World Council

March 13, 2023

Submitted via e-mail: governor@rbi.org.in

Shri Shaktikanta Das
Governor
Reserve Bank of India
18th Floor, Central Office Building
Shahid Bhagat Singh Road
Mumbai-400 001

Re: G20 Proposed Language for Leader's Declaration

Dear Governor Das:

World Council of Credit Unions (World Council) 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 87,000 credit unions in 118 countries with USD 3.4 trillion in total assets serving 393 million physical person members.[1]

World Council is in support of the theme of this year's Summit under India's G20 Presidency, One Earth, One Family and One Future". This theme conveys a powerful message of striving for just and equitable growth for all in the world as we navigate through these turbulent times in a sustainable, holistic, responsible, and inclusive manner. This theme's focus on equitable growth and inclusion highlights the importance placed by the G20 on the need to improve financial system infrastructure by pursuing policies conducive to increasing financial literacy and consumer protection, reducing financial exclusion, bridging the digital divide among many groups, and reducing inequalities generally. To advance this important theme, we respectfully request that the G20 include language in the 2023 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.

Specifically, 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

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

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> 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.

In the 2022 Leaders' Declaration, the G20 expressed its support for financial inclusion and endorsed the *G20 High-Level Principles for Digital Financial Inclusion*, the Yogyakarta Financial Inclusion Framework, the updated version of the *G20 Financial Inclusion Indicators*, the updated *G20 OECD High-Level Principles on SME Financing*, and the *Global Partnership for Financial Inclusion's (GPFI) implementation framework of the G20 Action Plan on SME Financing*. These documents support proportional and enabling regulatory frameworks that promote financial inclusion.

While these endorsements are vital to the advancement of financial inclusion, we urge the G20 to take an additional step to ensure that regulations are proportionally tailored to the size, risk, and complexity of each financial institution, and give clear direction to international standard setting bodies to work with national-level regulators on implementing proportional requirements for small financial institutions such as credit unions. We believe that this support and direction is critical to encouraging and accomplishing financial inclusion and strengthening small financial institutions that not only provide critical services to SMEs and MSMEs, but to underserved and underbanked communities around the world.

Global standard setters have made it clear that proportionality is essential to the objective of financial inclusion. Notably, the Basel Committee on Banking Supervision released its High-Level Considerations on Proportionality.[2] In an effort "to strengthen the regulation, supervision and practices of banks worldwide to enhance financial stability"[3], the Basel Committee performed work over several years on proportionality. Among many factors, the Committee determined that proportionality approaches that are consistent with the Basel Consultative Group, preserve financial stability, and can help authorities achieve an appropriate intensity of supervision for all banks. Further, proportionality approaches that include supervisory discretion allow supervisors to respond to bank behaviors and financial system developments.

The G20 has stated that it is important it "stay agile and flexible in our fiscal policy response, standing ready to adjust to the changing circumstances as needed."[4] Proportionality provides the necessary flexibility to assist financial institutions of all sizes to succeed. A diverse financial ecosystem is necessary for a stable economy, and we ask that the G20 work with international standard setters to direct national-level regulators to provide this flexibility not only to support a stable economy and inclusive growth, but to support the financial institutions that contribute to a sustainable global economy through financial inclusion. By issuing clear-cut guidance on the

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[2] High-level considerations on proportionality; Basel Committee on Banking Supervision; July 2022; available at: https://www.bis.org/bcbs/publ/d534.pdf.
[3] Id. at p. 5.
[4] See, G20 Bali Leaders' Declaration Bali, Indonesia; November 2022.

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factors that make it appropriate for national-level regulators to consider more proportional regulatory approaches, while allowing authorities the flexibility to expand upon these terms for larger financial institutions, smaller financial institutions are able to thrive under regulations that are suitable for its size, risk and complexity. Without defined and proportional guidance, national-level regulators are free to impose strict, overly burdensome requirements that may be impossible for credit unions to comply with. By tailoring supervisory requirements to smaller institutions such as credit unions, it reduces the administrative and compliance burdens associated with these requirements and leaves space for credit unions to be effective in meeting the objectives of providing financing for small businesses, people of modest means, and underserved communities.

Credit unions are non-profit, cooperative, member-owned institutions without stockholders that demand a market rate of return on their investment, therefore, a credit union can only pass along earnings directly to their members and not to outside investors. This cooperative model is sustainable and resilient and does not rely on outside investors to maintain its operations. Adhering to overburdensome standards has proven costly for credit unions and detracts from the services they provide to its members who are typically SMEs or individuals who are part of an underbanked community existing outside of the financial system. Additional compliance burdens, even those that are less demanding, can be extremely difficult for credit unions and smaller financial institutions to implement. They often do not have the resources necessary to comply with increased regulation. In order to preserve financial inclusion, national-level regulators need clear indication that smaller, less complex institutions should not have to abide by rules designed for larger, internationally active, complex banks.

The link between proportionality and financial inclusion has been well studied and documented as it allows for 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 successfully. This in turn allows smaller 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.

National-level regulators are often hesitant to tailor international norms and standards for fear that a deviation may subject them to criticism from other nations or fear of an unintended

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consequence as a result of proportionate regulations. This is evident in that proportionality strategies used to tailor regulatory requirements vary markedly across jurisdictions, including the scope, exemptions and modifications, or in some instances, replacement of rules. 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.

Financial exclusion is a fundamental result of overburdensome and improperly tailored standards and regulations for credit unions. Credit unions, pursuant to their mission, are agents for financial inclusion, mainly serving underserved and underbanked communities, which in turn contributes to global growth and stability. Anytime financial institutions that are seminal to the fostering of financial inclusion are affected by burdensome regulations, it hinders its ability to provide much needed services.

The World Council of Credit Unions continues to work with credit unions all over the world and has witnessed the substantial contribution they continue to provide to the goal of financial inclusion. Credit unions are the primary lenders for agricultural pursuits, small businesses, and self-employed professionals, which leads to the financial support of its credit union members, agricultural programs, financial sustainability of small businesses, community programs, and hard-working individuals. Credit unions not only provide competitive rates to its members, but they foster systematic savings and help members manage their money. We believe this financial inclusion personified and touches on the core of what the G20 hopes to accomplish. It is for these reasons we ask the G20 to include language in its Leaders' Declaration that provides clear direction to international standard setters to work with national-level regulators to implement proportional approaches to its supervisory and regulatory requirements.

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

Sincerely,

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