mediterranean countries and EU member states. Other instruments include the European Neighborhood Policy, and the Facility for Euro-Mediterranean Investment and Partnership (FEMIP). More recently, the French Government has had an increased interest in the region, leading to the re-launching of the EU Barcelona Process with the Union for Mediterranean.

## Challenges continue

Mediterranean countries, however, continue facing important challenges. The first is their large dependence on oil, natural resources, tourism and labor migration rather than on value added manufacturing and technological activities. Politically, the region continuously faces tensions which threaten the North-South and South-South integration process. The greatest social issue is probably the combination of the high level of unemployment - especially among the young and educated people - and the need for 50 million new jobs over

the next 10 years to keep pace with new entrants to the job market. Along these lines, the low GDP per capita and the large differences between southern Mediterranean countries and European countries could also be a cause for concern.

A well functioning financial industry is a condition for sustaining high rates of economic growth. The region has witnessed a recent modernization in its financial systems. However, according to the IMF, these systems are not channeling resources effectively yet. The World Economic Forum gives low rankings to the countries of the Mediterranean area with respect to access to credit, availability of venture capital instruments, and access to stock market financing. The percentage of investments financed through bank loans is among the lowest at a global level. In Algeria and Morocco, it is only 20%. In Egypt, it is less than 10%. Only 23% of small enterprises have access to bank loans in Algeria versus 69% of larger enterprises. In addition, some countries still face a high level of unbanked population – perhaps up to 60% as in Morocco.

## A region of opportunities

The region's recent macroeconomic stabilization has increased its resistance to internal and external shocks and the financial sector has not been exposed to investments in toxic assets. It is therefore expected that Mediterranean countries will be less impacted or impacted indirectly by the current economic crisis. Eastern European countries have become less advantageous for investors and labor costs now favour Mediterranean countries. After a few years of skyrocketing Persian Gulf investments, European companies have become once again the largest investors in the region. In the meantime, the EU has renewed its involvement in the region with an additional EUR 15 billion for MEDA projects for the period 2007-2013. Additionally, the European Investment Bank has injected another EUR 8.7 billion. Similarly, alliances of banks and business networks are proposing the launch of simultaneous projects aimed at reinforcing regional cohesion.

## WSBI member bank cooperation

Within this context, WSBI and the Spanish Confederation of Savings Banks (CECA) organized the Euromed conference in Barcelona in April 2009. The conference helped to identify several areas of business cooperation for WSBI member banks in the Mediterranean basin. It was an occasion for savings banks to re-assess their interest and capacities for contributing to the development of the region and promoting their values and business model. This includes helping to improve the financial offer and level of service to customers, encouraging bancarization and savings of the population and supporting cross border business cooperation projects around the Mediterranean.

The Alliance of Banks for the Mediterranean (ABM) is an example of public private partnership where savings banks are playing an important role in defining business priorities for the banking sector in the region. The ABM groups ten financial institutions who signed a memorandum of agreement in Paris on 30 January 2009, providing for the launch of twenty concrete projects. The banks are the Groupe Caisse d'Epargne (GCE - France), the Spanish Confederation of Savings Banks (CECA - Spain), BIAT (Tunisia), the Bank of Alexandria (Egypt), Attijariwafa Bank (Morocco), and Intesa Sanpaolo (Italy). The twenty projects chosen chiefly concern the following areas:

- financial transfers;
- products related to banking services, loans, insurance and real estate;
- support and assistance provided for SMEs, and;
- the financing of infrastructures and major projects.

Groupe Caisse d'Epargne has played a pivotal role in the creation of this group of banking institutions and is in charge of the overall management of the work. The European Investment Bank (EIB) and the Agence Française de Développement (AFD) are also supporting the Alliance, which will soon be joined by the African Development Bank and KfW Bankengruppe.

## Conclusions

Encouraging local savings, expanding trade and increasing private investment offer the best hope for generating the requisite growth and jobs for the Mediterranean region. This effort requires moving away from relying on the public sector only and protected national economies as the main engine of growth. Instead, it will require open economies and a competitive private sector. A more integrated financial sector predicated on North-South and South-South partnerships (private and public-private), as illustrated by the Alliance of Mediterranean Banks is a way forward and a solution for improving economic and political stability to the region. The Mediterranean region offers many opportunities for WSBI, including in the area of financial education and bancarisation of the population, which WSBI will continue to investigate in partnership with its members.

