Global Standard-Setting Bodies and Financial Inclusion: The Evolving Landscape
2nd edition of the GPFI White Paper
Draft Consultation Document

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Comments to be sent to mvalenzuela@worldbank.org

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Part V. Observations and Recommendations			
		World Council of Credit Unions (World Council) appreciates the opportunity to comment on the Global Partnership for Financial Inclusion's (GPFI) consultative document *Global Standard-Setting Bodies and Financial Inclusion: The Evolving Landscape*.[1] World Council is the leading trade association and development organization for the international credit union movement. Credit unions are cooperative financial institutions that operate to promote thrift and to provide their members with loans and other financial services at fair rates. Worldwide, there are 57,000 credit unions in 105 countries with USD 1.8 trillion in total assets serving 217 million physical person members.[2]	

[1] GPFI, *Global Standard-Setting Bodies and Financial Inclusion: The Evolving Landscape* (2d ed. November 2015), *available at* http://gpfi.org/publications/gpfi-white-paper-consultation-document-global-standard-setting-bodies-and-financial-inclusion.
[2] World Council of Credit Unions, *2014 Statistical Report* (2015), *available at* http://www.woccu.org/publications/statreport.

	Section & Page number	Comment	Resolution
A. General Observations and Recommendations			
	Recommendations 1-3; pages 88-89.	<u>**Recommendations 1, 2, and 3**</u>: World Council supports Recommendations 1, 2, and 3 on the GPFI continuing this work stream on financial inclusion and proportional regulation by the Financial Stability Board and the Standard Setting Bodies (SSBs)—such as the Basel Committee on Banking Supervision, the Financial Action Task Force, the International Association of Deposit Insurers, and others—as well as supporting these processes at the country level. We believe that continuing this work stream on the unintended consequences of regulation and their impact on financial inclusion is essential to understanding and promoting financial inclusion. This is because the unintended consequences of regulation that lead to financial exclusion must be understood and reduced. The end result of this process should be regulatory reform that eliminates unreasonable and outmoded compliance burdens on credit unions and similar institutions that promote the financial inclusion of financially underserved people.	**World Council supports the GPFI continuing this work stream and related processes regarding financial inclusion and proportional regulation.**
	Recommendations 6-7; page 90.	<u>**Recommendations 6 and 7**</u>: World Council <u>strongly</u> supports Recommendations 6 and 7 on applying the concept of proportionality in regulation because proportional regulation better allows credit unions to promote financial inclusion. The concept of proportionality is essential to maintaining a diverse and inclusive financial system because credit unions and other community-based financial institutions that have a purpose of promoting financial inclusion are much smaller than the large, internationally active banks that are typically the focus of SSBs' rules. Credit unions and similar community financial institutions are therefore less able to afford the compliance costs imposed by these rules. Large banks' economics of scale allow them to absorb the cost of regulation better than smaller institutions, and therefore excessively burdensome regulations and SSB standards give large banks a competitive advantage over their smaller competitors by	**World Council <u>strongly</u> supports the concept of proportionality and urges the GPFI to continue to engage the SSBs on the issue of proportional regulatory standards in order to limit unreasonable compliance burdens on credit unions and other community financial institutions that promote financial inclusion.**

