OPENING REMARKS TO THE FMO CONFERENCE ON THE FUTURE OF BANKING
12 Nov 2012

Excellency, ladies and gentlemen, good morning.

I am pleased to be present again at one of FMO’s conferences. Certainly because this is an organization that has been and is at the forefront of development and I would like to acknowledge that. And not only because I am a Dutch Princess.

My late father-in-law used to say, "we don't develop people, people develop themselves". This is exactly why we are here. To discuss how we can help people in such a manner so that they can develop themselves.

In my work as UN Special Advocate, I have the privilege of speaking to different people in different countries on how they are trying to cope with their lives and businesses. And of course I zoom into financial aspects. In other words, what difference can a savings account, a loan or a good insurance policy make to them? When we talk about these financial services, I think it is very important to remember that these are not an end in themself, but a means to an end. So in any given country, the financial system is there to capture savings from the public and redirect them to those needing capital for their businesses. And by doing that, it helps to advance very important issues such as equitable growth, job creation, food security, and more sustainable ways of using our scarce resources.

But how can we talk about the future of banking without acknowledging that nearly one third of the world goes without the kinds of financial services that you and I rely on every day? That is 2.5 billion adults. Without even counting their families who would benefit too.

The figures are just as concerning for enterprises. Everywhere, SMEs are engines of employment and income creation. This applies here in the Netherlands, next door in Germany and in Mexico, where SMEs account for 72% of formal employment. In some low-income countries, less than 20% of SMEs have access to formal finance. As a result, enterprises use informal financial tools or cut back on their growth and efficiency potential. For example in Nigeria, SMEs only contribute 10% to GDP, while in Mexico that is 50%. Imagine how this would change if more SMEs had access to financial services. This, ladies and gentlemen, is something we should be focusing on. I am therefore happy that FMO has dedicated this conference to this very issue.

But how do you reach these unbanked? As you know, it is very expensive to set up brick and mortar banks. So banks do not find it attractive to operate in low-income communities, especially in rural areas where 70% of the world's poor live and where the issue of food security should be solved.

But today, technology is helping us make a difference. Two examples come from FMO. M-Bank in the Philippines seeks to provide better, affordable financial services in remote islands by leveraging mobile phones. In Peru, Mibanco, Shore Bank, and FMO are exploring how to use small bank agents as well as mobile phones to reach rural populations and businesses. These new kinds of partnerships will be key when we talk about the future of banking.

Around the world there is an urgent need for financial services for SMEs, as I mentioned. The IFC estimates that 200 million SMEs in emerging and developing countries alone do not have the finance they need to grow. This is not just finance, but locally available and diverse products that meet particular client needs—including current accounts, lines of credit, savings, insurance, payments and pension schemes. Sector and local context play an important role here. The right financial product for the owner of a neighborhood store is different than for a rapidly expanding flourmill. And what works in Rio de Janeiro will be different than what works in Monrovia. That might seem obvious, but it is not. I recently visited Nigeria, where increased agricultural productivity is a big priority.

One topic that came up is how cassava farmers cannot afford microfinance loans. This is because cassava
takes 18 months to grow. Most microfinance loans, however, are very short term, just several months. These farmers need longer-term finance, at lower, affordable rates. And maybe even a loan with a delayed start of payments.

That means that banks must understand the local context, markets, value chains and the different risks. Only in this way will they be able to design and deliver the right products. And this will lead to products that are used to scale, helping to reach sustainability. This is one reason why local banks, with knowledge of local market sectors, are often well placed to serve client needs.

Serving SMEs also will require the right mind-set. Time and again, I have heard how private banks in an emerging country have lots of excess liquidity, and often very high profits too. But their reach and products remain limited, despite huge unmet demand. So we must ask, why are they not reaching down market to fill the finance gap? Is it because they cannot bridge short-term deposits with longer-term loans? Or is it because they do not have the conviction or leadership? Are they just too comfortable with current profits? Do they not understand the market potential? Or do they simply not know how to do it?

I believe that the future of banking begins with leadership and with the vision that inclusive financial services will be part of the bank's strategy and long-term sustainability. To serve SMEs well, this may mean creating a dedicated window and team that understand the specific characteristics of enterprise lending. Keeping clients at the center can only be done if the whole institution is engaged, from marketing to management to internal incentives. It may include rewarding quality and sustainability of products, instead of or in balance with internal incentives. And addressing questions such as: Was the entrepreneur better off once he or she had repaid the loan? Wasn't she better off with a savings product? Wasn't it better to provide her with an insurance?

Now, you will not be able to do this alone. We will need your leadership to find the right partners. We need to work with governments and link your products with their policies. Think of food security or sustainable productions. Or with international agencies to help you with data gathering or research demand. What about combining loans with insurance so that risks can be diminished? Or seeking guarantees to solve maturity mis-match? And of course, working with mobile operators, agents, health providers, agro processors etc. Even regulators, why not partner together with them to develop innovative products and approaches to pressing problems?

I hope that this conference will give you practical lessons that you can apply in your operations in different countries. And maybe, to help you realize that, aided by innovative partnerships and new delivery technologies, the future of banking is probably about going back to basics: back to focusing on client needs and back to being close to him and his business. Back to the future.

Thank you.