



Latin America and  
Caribbean Centre

# **From Global Transaction Banking to Social Transaction Banking**

## **“Moving the Money where is needed”**

by Mauricio Munguia

Summer 2023. London, UK.

# From Global Transaction Banking to Social Transaction Banking

## Agenda

1. Introduction
2. Transaction Banking
3. Product Developments
4. Trade Finance Growth
5. Poverty Growth
6. Social Transaction Banking
7. International Development Organizations (IDOs) – the final mile
8. Conclusions
9. Q&A

# From Global Transaction Banking to Social Transaction Banking

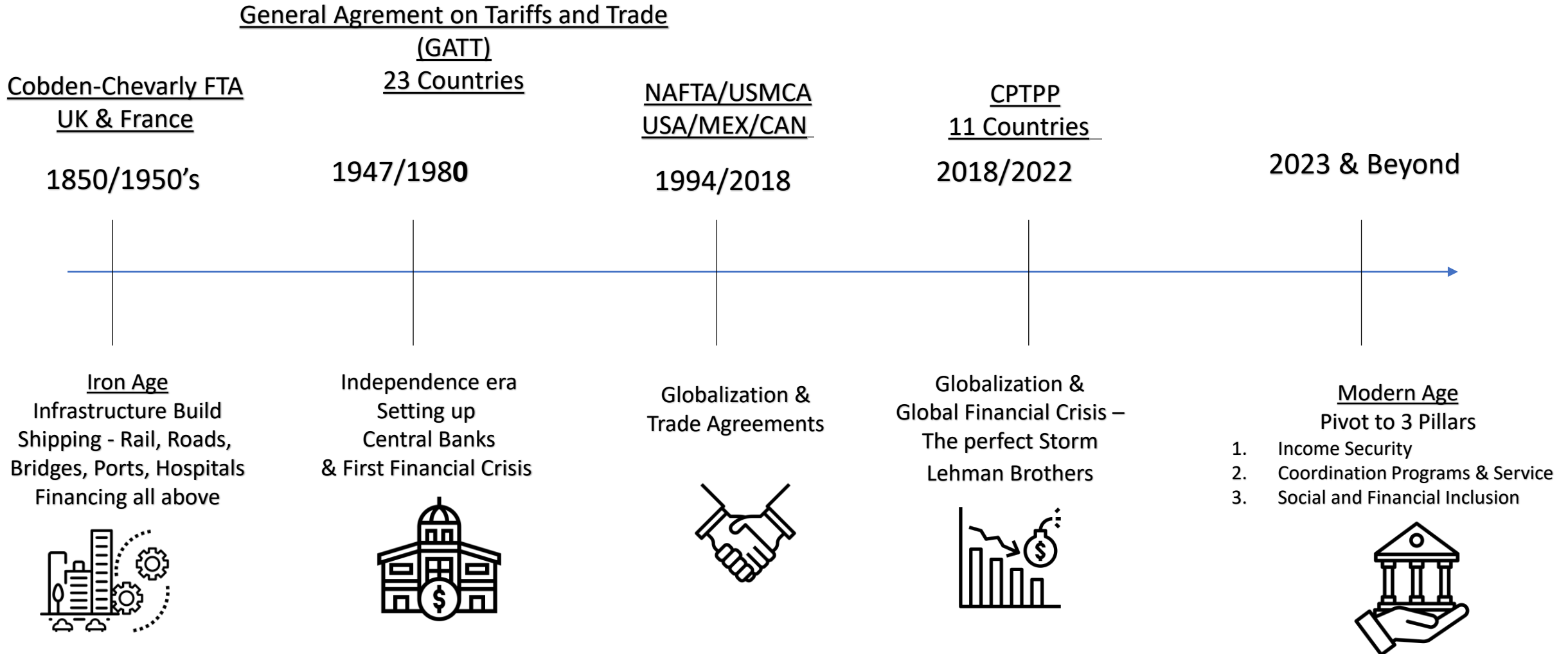
Transaction banking – also known as transactional banking – can be defined as the set of instruments and services that a bank offers to trading partners to financially support their reciprocal exchanges of goods (e.g., Trade), monetary flows (e.g., cash) or commercial papers (e.g., exchanges).

## **DEFINICIÓN TÉCNICA**

La transaction banking o banca transaccional es aquella destinada a cubrir las necesidades operativas y de transacciones comunes de las empresas a través de instrumentos y servicios adaptados para la gestión de los cobros, pagos, comercio y gestión de activos.

# From Global Transaction Banking to Social Transaction Banking

## Transaction Banking History – Iron Age to Modern Age



# From Global Transaction Banking to Social Transaction Banking

## Main Transaction Banking Products & Services

- Trade Finance



- Foreign Exchange (FX)



- Cash Management



- International Banking



- On-Line Banking



# From Global Transaction Banking to Social Transaction Banking

## Main Banking Products – Drivers / Channels



- Spot
- Forwards
- Future & Options
- Non-derivable forward
- Untraded currency.



