


POSITION PAPER



**WSBI's contribution to the Consultation of
the Basel Committee on "Microfinance
activities and the Core Principles for
Effective Banking Supervision" (BCBS 167)**

May 2010



WSBI's views on the Basel Committee Consultation on Microfinance activities and the Core Principles for Effective Banking Supervision

The World Savings Banks Institute (WSBI) welcomes the Basel Committee's initiative on "*Microfinance activities and the Core principles for effective banking supervision*", which acknowledges the importance of microfinance as a key vehicle to build inclusive banking markets.

Because of their major involvement as microfinance providers¹, WSBI member banks share an interest in the ongoing debate on the development of microfinance regulatory and supervisory frameworks. They have developed their own proposals on the topic in 2008, outlining their vision of a microfinance environment "*conducive to financial inclusion that allows microfinance institutions to efficiently provide small financial services, while maintaining high levels of risk prevention and consumer protection*"².

WSBI's comments on the consultation document of the Basel Committee seek to contribute to the definition of a supervisory framework for microfinance activities, balanced between the need to support the enlargement of access to finance, to guarantee a level playing field between all microfinance providers and to equally protect all microfinance clients.

1. Support to the focus on non bank deposit-taking institutions

WSBI views the Basel Committee's work as a positive step for the institutional recognition of microfinance and of its strength to address the access to finance gap, to empower vulnerable people and to fight social and economic exclusion.

WSBI supports the Basel Committee's focus on microfinance (and not just on microcredit) and is convinced of the need to develop an adequate framework for the supervision of deposit-taking institutions. Prudential measures to protect voluntary savings taken from the public are indeed a fundamental pillar of a strong and secure formal financial sector. Gaining trust of small scale savers for the development of a long term banking or financial relationship with a formal institution requires unconditional confidence that assets are placed securely. Internationally agreed principles, as proposed by the Basel Committee, will therefore be a major step forward.

WSBI also believes that the Basel Committee's approach on strengthening deposit-taking institutions will contribute to the promotion of savings and act as an incentive to encourage people to save. This will be a key driver to meet the access to finance challenge as low income people need an entire range of affordable financial services, and not only credit. Low income individuals are willing and able to save, and view savings as a core banking service to finance productive activities and build up a safety net in case of extreme need. Furthermore, the collection of deposits by microfinance institutions will reduce their vulnerability to fluctuations of financial markets and preserve them from the risks of currency depreciation, particularly appropriate in the post-financial and economic crisis context.

¹ See Perspectives 59 *Beyond Microcredit : The Role of Savings banks in Microfinance* [http://www.wsbi.org/uploadedFiles/Publications_and_Research_\(ESBG_only\)/PERSPECTIVES%2059%20final%20res.pdf](http://www.wsbi.org/uploadedFiles/Publications_and_Research_(ESBG_only)/PERSPECTIVES%2059%20final%20res.pdf) and ESBG CSR database http://www.savings-banks-events.org/csr/principle.aspx?principle_ID=2

² See WSBI Position paper on the regulation of microfinance services http://www.wsbi.org/uploadedFiles/Position_papers/0608.pdf

2. Ensuring an homogeneous and efficient implementation of the Principles

Given the impact that the supervision of non-bank microfinance institutions could have on the level of trust and confidence of the public, WSBI shares the view expressed by the Basle Committee that adequate resources should be available to ensure that oversight measures, as defined by the Committee, are efficiently implemented. This is a major challenge for the credibility and the sustainability of the microfinance sector. Microfinance clients, by definition, come from the most vulnerable and low income segments of the population and the social impact of any default of a microfinance institution has to be particularly taken into account.

WSBI would therefore encourage the Basel Committee to:

- develop plans to initiate and coordinate peer to peer learning building capacities. The objective would be to train qualified microfinance supervision experts, if needed, with the assistance of international or/ and regional financial institutions (the World Bank/CGAP, IFAD etc, as well as the Alliance for Financial Inclusion, etc);
- clarify how it will promote the *Non Bank* Principles and ensure take-up by supervisory authorities which are not part of the Basel Committee and were not involved in its microfinance work. Contrary to what happens in the banking field, the countries where microfinance is most developed and critical for the access to financial services of a substantial part of the population, are not members of the Committee³. The list of members of the Microfinance workstream and of the participating countries to the survey is extensive and provided a strong basis for proposals. But a number of supervisory authorities, which might have developed their own microfinance oversight practices (eg. Bangladesh, Bolivia), need to be on board and join the Committee's efforts for convergence in strengthening the protection of small savers.

3. A definition of microfinance tailored to the local context

Given the diversity of the microfinance players potentially targeted by the Basel Committee's approach and the geographical scope of countries potentially covered –some highly developed and industrialized, others with emerging or developing economies-, WSBI agrees that the definition of microfinance should be given at national/regional level.

It should be up to the national/ regional authorities to determine the relevant thresholds according to the national context, and particularly with regard to the economic development, the maturity of the financial sector, the development level, etc. Core criteria should refer in any case to the small scale of the financial products, serving low income segments of the population with the purpose to support income generating activities and to improve living standards.