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## An Example of Cooperation:

**The common offer of the members of the Alliance of Banks for the Mediterranean for students who want to move to Europe will be broadcasted on the Moroccan radio in early September !**

Members of the Alliance of Banks for the Mediterranean are about to launch a common offer for students who want to settle down in Europe. This offer will be advertised on the Moroccan radio in early September. Attijariwafa Bank will be in charge of the promotional campaign, which targets 3000 Moroccan students who go to Europe every year. The campaign also targets the students' parents who regularly send money to their children for their daily expenses.



## Restructuring the Global Financial Architecture: The Road Ahead

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## Technical Assistance to Abanka Vipa in Slovenia

WSBI/ESBG's Training & Consultancy services and Swedbank were awarded the assignment of providing technical assistance to Abanka Vipa in Slovenia in January within the framework of the EU-EBRD Municipal Finance Framework Facility. The project is proceeding smoothly and according to plan. The two municipal financing experts have undertaken several short term missions to Slovenia. In addition to discussions with the bank they have also visited several municipalities to assess their requirements.

In order to provide selected staff of Abanka Vipa's municipal and SME finance department with first-hand experience, a study visit to Swedbank's operations in Stockholm (Sweden) and Tallinn (Estonia) was carried out. During the visit - which took place between 9 and 12 June 2009 - two Abanka Vipa employees met with specialists of Swedbank and discussed their activities with and approach towards municipalities and SME's.

The visit was highly appreciated, and the findings will be presented to Abanka Vipa's senior management. It is very likely that some of Swedbank's activities and structures will be introduced at the Slovenian retail bank. The next missions of the two experts will include advice on how to integrate these into Abanka's organizational structure.

The project is scheduled to be completed in December 2009.

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Study visit Stockholm; David James & Göran Henriksson, municipal finance experts, and Marjana Cresnar & Natasa Vaupotic, Abanka Vipa.

## Technical Assistance to WSBI-member National Savings and Credit Bank of Zambia



Conrad Rupert

In June 2009, WSBI/ESBG Training and Consultancy Services signed a contract with the Zambian Ministry of Finance and National Planning to provide consultancy services to WSBI member National Savings and Credit Bank (NatSave). This project, implemented through IFAD's (International Fund for Agricultural Development) Rural Finance Program, aims to promote and develop rural and sustainable banking services for low-income households and entrepreneurs.

In order to facilitate this project and at the same time supporting the bank's development as a financially sound and professionally managed financial institution, technical assistance to NatSave will concentrate on implementing its Institutional Development Plan (IDP). This comprises five main areas:

1. Conducting a post implementation review of the computerisation program at NatSave which was completed in June 2009;
2. Supporting the IDP by reviewing and updating action plans for all departments at NatSave;
3. Assisting NatSave in developing and implementing new savings, loans and other products for its low-income clientele;
4. Increasing NatSave's outreach to low-income clients by assisting in the provision of market-led microfinance services.
5. Reviewing NatSave's; organisational structure, job descriptions and staff manning to meet the Bank's Business Model

The above tasks will be implemented by a small team of three senior experts who travelled to Lusaka for the inception visit at the end of July 2009. As part of this visit, the work plan for the remainder of the assignment was prepared and agreed upon. The project is due for completion in December 2010.

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*Teaching staff (including interpreters) and ESG's project manager at the Credit Management Course in Ho Chi Minh City, March 2009*

## Training to Banking Universities in Vietnam

WSBI/ESBG's Training and Consultancy Services, in association with the Sparkassenstiftung für Internationale Kooperation (Germany) and the Bank Training & Consultancy (Vietnam), has been active since February 2008 in providing training to Lecturers of the Banking Academy in Hanoi and the Banking University in Ho Chi Minh City. This project, funded by a grant from SECO (Switzerland), is scheduled for completion in December 2009.

The deliverables of the assignment included a training needs analysis to confirm the initial terms of reference, followed by the development of 8 seminars on modern banking and training techniques. These seminars, which have a duration of 1-2 weeks, are subsequently being implemented two banking universities by an experienced team of international and local training experts retained by the consortium partners.

As of the end of June 2009, 4 of the 8 seminars had been delivered;

- Train-the-Trainer (July 2008);
- Marketing (October 2008);
- Business Strategy and Development (December 2008); and
- Credit Management (March 2009 – see photo).

The two-week seminars on Lending Processes and Commercial Bank Management (which includes a computer based simulation) were delivered respectively during July and August 2009. The longer-term courses were delivered during the holiday months as a request from the banking universities so that the seminars would not interfere with the normal teaching activities of the Lecturers.