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	Recommendations 8-11; pages 91-92	creating artificial barriers to market entry. In addition, rules designed to constrain excessively risky business activities at large banks are not necessary for credit unions because credit unions typically have limited balance sheet complexity and focus on promoting financial inclusion and thrift through a traditional community banking model: Most credit unions' investment options are limited primarily to loans made to their members, investing in bank deposits and deposits/shares in other credit unions (such as a wholesale "central credit union"), and investing in government-guaranteed debt instruments. **<u>Recommendations 8, 9, 10, and 11:</u>** World Council supports recommendations 8, 9, 10, and 11 on conducting further research to broaden the understanding of the benefits of financial inclusion and the risks of financial exclusion. We believe that this research should focus on the roles that regulatory burdens and the unintended consequences of regulation play in financial exclusion. This research will continue to grow an understanding of these issues and can be used to inform future financial inclusion guidance at the international and national levels.	**World Council supports further research on financial exclusion and financial inclusion.**
B. Observations and Recommendations on Evolving Topics of Relevance to Multiple Standard-Setting Bodies			
	Recommendation 12; page 93.	**<u>Recommendation 12:</u>** World Council supports Recommendation 12 regarding additional guidance on a proportional regulatory process for financial institutions offering digital financial products. We recognize the efforts of the Financial Action Task Force to issue guidance concerning mobile payments and other forms of digital payments, such as virtual currency, in the anti-money laundering/countering the financing of terrorism (AML/CFT) context. We urge the GPFI to recommend that national Financial Intelligence Units issue similarly clear AML/CFT guidance on this issue that is based on the Financial Action Task Force's guidance.	**World Council supports Recommendation 12 regarding additional guidance on a proportional regulatory process for financial institutions offering digital financial products.**

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	Recommendation 21; page 95.	**<u>Recommendations 21:</u>** World Council supports Recommendation 21 on Standardized Digital Disclosures so long as the electronic disclosure is the only one needed to be given (i.e. <u>no</u> paper copy required) and providing the digital disclosure operates as a regulatory compliance safe harbor for the credit union making the disclosure. In some jurisdictions, consumer protection laws make it difficult for credit unions to offer lending and other services through a mobile or other digital platform because they are required to give the borrowing member a paper disclosure before the loan can be made, or before the payment can be initiated, etc., even though the technology exists to do the transactions digitally but for the paper disclosure requirement. We urge the GPFI to recommend that financial institutions be able to provide consumer disclosures solely in electronic form, such as via email, through a mobile banking app, or via SMS or MMS messaging, in order to facilitate the financial inclusion of people who do not live near a physical credit union or bank branch, especially in rural areas.	**World Council supports Recommendation 21 on Standardized Digital Disclosures so long as the electronic disclosure is the only one needed to be given (i.e. <u>no</u> paper copy required) and providing the digital disclosure operates as a regulatory compliance safe harbor for the credit union making the disclosure.**
	Recommendation 25; page 96.	**<u>Recommendations 25:</u>** World Council supports Recommendation 25 on the interoperability of payments systems to the extent that this ensures credit unions have reasonable access to all payment systems infrastructure on fair terms. Credit unions often have trouble securing access on fair terms, or at all, to payments infrastructure in many parts of the world, including in most developing countries but also in developed countries such as several European Union jurisdictions. Fair access to a jurisdiction's payments infrastructure is essential for credit unions to be able to provide modern financial services to members. This is especially true with respect to rural areas and other areas far from a physical credit union or bank branch where mobile banking and/or mobile payments are necessary for the effective promotion of financial inclusion.	**World Council supports Recommendation 25 on interoperability of payments systems to the extent that credit unions have reasonable access to all payment systems infrastructure on fair terms.**

