World Council

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Sri Mulyani Indrawati,
Minister of Finance
Ministry of Finance of the
Republic of Indonesia
Djuanda I Building Fl. 9th
Dr. Wahidin Raya Street
No.1 Jakarta 10710

Re: G20 Proposed Language for Leader's Declaration

Dear Minister Indrawati:

The World Council of Credit is the leading trade association and development organization for the international credit union movement worldwide. Credit unions are cooperative depository institutions and there are over 86,000 credit unions in 118 countries with USD 3.2 trillion in total assets serving 375 million physical person members.[1]

We respectfully request that the G20 include language in the 2022 Leaders' Declaration that will direct the international standard setting bodes to work closely with national-level regulators to fully adopt proportional tailoring of regulations for the purposes of advancing financial inclusion.

World Council fully supports the G20's commitment to financial inclusion and our mission to support credit unions globally is directly aligned with the G20's objective to reduce inequalities and promote inclusive growth. Credit unions in accordance with their mission, are agents for financial inclusion mainly serving underserved and underbanked communities, which in turn contributes to global growth and stability.

The recent G20 Rome Leaders' Declaration reaffirmed the G20 support for national-level regulators to strengthen their focus on proportionality and financial inclusion. The G20 embraced a commitment to enhancing the financial inclusion of vulnerable and underserved segments of society by taking the following actions:

[1] World Council of Credit Unions, *2020 Statistical Report* (2021), *available at*: http://www.woccu.org/publications/statreport.

a. Reiteration of its support for the G20 2020 Financial Inclusion Action Plan[2], which includes a provision that allows for an enabling and proportionate legal and regulatory framework for digital financial inclusion that takes relevant G20 and international standard setting body standards and guidance into account; and

b. Endorsement of the G20 Menu of Policy[3] options focused on digital financial literacy and financial consumer protection, as well as the risk-based approach of the Financial Action Task Force, which aims to promote financial inclusion and ensure legitimate cross-border payments.

More recently the Financial Action Task Force (FATF) published its *High-Level Synopsis of the Stocktake of the Unintended Consequences of the FATF Standards*[4]. In that report FATF made the following findings:

a. That "[i]n general, the misapplication of the FATF Standards, and in particular the failure to use the proportionality that is central to the risk-based approach, can lead to or compound financial exclusion."

b. FATF standards and communications do not adequately encourage authorities to understand the impact of financial exclusion on ML/TF risks.

c. FATF also noted the problem of how de-risking can affect credit unions when offering access to affordable and necessary financial services.

This G20's willingness to embrace financial inclusion, coupled with the challenges faced by national level-regulators in achieving financial inclusion vis-à-vis proportionality, is precisely why the collective international credit union movement is urging the G20 to take action. Proportionality, if applied appropriately, can significantly advance the G20's goals of promoting financial inclusion by fostering responsible finance through increased access to responsible and affordable financial services.

Proper implementation of proportionality in regulations for smaller cooperative depository institutions such as credit unions can greatly reduce inequalities and promote inclusive growth. More importantly, proportionality, if applied appropriately, can significantly advance the G20's goals of promoting financial inclusion by fostering responsible finance through increased

[2] Global Partnership for Financial Inclusion, *G20 2020 Financial Inclusion Action Plan,* (October 2020) *available at* https://www.gpfi.org/sites/gpfi/files/sites/default/files/G20%202020%20Financial%20Inclusion%20Action%20Plan.pdf.

[3] Global Partnership for Financial Inclusion, *Menu of Policy Options for Digital Financial Literacy and Financial Consumer and MSME Protection* (2021), *available at* https://www.gpfi.org/sites/gpfi/files/1_G20%20Menu%20of%20Policy%20Options.pdf.

[4] Financial Action Task Force, *High-Level Synopsis of the Stocktake of the Unintended Consequences of the FATF Standards* (October 2021) *available at* https://www.fatf-gafi.org/media/fatf/documents/Unintended-Consequences.pdf.

access to responsible and affordable financial services.

While international standard-setting bodies have embraced proportionality, more effort and discussion need to occur regarding how day-to-day supervision at the national level should be tailored to reflect the systemic importance, complexity, and risk profile of regulated entities. National-level regulators are often reticent to tailor international norms and standards for fear that a deviation may subject them to criticism from other nations or fear of an unintended consequence as a result of right-sizing regulations. This is evident in that proportionality strategies used to tailor regulatory requirements vary markedly across jurisdictions, including the scope, exemptions and modifications, or is some instances replacement of rules (i.e. Basel). The lack of international guidance or consistency in the application of proportionality is in part a contributor to this disparate treatment.

To remedy this situation and to assist in advancing financial inclusion, it is imperative for national-level regulators to work in connection with the international standard setting bodies to fully adopt proportional tailoring of regulations. Therefore, we respectfully request that the following language be included in the Leader's Declaration:

> *The G20 is committed to continuing its efforts to reduce inequalities and promote inclusive growth. Financial inclusion reduces inequality, which in turn supports inclusive and sustainable growth by allowing the vulnerable to remain healthy, stay out of poverty, pay for education and accumulate human capital. The proportionate application of International Standards for financial regulation is a critical factor in enabling innovative financial inclusion. Financial inclusion provides for more stable markets by bringing more depositors and deposit accounts into the financial system. To this end we direct the Financial Stability Board (FSB) and standard setting bodies to coordinate efforts to further develop the ecosystem such that the requisite capacity to implement proportionality in practice is enhanced. We direct the FSB and standard setting bodies to report progress on the implementation of proportionality for financial regulation annually to the G20.*

Credit Unions are smaller, less complex financial entities, and therefore need more proportional application of rules and regulations in order to retain the capital and resources necessary to support their members. Credit Union's provide critical services including agricultural loans, which aids in environmental sustainability, as well as credit extension to SME's, and financial services to marginalized groups including women, other minorities, and indigent persons or members of modest means. These groups are often underserved by larger, traditional banks. Proportionality has been exceedingly important to the success of credit unions.

The link between proportionality and financial inclusion has been well studied and documented as it allows the expansion of a financial institutions' ability to serve people outside the financial system. Proportionality allows national-level regulators to tailor those rules that are often designed for large, internationally active banks in such a manner that will allow a local, community based financial institution to operate. This in turn allows institutions such as credit unions to serve those underserved markets.

By providing service to more people, the deposit base expands, becomes more diverse and more stable in times of stress. Increased deposits help smooth consumption and offsets the lack of credit during periods of financial contraction. Small size and lower income accounts tend to be less volatile during economic cycles. As financial institutions bring more people and their savings into the financial sector, the larger monetary mass can increase the effectiveness of monetary policy.

To the extent that financial sector regulation aims for financial stability and efficiency, financial inclusion helps achieve these aims while also strengthening social and political stability. World Council has documented for international standard setters that during times of financial crisis, credit unions have provided a countercyclical liquidity buffer by increasing deposits and maintaining lending despite financial shocks at both the community and national level.

World Council and other advocates argue for facilitating greater access to deposit services for underserved, vulnerable, small-account or low-income customers and for expanding geographic access to financial services. Implementing proportionality for smaller less complex financial institutions with a lower risk profile and facilitating access to innovative technology such as mobile banking are key tools to achieving financial inclusion and financial stability.

If you have questions about our comments, please feel free to contact Andrew T. Price, General Counsel of the World Council of Credit Unions at aprice@woccu.org or +1 850-766-5699.

Sincerely,

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Sr. Vice President of Advocacy/General Counsel
World Council of Credit Unions