



German Savings Banks experience as a contribution
to conceptualize cooperative banking reform in
Mexico

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Building a model for Mexico

Content

- 1. Savings Banks (Sparkassen) and cooperative banks in Germany - past and present**
- 2. Organisational Structure of the Sparkassen (and cooperative banking) sector in Germany**
- 3. History of cooperative banking reform in Mexico**
- 4. Building a model for Mexico**
- 5. Implementation of the cooperative banking reform in Mexico**

The German banking system

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Private Commercial Banks (stock corporations)

in the 17th-19th century

Financing of trading
operations and of the
industry

Shareholders'
profit maximisation

- shareholder value -

Cooperative banks

in the 18th century

Financial services for
small and medium-sized
businesses as well as
farmers

Member orientation

Savings banks

in the 18th century

Financial services for
lower income groups and
SMEs

Public welfare in the
region
Task orientation

- stakeholder value -

The German Sparkassen and Cooperative Banks

History

Roots in the 18th century: rural-urban migration, break up of traditional social structures, urban poor ...

Founded by individuals and municipalities

Objectives of foundation

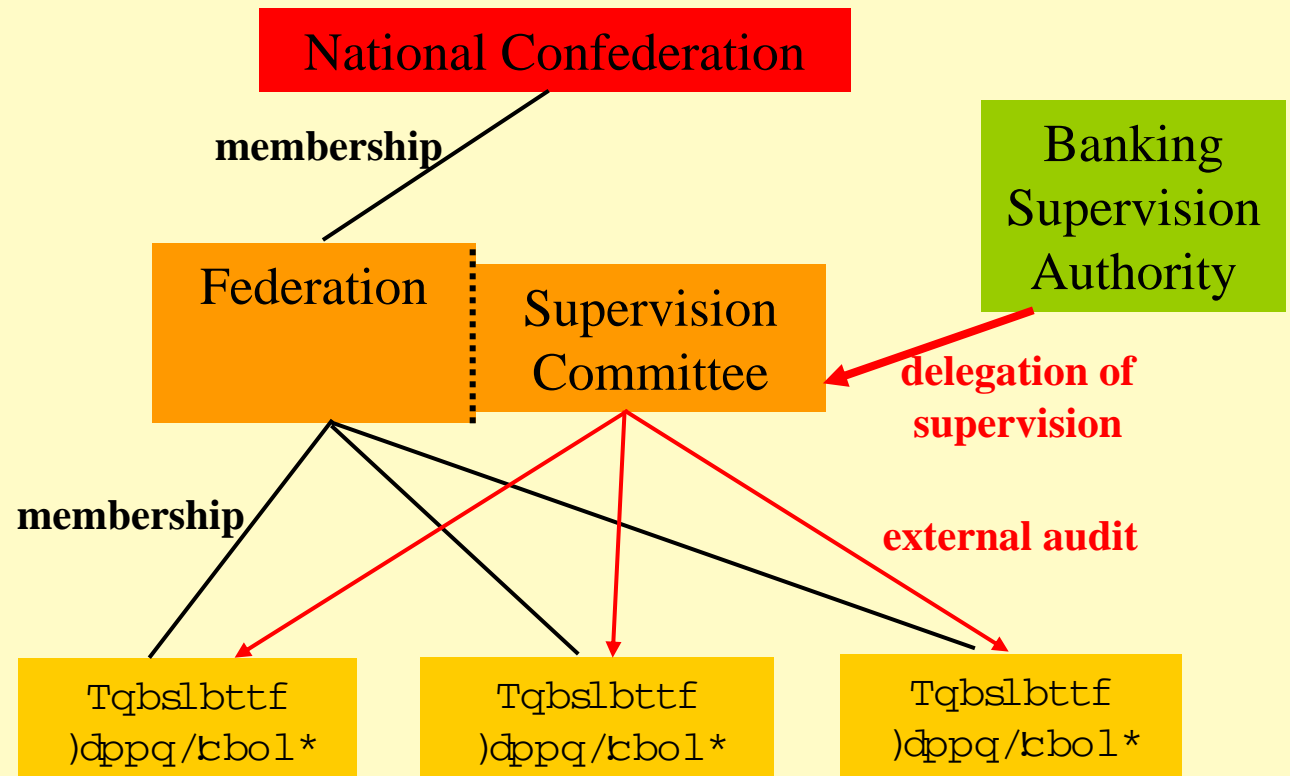
- ◆ Promote savings mobilisation and loans to small craftsmen, traders and farmers
- ◆ Alleviate poverty
- ◆ Use savings mobilised in the regions for local economic development