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	Recommendation 23 (page 95) and Recommendation 27 (page 97)	**Data Security; Recommendations 23 and 27:** Regarding data security issues, such as in Recommendations 23 and 27, these recommendations appear to focus on data security standards for financial institutions and agents of financial institutions. In general, credit unions and banks, and their agents, are already subject to robust privacy and data security regulatory standards using any digital platform—including mobile payments—but merchants and other non-financial entities are not. Merchant data breaches impose major costs on credit unions and other financial institutions. The higher the cost of these merchant data breaches, the less likely it becomes that financial institutions are able to serve lower-income clients because small-value, high-transaction accounts impose significant administrative costs even when no data breaches occur. Merchants and other non-financial entities have also been the source of most data breaches because of their often lax data protection measures. Examples of major data breaches caused by merchants and other non-financial entities include the US Office of Personnel Management data breach in 2015, the UK National Health Service data breaches in 2014, the Home Depot data breach in 2014, the Target Corporation data breach in 2013, the TJX Companies data breach in 2013, and the Heartland Payments Systems breach in 2009 (Heartland is a US-based payments processor primarily for merchants). We urge the GPFI to recommend that the SSBs establish data protection rules and guidance for merchants and other non-financial businesses.	**World Council urges the GPFI to recommend that the SSBs establish data protection rules and guidance for merchants and other non-financial businesses.**
	Recommendations 29-30; page 98.	**Recommendations 29 and 30:** World Council supports Recommendations 29 and 30 concerning studying the unintended consequence of financial institutions "de-risking" their client bases because of regulatory compliance concerns, especially in the area of AML/CFT compliance. We note the Financial Action Task Force's recent work stream on the "de-risking" issue and urge the GPFI to recommend that the Financial Action Task Force's	**World Council notes the Financial Action Task Force's recent work stream on the "de-risking" issue and urges the GPFI to recommend that the Financial Action Task**

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		"de-risking" guidance, once it is finalized, be adopted at the country level without delay so as to promote financial inclusion better via clearer regulatory rules of the road regarding AML/CFT compliance requirements in this area.	**Force's forthcoming "de-risking" guidance be adopted at the country level without delay so as to promote financial inclusion better via clearer regulatory rules of the road regarding AML/CFT compliance requirements in this area.**
C. Observations and Recommendations on Financial Sector Assessments			
	Recommendations 36-38; pages 100-101.	World Council does <u>not</u> support Recommendations 36, 37, and 38 concerning financial inclusion assessments to the extent that these recommendations would result in new reporting requirements imposed on credit unions, such as data collections designed to assess whether financial institutions are sufficiently promoting financial inclusion. We urge the GPFI to clarify in the final version of this paper that Recommendations 36, 37, and 38 are <u>not</u> intended to result in new reporting burdens on credit unions. Although Recommendations 36, 37, and 38 are technically applicable to the SSBs, the International Monetary Fund and the World Bank's Financial Section Assessment Program, we are concerned that these recommendations, if finalized without clarification, will result in the SSBs and other bodies imposing new reporting requirements on credit unions in order to have data to use in these assessments. Credit unions are not-for-profit, member-owned cooperatives whose purpose is to promote financial inclusion and thrift by providing their members with useful and convenient financial services at fair rates. The monitoring, tracking and reporting burdens on credit unions and banks—which are a logical extension of the assessments envisioned in Recommendations 36, 37 and 38—would impose unreasonable compliance costs on credit unions and similar institutions that focus on community	**World Council urges the GPFI to clarify that these recommendations on financial inclusion assessments are <u>not</u> intended to increase regulatory burdens on credit unions in the form of new reporting requirements.**

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		development as their primary purpose even though they are not subject to a regulatory mandate to do so. As cooperatives that only do business with their member-owners, credit unions have no reason to financially exclude their members. Credit unions also do not attempt to maximize profits at the expense of their members, so new compliance costs reduce the institution's ability to provide financial services to consumers at the best rates. Specifically, the costs of tracking such data and making such reports will drain resources from the institution—especially in the form of staff time—that will need to be paid for with funds that the credit union would otherwise likely use to promote financial inclusion in the form of increased lending capacity and/or better rates on loans and services for members. Credit unions are also exempt from also the United States of America's Community Reinvestment Act—which imposes these types of reporting requirements on banks as well as possible sanctions for insufficient community reinvestment—because credit unions have no history of discriminating against their own members as well as no reason to do so. Credit unions in other jurisdictions, such as credit unions in Canadian provinces, are also not typically subject to these types of reporting requirements. We urge the GPFI to clarify that Recommendations 36, 37 and 38 should <u>not</u> result in increased reporting requirements on credit unions. Credit unions promote financial inclusion without a regulatory mandate to do so and the compliance costs associated with such reporting requirements will make it more difficult for credit unions to promote financial inclusion.	