- Local Payments
- International Payments
- Cash Pooling
- Liquidity management & Virtual Accounts



- Local Branch
- Global Presence
- Global Governance
- Expats

# From Global Transaction Banking to Social Transaction Banking

## Trade Finance

WHAT IS TRADE FINANCE?

WHAT ARE THE RISKS?

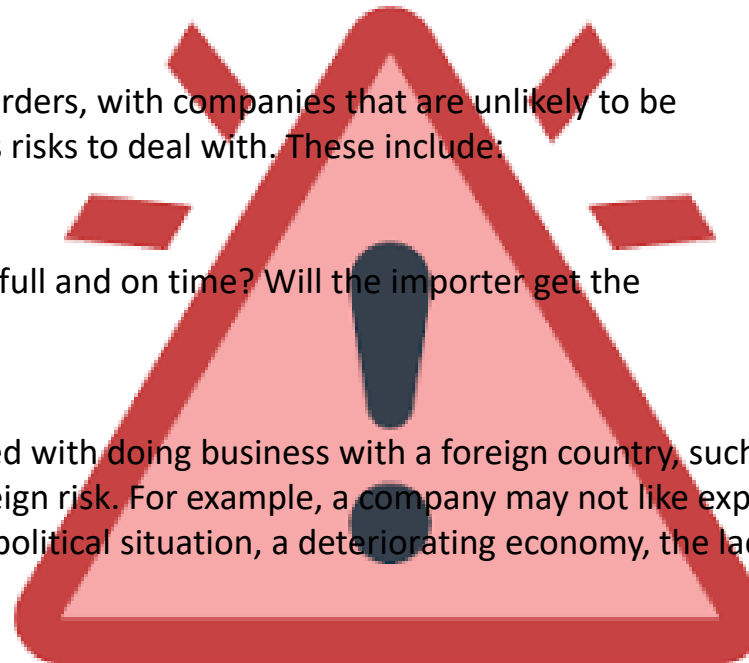
As international trade takes place across borders, with companies that are unlikely to be familiar with one another, there are various risks to deal with. These include:

**Payment risk:** Will the exporter be paid in full and on time? Will the importer get the goods they wanted?

**Country risk:** A collection of risks associated with doing business with a foreign country, such as exchange rate risk, political risk and sovereign risk. For example, a company may not like exporting goods to certain countries because of the political situation, a deteriorating economy, the lack of legal structures, etc.

**Corporate risk:** The risks associated with the company (exporter/importer): what is their credit rating? Do they have a history of non-payment?