The attendance and evaluation results of the 4 seminars delivered until now are encouraging. On average, 28 Banking University Lecturers attended and successfully completed the seminars (over 30 in Hanoi and about 25 in HCMC), and more than 80% of the attendees have rated the courses as good or very good. Cooperation between the consortium partners is going very smoothly, and SECO and the Banking Universities have on several occasions praised the work performed.

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# WSBI 22nd World Congress

## “Financial inclusion in a globalised world: OUR CHALLENGE”

More than 300 delegates representing WSBI members from Europe, Asia, Africa and Latin America met in Santiago, Chile on 30 April/1 May 2009 at the occasion of the World Congress hosted by BancoEstado.

The event included contributions of high-level representatives from WSBI members as well as from policymakers and stakeholders

Contributors to the World Congress		
WSBI Member Countries	International Stakeholders	Prominent Chileans
Sri Lanka Peru Colombia Guatemala Thailand India Spain Germany Italy France Uganda Kenya Chile Brazil El Salvador	World Bank Inter-American Development Bank CGAP United Nations Economic Commission for Latin America Korean Financial Services Commission Bill and Melinda Gates Foundation Harvard University Aflatoun FSG Social Impact Advisors International Association of Social Investors GSM Association etc.	The Deputy Superintendent of Banking and Financial Institutions  The Minister Executive Vice-President, Productive Development Corporation (CORFO)

Given the current context, a large part of the debates focused on the impact of the crisis for the savings banks' sector. Participants agreed that the global economic troubles provide an opportunity to get back to the basics in helping people save their earnings and grow their businesses. In addition, they supported the idea that both the proximity banking model and the pluralism of banking markets should be considered as building blocks for the reconstruction of the financial system.

The various experiences and perspectives of panellists and participants led to lively exchanges on the core theme of the event - "Financial inclusion in a globalised world: OUR CHALLENGE". The occasion provided the opportunity to highlight the following:

- WSBI member banks renewed their commitment to providing access to finance to all citizens through the development of sustainable solutions while meeting efficiency and competitive objectives;
- Financial inclusion requires access to both credit and to savings services. The recent focus by a number of policymakers and stakeholders on the importance of savings was specifically underlined as a core basic banking service, a key safety net to be used in case of need, and an enabler for financing productive activities. This focus on savings provides an opportunity for WSBI member banks to capitalise on their experience

and unrivalled know-how to enlarge further their customer-base;

- Innovation and anticipation of changes are required to provide competitive and adapted services to clients and enlarge outreach to the unbanked and underserved segments of the population. The opportunities offered by technology - in particular mobile phones - and the development of branchless banking solutions - mainly through retailers - were identified as promising routes;
- There is a need to view the facilitation of remittances, the development of financial education and literacy, the support to microfinance, and the definition of an enabling regulatory framework as key priority fields for WSBI.

The **Santiago Declaration** was unanimously supported by members at the 29 April WSBI General Assembly. It was then released at the occasion of the Congress. The Declaration reflects the collective commitment of WSBI banks in favour of financial inclusion and outlines the benefits and strengths of the savings banks' model. This model has made it possible to maintain support to the real economy and the most vulnerable parts of the population, even in a tough economic environment.



The **Declaration** also:

- recommends that policymakers and stakeholders support efforts to build fully inclusive financial sectors, worldwide;
- points out technological innovations and partnerships between private sector market players, public authorities and civil society as major areas of opportunity for sustainable progress of financial inclusion driven by WSBI members;
- refers to social and community investment activities of savings banks as key drivers to strengthen and support the financial inclusion efforts developed by the savings banks. This can take place as part of their CSR and philanthropy activities or through their foundations' initiatives -

The Congress programme, presentations, summary of discussions, as well as the Santiago Declaration (French, English, German and Spanish versions) are available from the WSBI website: [www.wsbi.org](http://www.wsbi.org).

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**La inclusión financiera en una Sociedad  
Globalizada: NUESTRO DESAFIO**

## Aflatoun Children's Financial Education Mid-Campaign Meeting: WSBI to help facilitate involvement for its members



Anne-Françoise Lefèvre

In looking at economic development and the future of the retail banking sector, the next generation will of course be the savers, investors, and entrepreneurs of tomorrow. Aflatoun is an organisational network working throughout the world to provide children with social and financial education. It is built around a child-run savings programme developed within schools, with the support of local child-focused NGOs. The ultimate objective is to empower children and, in the long run, to contribute to the eradication of poverty. The Aflatoun Campaign has a target of reaching 1 million children in 75 countries by the end of 2010.