1950s / 1960s: Sparkassen and cooperative banks develop into universal banks,

1989/90: After the reunification of Germany the East German Sparkassen and cooperative banks are being revived

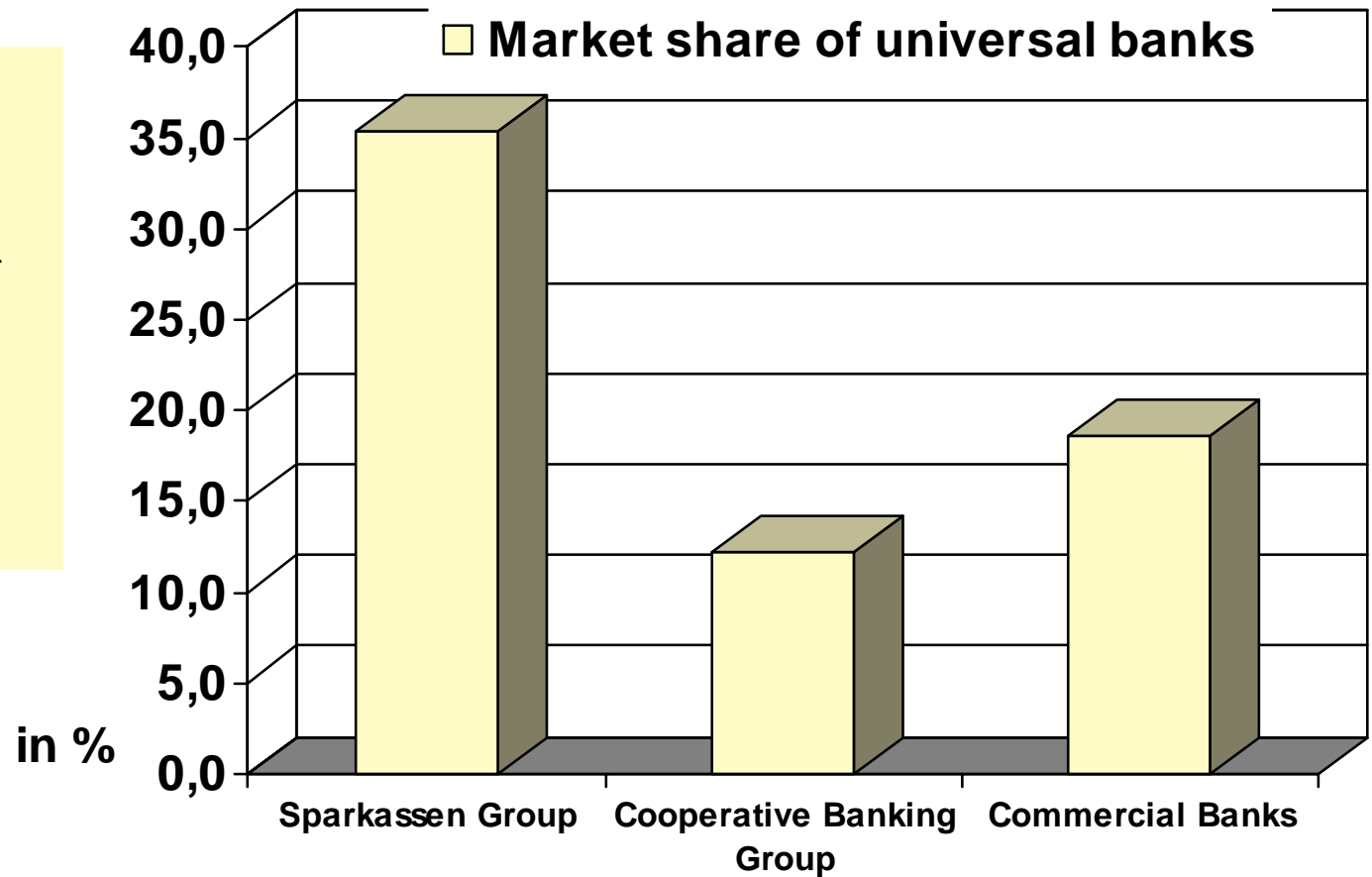
The German Model

Structure of Sparkassen (and cooperative banks) in Germany

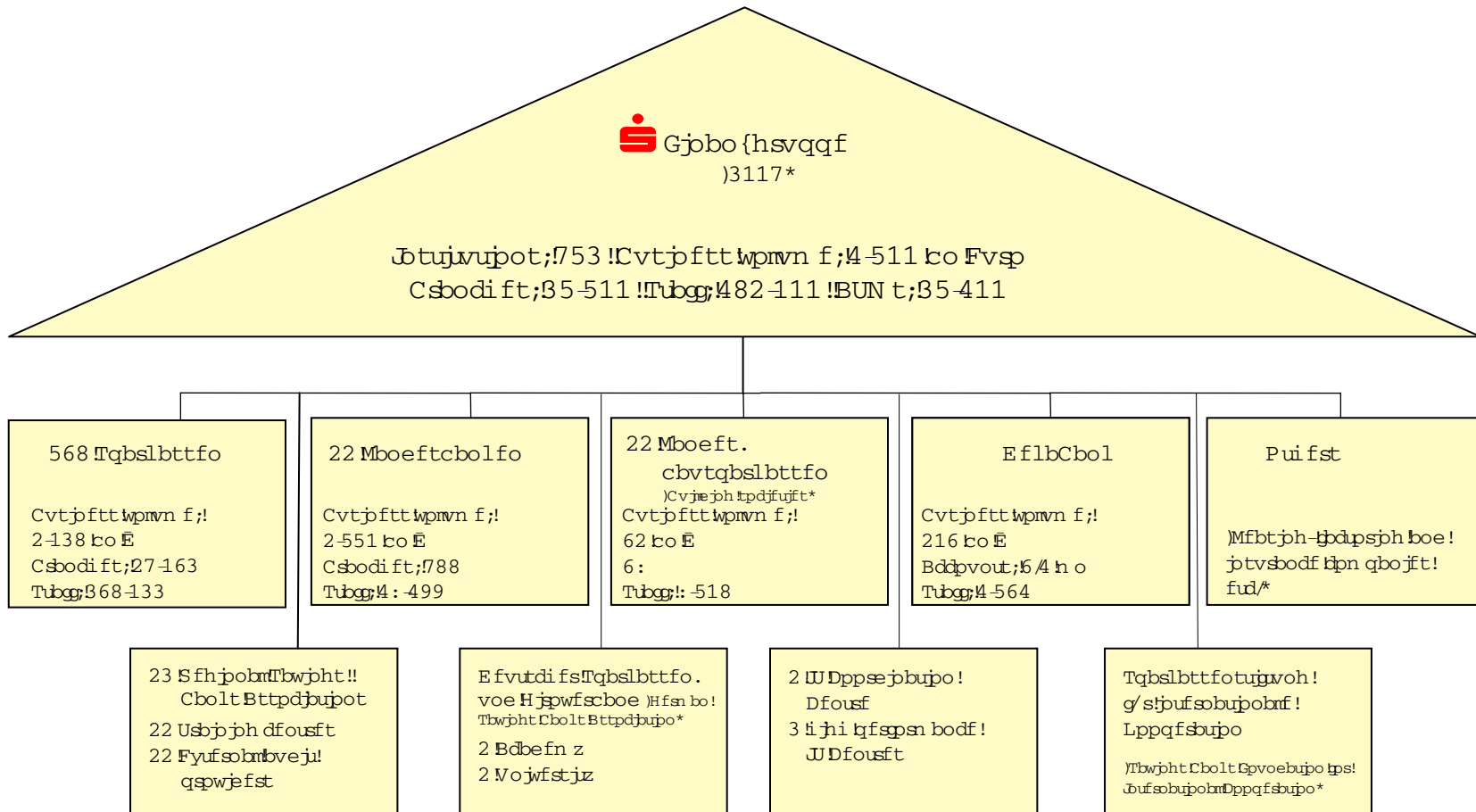


The German banking system

The German banking sector basically consists of three pillars



The German Sparkassen Financial Group



The German Sparkassen-Finanzgruppe

Structure of the German Finanzgruppe

- Not a holding, but a group of independent institutions (network system)
- Each local authority/ municipality (co-)owns a local Sparkasse
→ 100% national coverage
- Structured into 12 regional savings banks associations and one national association (Deutscher Sparkassen- und Giroverband)

The German Sparkassen-Finanzgruppe

Sparkassen and Financial Inclusion

- 41 mn current accounts: market share > 49 %
- 63 mn savings accounts: market share > 53 %
- Housing loans: market share > 36 %
- Volume of savings deposits/certificates:
market share > 41 %
- 41 % of all banking outlets in Germany
- 39 % of all ATMs
- Number of bank cards (debit/credit/smart):
market share > 52 %

(Germany has some 82 mn inhabitants)

The German Sparkassen-Finanzgruppe

Serving SME

The German Sparkassen play a dominant role in providing financial services to SMEs (which offer more than 70 % of all jobs in Germany)

- two of three SMEs have a business relation with a Sparkasse
- Loans to SMEs (total): market share > 44 %
 - thereof to craftsmen market share > 70 %
 - to start-ups market share > 55 %
 - to traders market share > 67 %

Features of the German Sparkassen-Finanzgruppe

Essential features of the German Sparkassen:

1. Social mandate and profitability – objectives defined by specific Sparkassen law (“Sparkassen-Gesetz”)
2. Sparkassen are subject to general banking act and specific Sparkassen law
3. Focus on specific region only (“regional principle”)
4. Close cooperation between all institutions of the group
5. Double supervision of the Sparkassen:
 - supervision by the regional savings banks associations on behalf of the state banking supervision authority (delegated audit)
 - Supervision by the respective state Government

Financial Inclusion

Selected products and services

Savings accounts

- almost zero (1 Euro) minimum balance
- no fees
- obligation for Sparkassen to open account for everyone

Financial Literacy

- Sparkassen School Service (teaching material, sponsoring)
- World Thrift Day
- special children and youth products
- Consulting Service “Geld und Haushalt”
- partnerships with Debt Management Counseling Centers

Key factors of success

Principle I

Customer proximity and good knowledge of the customer

- Proximity to the customers
5,914 inhabitants per branch of a Sparkasse
(34,562 inhabitants per private bank branch)
- Deep knowledge of individual customers and their environment
- Decentralised structure as the basis of the savings banks' high flexibility and short lines of decision
- Customer proximity, knowledge of the customer and his local environment improve the assessment of risks - important in view of Basle II