**To reduce these risks, banks – and other financiers – have stepped in to provide trade finance products.**

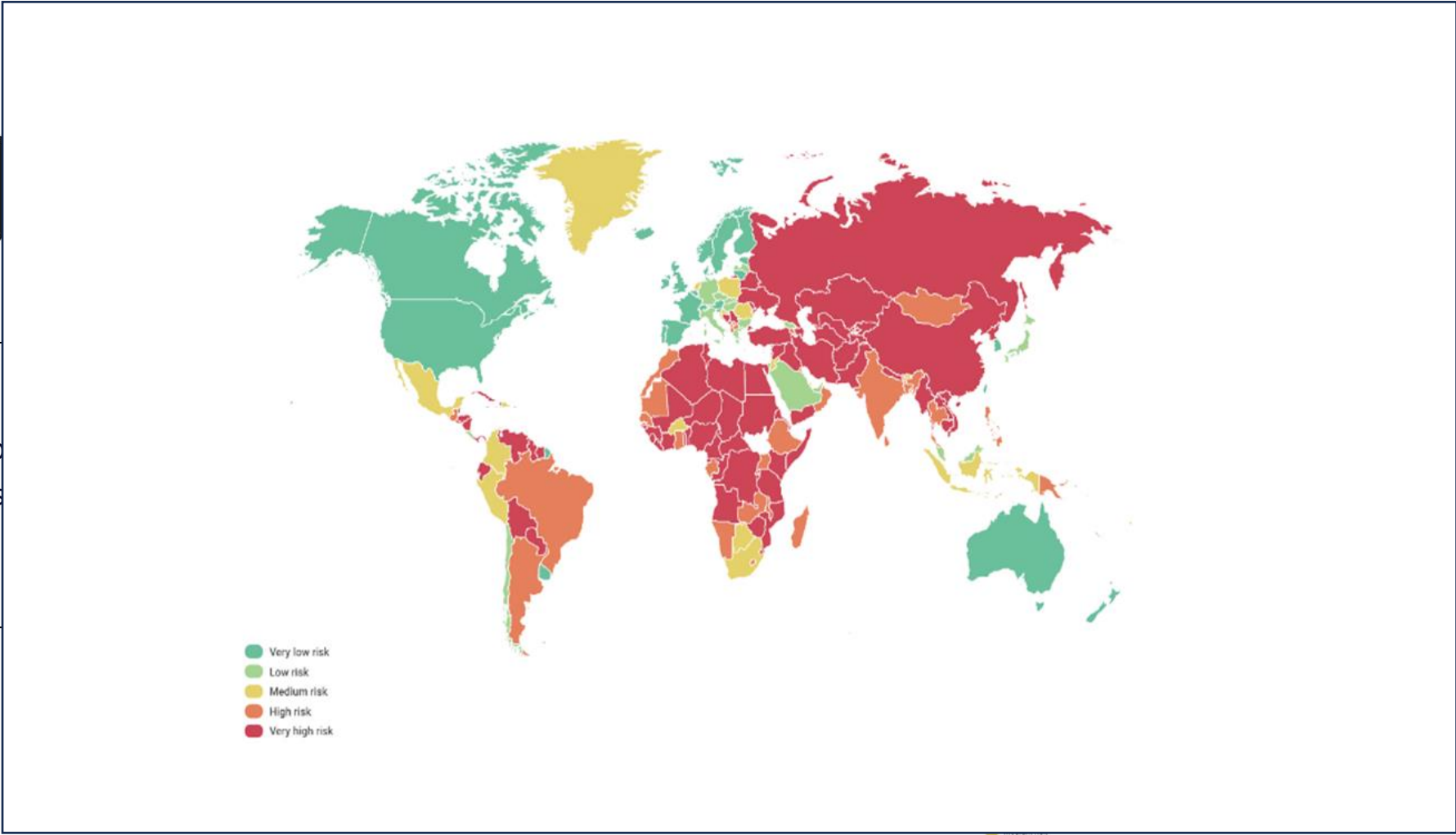


# From Global Transaction Banking to Social Transaction Banking

Payment Risk



- 1. Collections
- 2. LCs
- 3. Bank Accept
- 4. Guarantees
- 5. Factoring
- 6. Confirming



MOODY'S  
VESTORS SERVICE

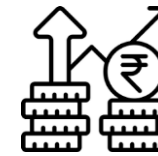


High risk  
Very high risk



# From Global Transaction Banking to Social Transaction Banking

- The world has become a much smaller place over the past two decades
- International trade has grown twice as fast as worldwide income during this period.
- Spurred by advances in information technology, a growing share of this trade is in services rather than merchandise, especially among rich countries.



- A small group of developing countries that have seen large increases in trade over the past twenty years: **“The post-1980 Globalizers”**

- Exclude OECD – East Asian Tigers – Chile = Trade liberalization in 1960s and 1970s
- The 24 Globalizers increased its GDP as follows:
  - 1.4% in 1960
  - 2.9% in 1970
  - 3.5% in 1980
  - 5.0% in 1990

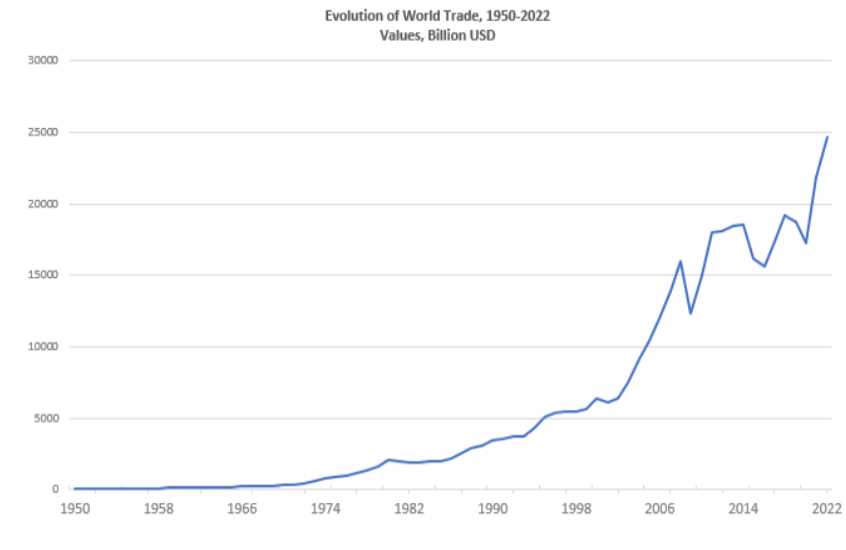
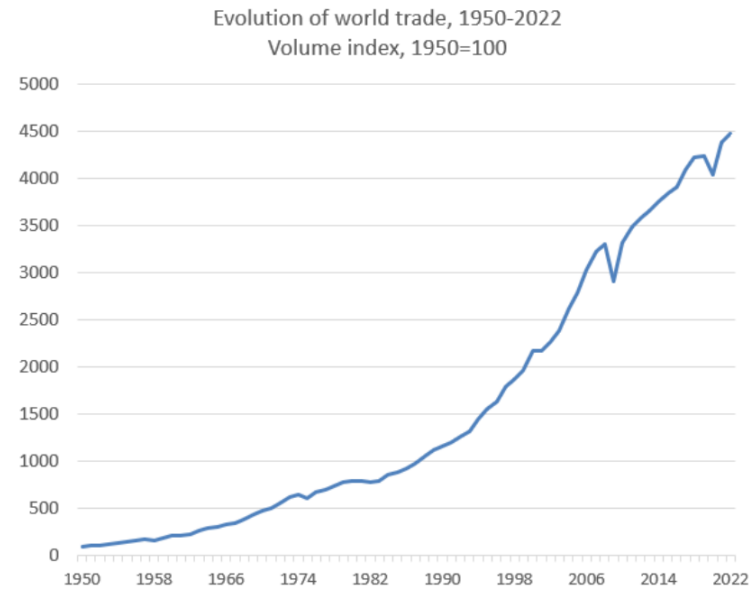