### WSBI and Aflatoun's existing partnership

WSBI and Aflatoun have been working together to facilitate the development of partnerships at a national level between Aflatoun NGOs and WSBI member banks. The involvement of banking partners in the programme can take different forms. This includes a range from financial support to active participation. This active participation often includes:

- Interventions in schools to explain the role and importance of banks;
- The organization of visits to banks to familiarize children with banking institutions;
- The opening of group accounts – at school level - or individual accounts for the children's savings;
- Adopting child-friendly banking policies; etc.

A WSBI/Aflatoun Memorandum of Understanding was signed in November 2008 to formalize this collaboration with a view towards expanding cooperation oppor-

tunities for WSBI members. Partnerships are successfully running with PostBank Uganda and the Philippines Postal Savings Bank. Meanwhile, Lesotho PostBank is undergoing preparatory work to launch the programme. Contacts have also been established with SNS in The Netherlands, GSB in Thailand and Kenya Post Office Bank.

### Update from the mid-Campaign meeting

On 5/7 July 2009, Aflatoun held its mid-Campaign meeting in Egypt, at the invitation of the Ministry of State for Family and Population. It brought together partner organizations implementing the programme, as well as civil society organizations, potential donors, banking institutions and other interested stakeholders. Aflatoun announced that today it reaches more than 500,000 children and helps over 200,000 children save in 24 countries. It is also in dialogue with 52 other countries who are interested in implementing the programme.

WSBI contributed to the discussion on Sustainable solutions for financial stability, together with representatives of UNICEF,

Plan International and the Indian Securities and Exchange Board. The discussion highlighted the idea that one of the key pillars of financial stability is consumers who are educated and informed, aware of the importance of savings and able to make the relevant financial choices. With the right level of trust and confidence, their involvement in long-term relationships with formal banking institutions contributes to the smooth functioning of markets. Financial education at a young age is therefore one of the decisive factors to develop not only inclusive, but also stable and sustainable financial and banking markets.

WSBI was solicited by a number of participating NGOs, who asked to be put in touch with WSBI members in order to assess the possibility to partner at national level. WSBI will make sure that connections are made between these national NGOs and member banks.

For more on Aflatoun, see [www.aflatoun.org](http://www.aflatoun.org).

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Financial education at a young age is one of the decisive factors to develop not only inclusive, but also stable and sustainable financial and banking markets.

# WSBI endorses the Microfinance Client Protection Campaign

The Client Protection in Microfinance Campaign is an initiative driven by the Center for Financial Inclusion, hosted by Accion, and CGAP. The purpose is to ensure that providers of financial services to low-income populations take concrete steps to protect their clients from potential harmful financial products and ensure that they are treated fairly. The overall objective is to avoid a crisis that could negatively impact already vulnerable microfinance clients and the industry in general.

## “Client Protection Principles”

The Client Protection Principles describe the minimum protection that microfinance clients should expect from providers. These Principles are distilled from the existing work of providers, international networks and national microfinance associations who have developed pro-consumer codes for conduct and practices. Consensus has emerged that providers should adhere to the following 6 core principles:

1. Avoidance of over-indebtedness
2. Transparent pricing
3. Appropriate collections practices
4. Ethical staff behavior
5. Mechanisms for redress of grievances
6. Privacy of client data

## Campaign aims

The Campaign aims to:

- mobilize awareness and commitment to the key Principles of client protection;
- sign on to the Campaign half of the world's largest MFIs who serve over 30 million clients;
- develop implementation tools that allow MFIs to incorporate client protection into their operations;
- prevent client over-indebtedness and mistreatment, among other negative consequences of failing to act.

The initiative has already received support from a broad coalition of microfinance institutions (MFIs), networks, funders and practitioners. These include Women's World Banking, ASN Bank/ASN NOVIB FUND, Triple Jump, Inter-American Development Bank/Multilateral Investment Fund. On the investors side banking institutions like BNP Paribas, Citigroup, Deutsche Bank, BBVA Microfinance Foundation have expressed their support.

WSBI officially endorsed the Campaign in April 2009. At this early stage of the initiative, this involvement entails contributing

to build up the Campaign, raising awareness of members and encouraging them to get involved. WSBI has also been invited to sit on the Steering Committee of the Campaign, whose main task will be to help shape, disseminate and deepen the initiative.