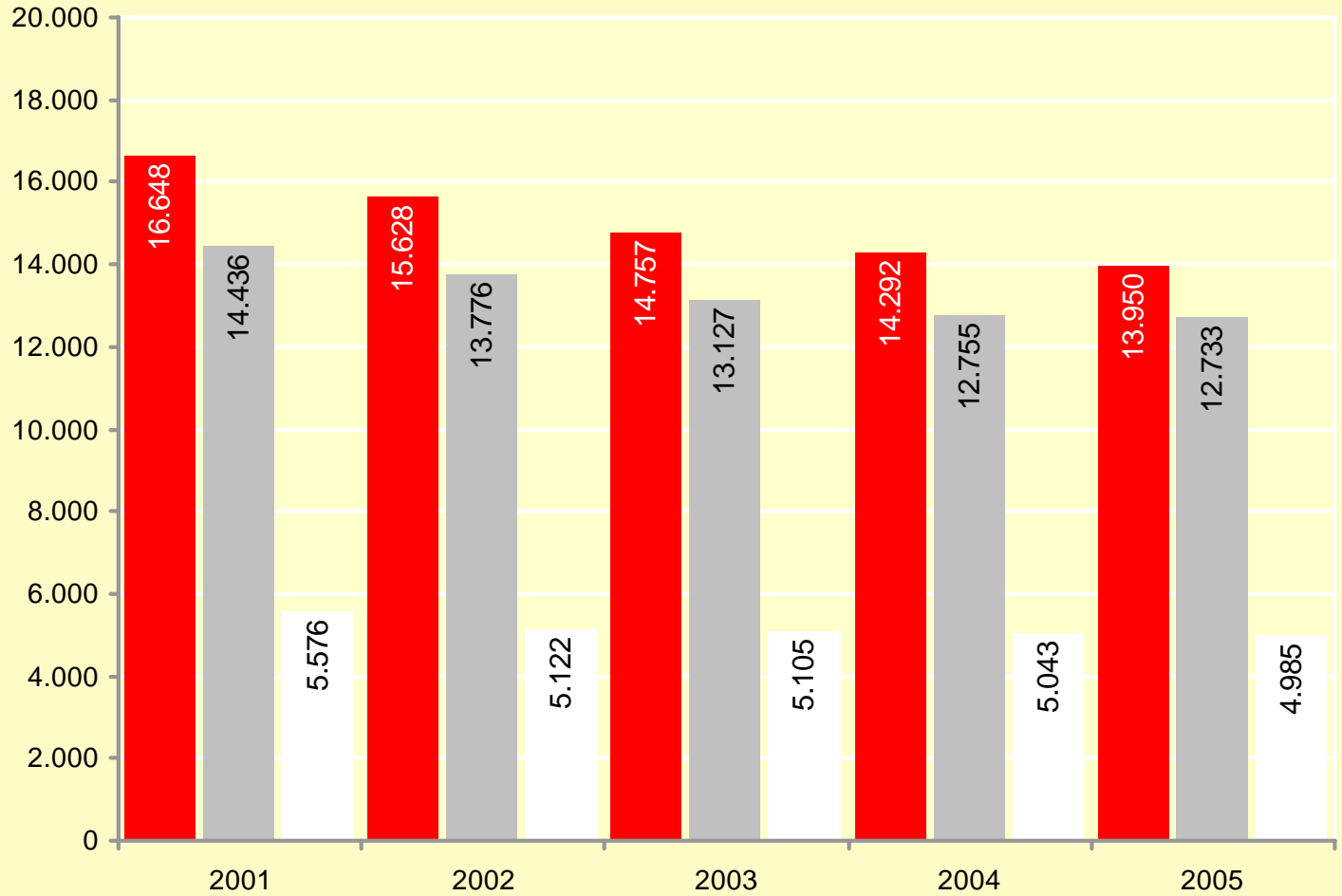


Financial Inclusion

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Key factors of success

Principle II

Concentration on the core customer groups

- Concentration on broad population (low and middle income) and SMEs
- Offering a broad range of products (cross-selling)
- Highly qualified staff cater for a high quality level of services in all aspects of banking for all customers
- High acceptance and image of Sparkassen among the population