## Post-1980 globalizers

Argentina	Jordan
Bangladesh	Malaysia
Brazil	Mali
China	Mexico
Colombia	Nepal
Costa Rica	Nicaragua
Côte d'Ivoire	Paraguay
Dominican Republic	Philippines
Haiti	Rwanda
Hungary	Thailand
India	Uruguay
Jamaica	Zimbabwe

# From Global Transaction Banking to Social Transaction Banking

## Trade Growth



- World trade volume today is roughly 45 times the level recorded in the early days of the GATT (4500% growth from 1950 to 2022).
- World trade values today have ballooned by almost 400 times from 1950 levels.
- As of 2022, world trade volume and value have expanded 4% and 6% respectively on average since 1995, when the WTO was first established.

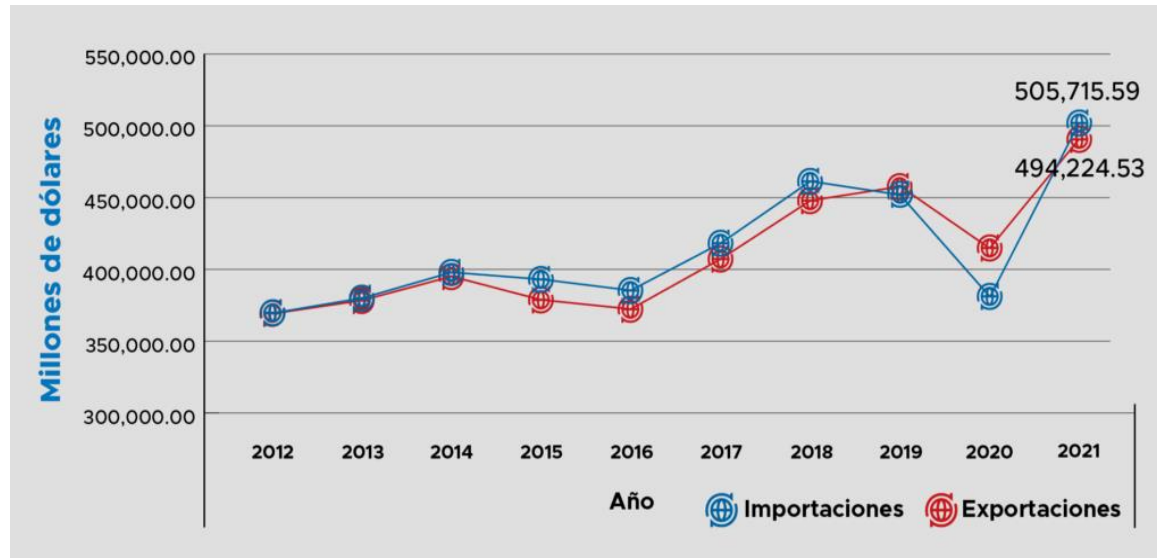
# From Global Transaction Banking to Social Transaction Banking

## Trade Growth - Economic Impact

- Developing countries now constitute 48 percent of world trade, up from 33 percent in 2000
- The number of people living in extreme poverty has been cut in half since 1990, to just under one billion people.
- Worldwide Poverty has declined
- Trade has helped increase the number and quality of jobs in developing countries, stimulated economic growth, and driven productivity increase
- Trade Liberalization also conducts to domestic reforms that have sizable growth benefits
- Does trade cause faster growth or do economies that grow quickly also trade more?
- In China, for example, domestic liberalization, restrictions on internal migration, and agricultural policies have played a much larger role than increases in international trade.