## Target: Institutions serving micro-finance clients

The Principles and the Campaign are targeted towards institutions which serve microfinance-type clients, irrespective of the institutional status of the provider. This would therefore also include savings banks when they offer services to “micro” clients. Since most of WSBI members operate under banking regulations which require them to comply with a minimum set of consumer protection rules, their practices are already in line, and often even go further, than the Principles, which primarily targets MFIs. However, WSBI and its members' involvement as endorsers of the initiative can both strengthen their call for the definition of a level playing-field for all microfinance players and contribute to the “professionalisation” of the microfinance industry as a sustainable and responsible channel to build inclusive financial sectors.

WSBI Members are invited to consider joining the Campaign on an individual basis. This can enhance their position at national level as responsible financial services providers and as constructive partners for the definition of proportionate and balanced frameworks for microfinance activities.

For a sustainable business model, actors in the microfinance sector must treat their clients as long-term partners. The Microfinance Client Protection Campaign provides basic principles for ensuring this. The regionally based, responsible retail banks that make up WSBI membership are already at the forefront of these practices and will continue to be so.

For more on the Microfinance Client Protection Campaign see [www.centerforfinancialinclusion.org/Page.aspx?pid=1371](http://www.centerforfinancialinclusion.org/Page.aspx?pid=1371)

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## Innovative Policies for Financial Inclusion in Asia: WSBI shares its views

On 31 March - 3 April in Tokyo, policy-makers, regulators and supervisors from developing economies - mainly from Asia - exchanged views and experiences on Promoting financial inclusion through innovative policies, at a workshop jointly organised by the Alliance for Financial Inclusion (AFI), the Asian Development Bank Institute (ADBI) and the Asia Pacific Economic Cooperation (APEC).

The Conference discussions were built around 6 main policy areas, which could all play a major role in supporting full financial inclusion:

- how to enable non-bank agents to provide financial services;
- how to increase access to financial services through mobile technologies;
- how to facilitate the adoption of small savings accounts and microinsurance through channel and product diversification;
- how to reform state banks and develop enabling frameworks for more effective commercial provision of financial services;
- how to build and facilitate the use of financial identities for poor clients;
- how to promote policies that provide adequate consumer protection, including for low-income clients.

These policy areas were identified by AFI as the result of an in depth analysis of policies that increase access to financial services for people living on less than USD 2 per day. AFI is a network of policy-makers in developing countries (ministries of finance, supervisors, central banks, development banks, etc.) that offers tools and resources to share, develop, and implement knowledge

and cutting-edge financial inclusion policies (More information available at [www.afi-global.org](http://www.afi-global.org)).

WSBI contributed to the workshop on the role of public/private partnerships in enlarging access to finance. The debates highlighted key challenges ahead:

- the requirement to dedicate specific efforts for comprehensive and long-term financial education campaigns;
- the importance of defining new policy instruments to facilitate the entry of new market players and the enlargement of delivery channels, without distorting markets;
- the necessity to improve the governance and management of state-owned banks to make them more sustainable and more efficient;
- the essential role of private sector players and development organizations with whom partnerships have to be encouraged;
- the need to strengthen data privacy and consumer protection rules applicable to microfinance transactions and to introduce flexible frameworks for the development of client transactions history.

As WSBI members and other stakeholders move forward in meeting these challenges, the future of retail banking will surely involve new customers and helping to develop economies by encouraging financial inclusion. As global attention to this topic grows, so will the responsibility of savings banks.

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## The Latin America Microcredit Campaign Summit: WSBI members helping to lead the way

On 8-10 June, more than 850 delegates took part in the 2009 Regional Microcredit Campaign Summit in Latin America, which was held in Colombia under the Chairmanship of Professor Yunus and President of Colombia Álvaro Uribe Vélez. Participants from 35 countries - mainly from Latin America - represented NGOs, MFIs, financial institutions, development agencies, universities, donors, investment funds, etc. The WSBI network was actively involved with Fedecredito (El Salvador) as Chair of the panel on Remittances, Banco BCSC (Colombia) in the plenary session on Factors that contribute to microfinance exponential growth and WSBI as part of the panel on Overcoming regulatory and legal constraints to savings mobilisation. Banrural, Guatemala was also present through the presentation of its partnership with the Grameen Trust in the panel on Working in a competitive environment.