It is important to have in mind that WSBI supports a broad understanding of microfinance services, which should include both the ability to accommodate the needs of small scale savers, giving access to small credits as part of the regular banking offer, and supporting the socially vulnerable people and microentrepreneurs through *ad hoc* microfinance vehicles or programmes.

³ Current members of the Basel Committee are banking supervisory bodies from Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States

4. Scope of application of the Principles

WSBI understands that the main purpose of the Basel Committee's initiative is to provide a supervisory framework for non bank deposit taking microfinance institutions. However, the Guidance can also be relevant for the microfinance activities developed by banks (top p.10).

The WSBI network includes both:

- *banking institutions providing microfinance services*. A number of WSBI member banks, active in Europe in particular, offer microcredit services to small entrepreneurs or to socially vulnerable individuals. These activities are part of social interest commitments taken by the banks, or Corporate Social Responsibility (CSR) activities. Given the business volumes involved and the public guarantee schemes under which the banks operate, these activities have a negligible impact on the overall financial risk of the bank.

Other WSBI members, especially in developing countries, offer microfinance services as part of their mainstream banking business, through their ability to collect low value and irregular savings, and to grant small loans. Some have also introduced a microcredit scheme in their product line or opened a specialized window (eg. National Savings and Credit Bank, Zambia; Banco Estado Microempresas, Chile; Government Savings Bank of Thailand, etc.)

For these institutions which offer both "conventional" banking products and microfinance services, the question of the definition of microfinance activities, as given by the national authorities, takes a particular importance, in order to define the specific set of supervisory rules which will apply to their different types of activities. Additional Guidance should be provided by the Basel Committee to clarify how the two "levels" of supervision can and will be combined for a single institution.

- *Other Deposit Taking Institutions (ODTIs)*(as defined p. 30 of the consultation document as "institutions that are authorized to collect deposits without necessarily being subject to the same regulation and supervision as banks"), i.e. mainly postal financial services operated under a specific regime (as it is still the case for PosteFinance Senegal, or Sonaposte in Burkina Faso).

Their microfinance activities, delivered as part of their mainstream deposit-taking services, would in principle fall within the scope of the Basle Committee's *Non Bank* Principles. However, in all cases, a number of mechanisms are already in place to protect the safety of the savings collected. In the case of postal savings institutions for example, these include national government guarantee schemes, either stated explicitly in the law or in the statutes - e.g. Japan, Morocco- or implicitly with the investment of postal savings funds restricted to government-guaranteed, approved bonds and equities, or government backed debt instruments. Therefore, the applicability of the Basel Committee's guidance to these institutions remains to be confirmed.

5. Need for a level playing field for all microfinance providers

WSBI would like to call the attention on the need to ensure that a level-playing field governs the activities of all microfinance service providers. This is a fundamental aspect to guarantee that all micro-depositors benefit from the same level of protection, whatever the institution they choose to operate with.

For WSBI, it remains essential for level playing field purposes that microfinance activities are governed by the principle "*same business, same risks, same rules*", whatever the legal status or ownership structure of the institution which provides the service. The supervisory approach should be defined

along a similar line. In this context, WSBI supports the proposal of the Basle Committee to use the framework developed for the supervision of banking institutions as a reference for the oversight of ODTIs. This will provide the relevant background and structure to ensure that the soundness and reliability of savings-led non bank microfinance institutions are assessed against similar criteria and principles than banks active in the microfinance field.

In WSBI's understanding, the Committee's approach amounts to a lighter or simplified regime for "smaller" institutions, given the limited systemic risk which they present for the financial system. WSBI acknowledges the need for this proportionate approach, but would like to make sure that, although the financial stability is not endangered by these institutions, their activities and the way they are conducted and supervised, do not disrupt the fair and loyal competition which should also govern the microfinance market.

With this in mind, WSBI would like to invite the Basel Committee to clarify two main aspects of its Guidance:

- a tailored supervisory approach is recommended for a number of the Core Principles "*commensurate to the type and size*" of the non banks' institutions. However, there are no indications to objectively assess and measure the type, size and/ or the complexity of the targeted activities and the proportionate level of supervision applicable. Although guidance is provided for individual Principles, it would be useful to have general guidance criteria - maybe defined on a tiered approach- to draw a global picture of a given institution, and identify the category to which it belongs and the level of supervision which will be applicable;

the Committee's proposed Guidance is based on the institutional status of the microfinance providers and the intensity of the supervision is calibrated according to their sophistication and market weight. The Basel Committee should also take into account the potential situation of supervisory arbitrage which could result from this approach, i.e. the fact that some microfinance institutions, although big in size, savings volume and market coverage, remain under a non bank status. Given the risks that they could potentially create for the stability of a given segment of the financial sector and the potentially serious impact for social cohesion that a market failure could lead to, the Basel Committee should include recommendations as to the institutional status of microfinance providers, beyond a certain size and business volume on their market of reference.



About WSBI – The Global Voice of Savings and Retail Banking

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

WSBI 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 member banks have reinvested *responsibly* in their region for many decades and are a distinct benchmark for corporate social responsibility activities throughout the world.



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