# From Global Transaction Banking to Social Transaction Banking

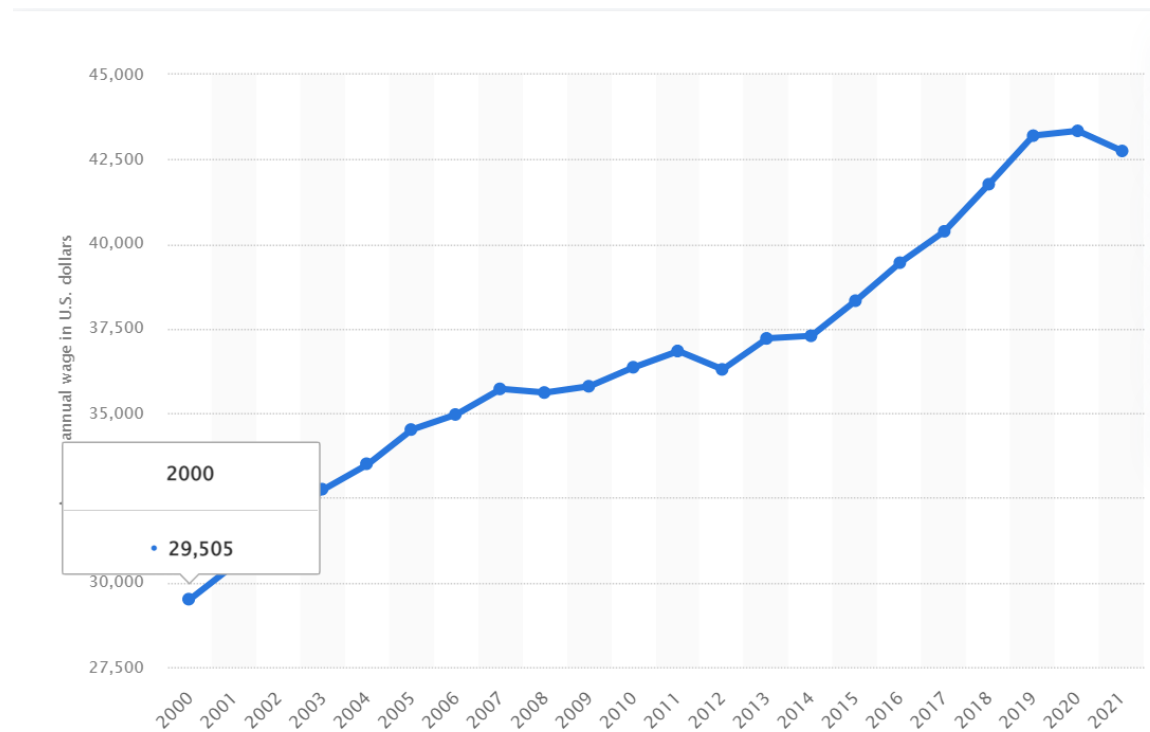
## However - Poverty Growth



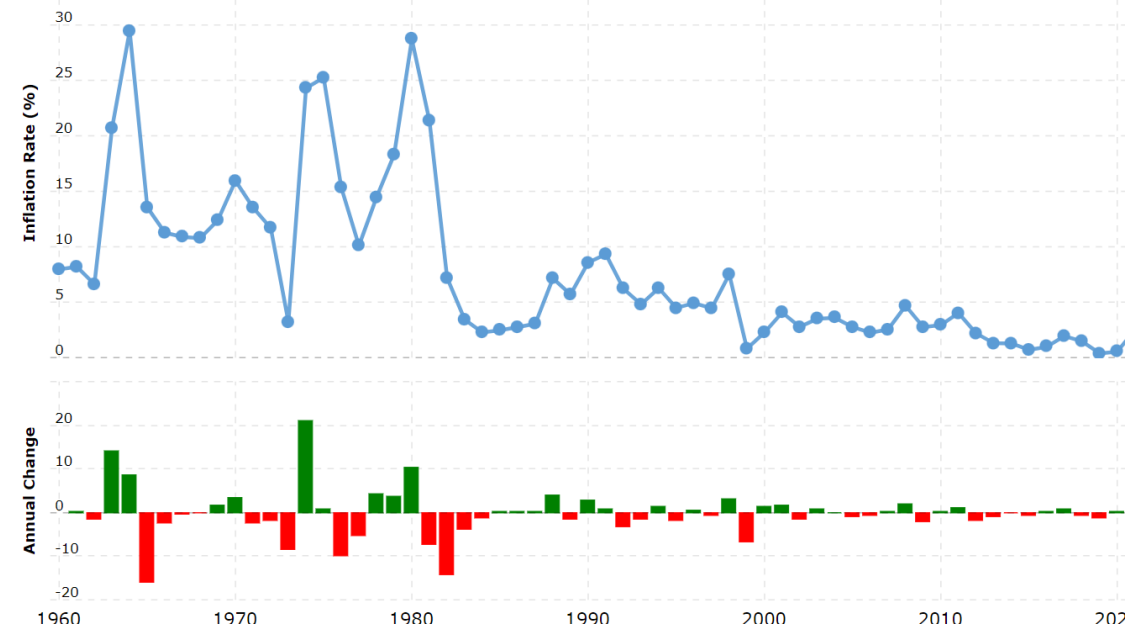
- Concerns on trade liberalization on income distribution.
- The benefits of trade must be extended to the poorest and most vulnerable.