Key factors of success

Principle III

Cooperation within the network system & Economies of scale

- Modern organisation structures which are based on the separation of labour allow a considerable reduction of costs
- Every Sparkasse can concentrate on its regional customer transactions and at the same time offer all and competitive financial products with the help of its network partners
- Network partners have access to the largest distribution network of Germany: the Sparkassen

Starting point in Mexico

Reform of the Coperative Banking Sector in Mexico

As at the beginning of 2000, the sector comprised of

- an estimated number of 630 cooperative banks
- with about 2.3 mn clients/members
- and a market share of 0.9 % of the banking market
- 74 % of banks were very small (< 3,000 members)
- and 56 % had balance sheet totals of < 40,000 USD

The sector was

- (financially) unregulated
- Inefficient
- with very limited cooperation between institutions
- had a bad reputation due to frauds and bankruptcies

Summary

Reform of the cooperative banking sector in Mexico

- Step 1** Need for reform defined, assistance by Worldbank approved
- Step 2** working group in the Ministry of Finance analyses cooperative banking sectors in different countries
- Step 3** German model selected as blueprint
- Step 4** Ministry of Finance asks Germany (Savings Banks Foundation) for assistance
- Step 5** German model adjusted to Mexican environment
- Step 6** Implementation (with ongoing adjustments)

Initial steps in the Reform

Chronology

- 2000 Preparation phase in the Ministry of Finance
- 2001 Legal Framework „Ley de Ahorro y Credito Popular”,
setting up of BANSEFI as handling agent of the state for the
reform of the sector
- 2002 Prudential Regulation issued by Banking Supervision Authority
(CNBV),
definition of model for role and function of federations and
confederation,
start of restructuring projects for cooperative banks and their
respective federations
- 2005/2007 changes to the legal framework (mainly extensions of deadlines
and exception clauses)

The German Contribution

Giving example - and a helping hand

Key contributions in the conceptual phase

- give a (real world) example
- organise exposures to Germany for decision makers
- provide blueprint for legal framework
- help in the adjustment of the German model to the Mexican environment
- engage in political dialogue on all levels
- act as moderator in discussions

In a later phase, the German partners assisted also in the implementation of different projects.

The German Contribution

Organisation of SBFIC assistance in Mexico

Pre-Phase (mid 2000 – mid 2001)

- Identification of partner institutions: Sparkassenverband (regional federation) Baden-Wuerttemberg and Landesbank (regional bank) Baden-Wuerttemberg
- Organisation of exposure visits and discussions for high level delegations in Germany (including ministries and CNBV)
- Visits to Mexico, organisation of working groups
- Exchange of documents (laws, bylaws, statutes, financing models, internal regulations)

The German Contribution

Organisation of SBFIC assistance in Mexico

(German) Government funded project (mid 2001 – ongoing)

- Setting up of project office in Mexico
(1 German expert plus 3 local staff)
- Established as an independent advisor (think tank) for all stakeholders
 - BANSEFI
 - federations and confederations
 - individual cooperative banks
 - Political level (Government, ministries, MoP)
 - Banking supervision (Banco de Mexico, CNBV)

The German Contribution

Organisation of SBFIC assistance in Mexico

Worldbank funded projects (2003 – ongoing)

- Participation in tender processes
- Contracts for restructuring of groups of coop. banks
- 2 ongoing projects
 - Strengthening of 150 (very small) Cajas Solidarias
 - 35 staff
 - 6 offices all over the country
 - Strengthening of 20 (medium sized) coop. banks
 - 6 staff
 - 1 office in Queretaro

The German Contribution

Organisation of SBFIC assistance in Mexico

Fundación Alemana Servicios, FAS (since 2007)

- Subsidiary company of SBFIC
- Established under Mexican law
- Additional consultancy and training projects for cooperative banks in Mexico on a commercial basis
- Long-term support for the cooperative banking sector and similar financial institutions
- Main focus on merger processes, accounting migration, setting up of new financial institutions



The German Contribution

Thank you !