

Position Paper March 2017

## STABILITY THROUGH DIVERSITY

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### G20 AND LOCALLY FOCUSED BANKS

Germany's G20 Presidency comes at a time of great upheaval. There have been increasing changes in recent years, not only in economies and politics, but also in society. The consequences of the financial crisis and the rapid advance of digitalisation are just two examples of this.

In such times, there is a growing need for security. People and businesses alike want a certain level of reliability and predictability as a prerequisite for long-term success. Market economies, however, live from the market, which requires competitiveness, dynamism and creativity. There is a natural tension between these two sets of requirements.

It is therefore necessary to find a balance in order to meet the need for stability for individuals and businesses, whilst maintaining the necessary variety in ideas and flexibility.

Four regional banking associations from the Savings Bank and Cooperative Bank sector have convened this conference in Berlin to highlight the significance of regional banks for the stability of the financial system at national and international level.

- Regional credit institutions support the real economy, primarily through lending to small and medium-sized enterprises and private households. In doing so, they follow a long-term strategy and shoulder responsibility for their regions.
- They provide their customers with financial services and support them in their efforts to save, also – or perhaps especially – in times of low interest. Regional credit institutions give their customers fundamental financial skills, thereby laying the foundation for economic independence and autonomous life planning. This enables growth from the bottom up, which in turn can avert crises.
- Regional credit institutions have the necessary in-depth customer and market knowledge and the customer proximity – as well as the connection and commitment to their regions – to combine security and dynamism, reliability and competitiveness. They represent a diversity of business models and market proximity via decentralised structures. In this way, regionally oriented banks can provide an effective and granular distribution of risks in an internationally connected economy.

Thus, it is essential that the decisions and initiatives of the German G20 presidency take sufficient account of regional credit institutions. This primarily includes:

- strengthening access to traditional bank financing for small and medium-sized businesses,
- implementing targeted regulation, oriented towards a bank's business model, size and risk, and
- promoting models of financial inclusion and financial education.

#### **Strengthening access to traditional bank financing for small and medium-sized businesses**

Small and medium-sized enterprises represent one of Europe's most important drivers of innovation and technology with a well-deserved international reputation. However, in order for them to remain competitive, SMEs have to reposition themselves constantly. Small and medium-sized businesses often owe their success to their specialisation and niche strategies. Local banks, such as Savings Banks and Cooperative Banks, represent diversity of business models and market proximity through decentralised structures. Thus, we are able to achieve an effective and granular distribution of risks in an internationally connected economy. Excessive regulation restricts the ability of banks to supply the real economy with credit.

#### **Implementing targeted regulation, oriented towards a bank's business model, size and risk**

Since the financial crisis, there has been discussion at European level as to whether and how banking regulation should take account of the **proportionality principle**, as European banking regulation currently takes a **"one size fits all" approach**.

According to this approach, all institutions must meet standardised minimum requirements, which are only mitigated by the proportionality principle. We advocate better regulation; a more efficient form of regulation, geared towards a bank's business model, size and risk profile. Smaller local banks, in particular, are hampered in their business operations by the current inflexible regulatory conditions.

#### **Promoting models of financial inclusion and financial education**

The goal must be to achieve a stable, sustainable financial system, which offers appropriate access to financial services for all households and businesses. This is the key to sustainable, worldwide economic growth.

Financial inclusion forms the basis of stable economic growth, which develops from the bottom up and in which everyone can participate. Local and regionally active banks have a long and successful history as responsible institutions which include all sections of society.

German Savings Banks Association (DSGV)  
National Association of German Cooperative Banks (BVR)  
World Savings and Retail Banking Institute (WSBI)  
European Association of Co-operative Banks (EACB)