# From Global Transaction Banking to Social Transaction Banking

## Salaries increased vs Inflation – The South Korea Case



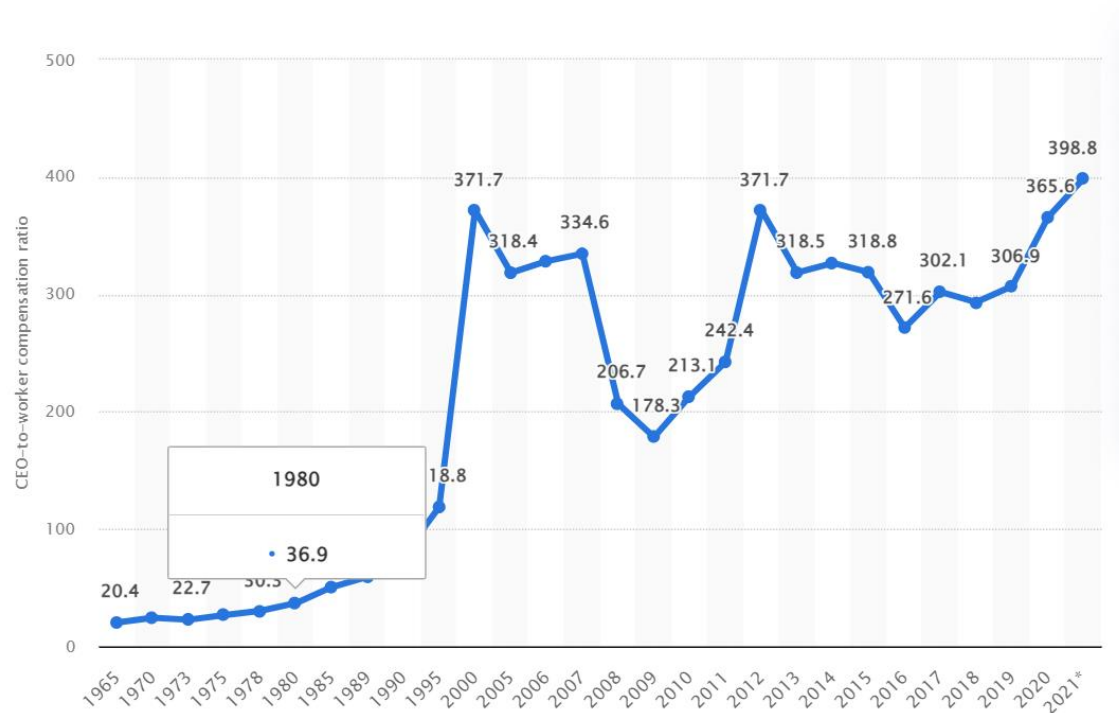
Average annual wage in South Korea adjusted for Purchasing Power Parity from 2000 to 2021



South Korea Inflation Rate 1960-2021

# From Global Transaction Banking to Social Transaction Banking

## Salaries increased: CEO vs Typical Worker



- In 2021, the ratio of CEO-to-typical-worker compensation was 399-to-1 under the realized measure of CEO pay; that is up from 366-to-1 in 2020 and a big increase from 20-to-1 in 1965 and 59-to-1 in 1989.
- From 1978 to 2021, CEO pay based on realized compensation grew by 1,460%, far outstripping S&P stock market growth (1,063%)
- In contrast, compensation of the typical worker grew by just 18.1% from 1978 to 2021.

Source: Statista Research Department  
Economic Policy Institute

# From Global Transaction Banking to Social Transaction Banking

## Poverty - What happen?

Not having enough money to meet basic needs including food, clothing and shelter.



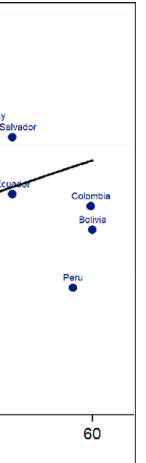
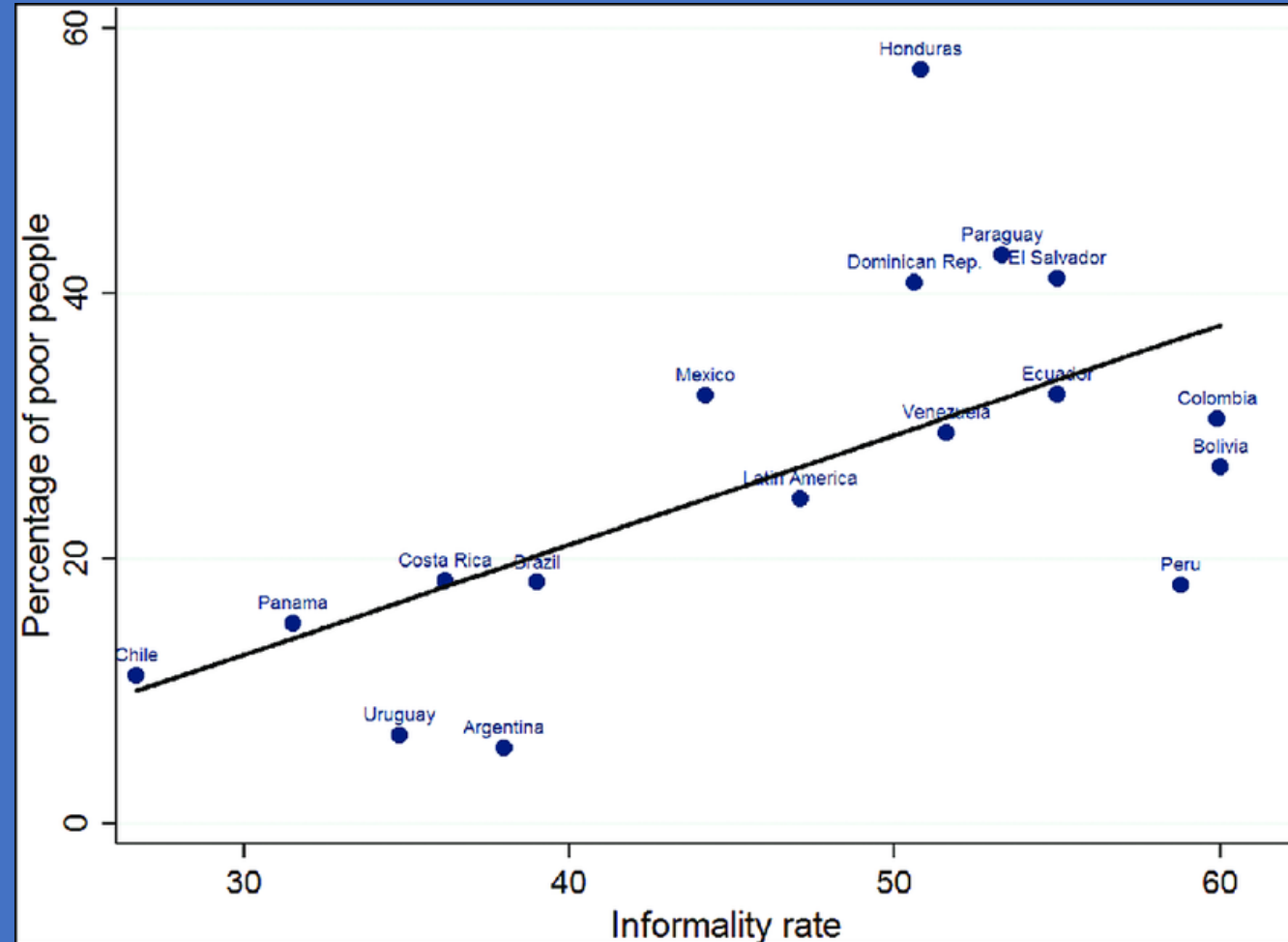
Overcoming poverty is not a gesture of charity. It is the protection of a fundamental human right, the right to dignity and a decent life.”