The debates and plenary sessions highlighted a number of trends and challenges for microfinance in general and for Latin America:

- It is important to re-focus microfinance as a service for poorer people, provided without requiring collateral and guarantees for income generating activities at the lowest possible cost. All MFIs, including those commercially driven, should keep the social objectives of the activities as their ultimate goal.
- The impact of the current financial crisis should be an opportunity to introduce microfinance as a full part of the mainstream banking system.
- There was a proposal to define the legal status for microfinance providers as microfinance banks owned by the clients - regulated and supervised by dedicated authorities.

- There is a need to improve the transparency of pricing and costs. At the summit, there were proposals to “standardise” the terminology used to properly communicate with clients and ensure a full understanding of their commitment. The Microfinance Transparency initiative ([www.mftransparency.org](http://www.mftransparency.org)) and the Center for financial inclusion/Accion Microfinance Consumer Protection Campaign ([www.accion.org/Page.aspx?pid=1371](http://www.accion.org/Page.aspx?pid=1371)) were highlighted as possible tools to move forward.
- There is increasing concern regarding the over-indebtedness of microfinance clients. There is a need to introduce efficient prevention means as part of the responsibilities of microfinance providers.
- Savings are becoming increasingly relevant. This is true not only for the sustainable funding of MFIs, but also within the context of providing full financial services for the poor. Efforts to

inculcate the culture and discipline of savings should be jointly developed.

- There is an opportunity offered by technological innovations, with m-banking services and non banking agents as the most promising channels to further enlarge bancarisation of the most vulnerable people.

The idea of microcredit is progressively becoming the broader concept of microfinance in the international arena. WSBI members will continue to push for the expansion of access to finance and all that it entails.

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## The 1st European Research Conference on Microfinance

On 2-4 June the first European Research Conference on Microfinance was organised by the Centre for European Research in Microfinance (CERMi), in partnership with the European Microfinance Platform (e-MFP) in Brussels. The main purpose was to gather leading academic researchers on microfinance in developing countries. The event also provided a platform for exchange on microfinance state of the art research. Practitioners, investors, financial institutions, donors etc were also involved. The topics discussed are important to the future of financial outreach and increasing access to finance and retail banking. The conference brought together more than 250 participants. This included mainly academics from Europe and developing countries (including Cameroon, Lesotho, Pakistan, India, Ecuador and others), but also representatives from MFIs, banks, development NGOs, etc. WSBI supported the Conference and provided visibility about the involvement of its member institutions in the field of microfinance.

A rich programme of workshops was organised, where researchers were invited to present the results of their scientific work on a wide range of microfinance-related issues. These issues included microfinance regulation, efficiency in microfinance, governance and microfinance performance, management and strategy of MFIs and others. (see [www.microfinconf.eu](http://www.microfinconf.eu) for more). The discussions contributed to the identification of new areas for research, and particularly shed light on the need to develop appropriate, reliable and well-accepted tools to assess the impact of microfinance on sustainable financial inclusion and alleviation of poverty in the developing world.

Participants to the conference specifically discussed three of the main current challenges for microfinance:

- Microfinance and social responsibility: in a context where financial sustainability and commercial performance of microfinance are attracting commercially-driven funders to invest more into this growing sector, the risk of mission drift was identified. Microfinance models reaching a balance between financial and social objectives were presented. At the same time, participants introduced specific social performance indicators and audit tools which have proven useful in preventing microfinance from drifting away from its social mission.
- Client-led microfinance: discussions pointed to the challenge for MFIs to move away from a rigid product offer and adapt instead to the diversity, and complexity of their clients' financial needs. Participants examined examples of MFIs which have developed specialised microfinance services - beyond a one-fits-all model. At the same time, speakers specifically underlined the need to propose flexible products, which accommodate not only those with low incomes but also those with irregular and/or unpredictable income.
- Rural microfinance: the barrier to microfinance expansion into the rural and most remote areas was analysed and possible solutions outlined. An innovative way to strengthen MFIs' efficiency in rural areas and enlarge their outreach was presented. This innovation involved the development of value-chain approaches by MFIs - through for example alliance with non financial bodies like warehouses, export companies, vendors, processors.

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

### IMPRESSUM

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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 92 countries of the world (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 – be it in developing or developed regions. At the start of 2008, assets of member banks amounted to more than €10,000 billion, with operations through more than 380,000 branches and 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 € 5,972 billion (1 January 2008). It represents the interests of its members vis-à-vis the EU Institutions and generates, facilitates 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 one distinct benchmark for corporate social responsibility activities throughout Europe and the world.



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