Nelson Mandela

# From Global Transaction Banking to Social Transaction Banking

Pov

- Pov
- Info  
challeng
- incl  
and ma
- Poo
- Faci  
areas.
- Pro





# From Global Transaction Banking to Social Transaction Banking

“Social Banking” describes banking and related financial services whose main objective is to contribute to the development of people and planet, today and in the future

# From Global Transaction Banking to Social Transaction Banking

## Social Transaction Banking (STB) Values

- STBs are **values-based organisations**.
- STBs are grounded in communities, **servicing the real economy** and enabling new business models to meet the **needs of people and planet**.
- STBs do not strive for profit maximisation, **but for a fair profit** – their objectives are in line with the triple bottom line approach (**people – planet – profit**)
- STBs have a pro-active dialogue with stakeholders and an engagement in the public discourse, transparency of business activities is extremely important for STBs.
- STBs focus on core banking activities such as savings and loans and **day-to-day financial transactions and reject speculative activities**.
- STBs encourage relationship banking instead of one-off deal. They want long-term relationships with their clients.
- Solidarity plays an important role for STBs
- STB final goal is **Financial inclusion**



# From Global Transaction Banking to Social Transaction Banking

## Social Transaction Banking (STB) – Accessing the Unbanked

- Unbanked and underserved market segments require:

1. Basic Financial Services
2. Simplicity and speed in processing
3. User-friendly systems, easily accessible
4. Biometric Identification no need for PIN numbers which provide security.
5. Saving the poor – providing access to saving accounts earning interest.
6. Distribution of private and public funds.
7. Secure cashless transactions.
8. Branchless (agent) banking

The Financial Conduct Authority (FCA) believes that everyone should have access to a transactional bank account, enabling people to manage their money on a day-to-day basis effectively, securely and confident



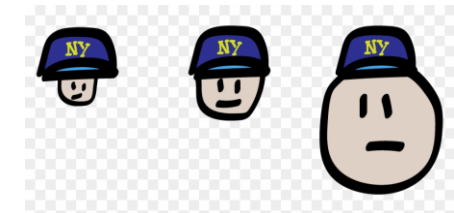
# From Global Transaction Banking to Social Transaction Banking

## Social Transaction Banking (STB) – Tailored made factor

The FCA has stated it is keen to encourage innovation in credit at the design phase.



To avoid 'one size fits all' credit products across the whole marketplace.



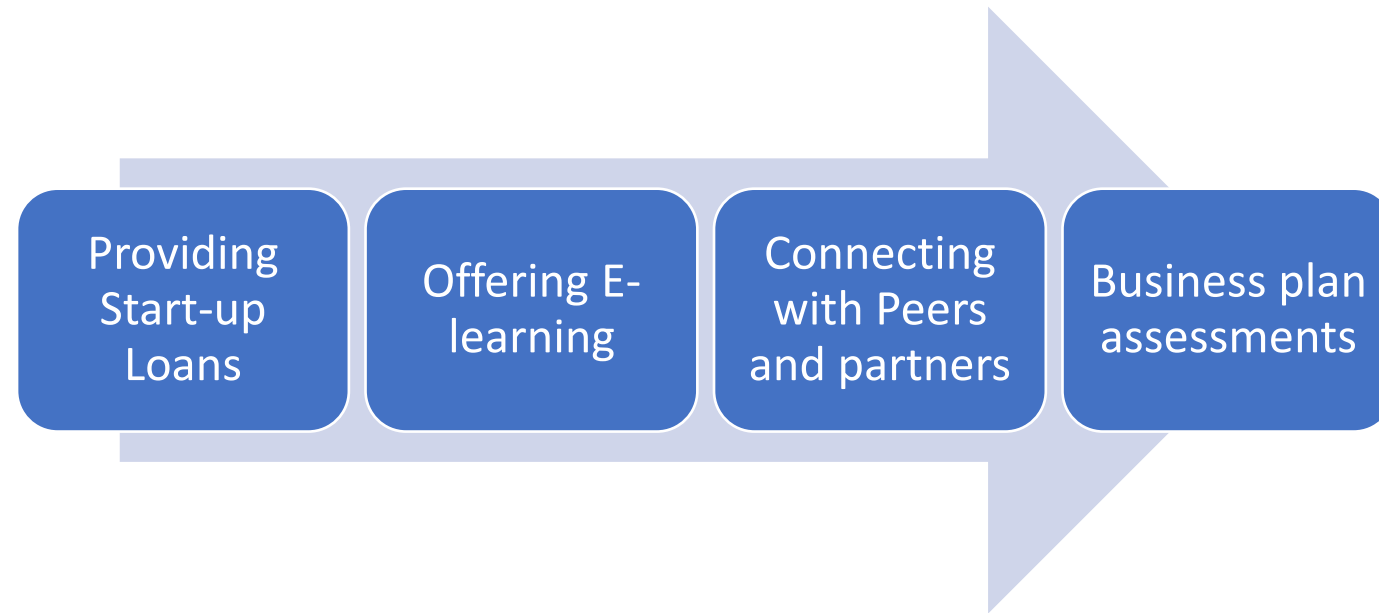
Consideration should be given to affordable credit for older customers or those on lower incomes, for example.



# From Global Transaction Banking to Social Transaction Banking

## The approach to Social Transaction Banking - Entrepreneurs

Foster Starting  
Entrepreneurs

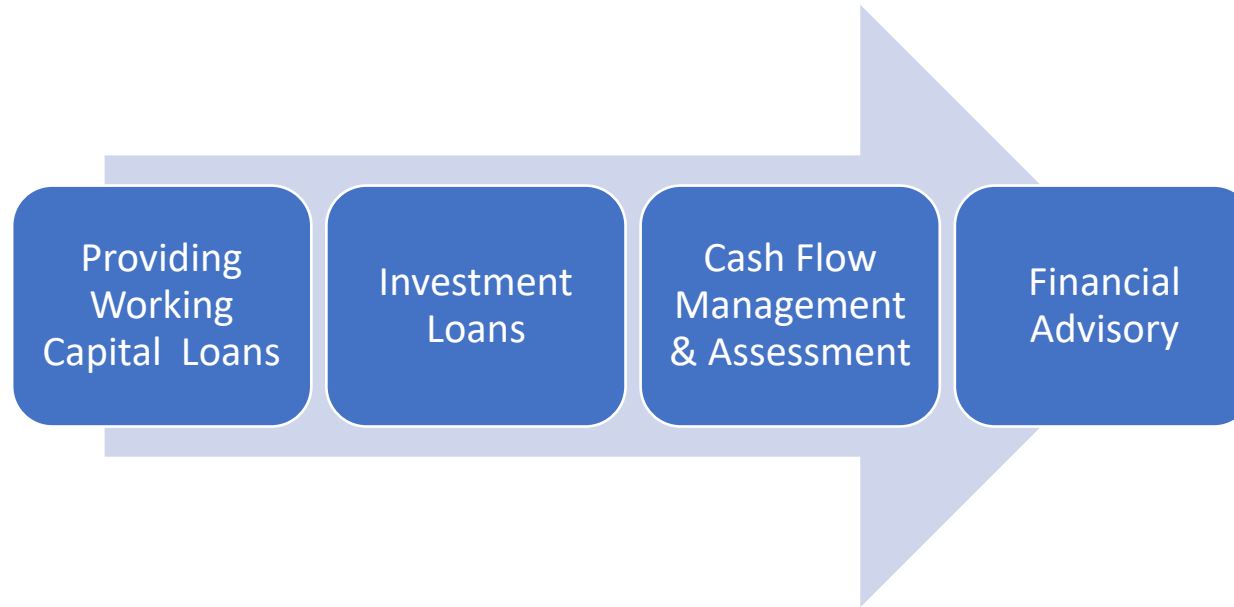


To create  
new jobs

# From Global Transaction Banking to Social Transaction Banking

## The approach to Social Transaction Banking – Small Business

Support Microfinance  
Businesses

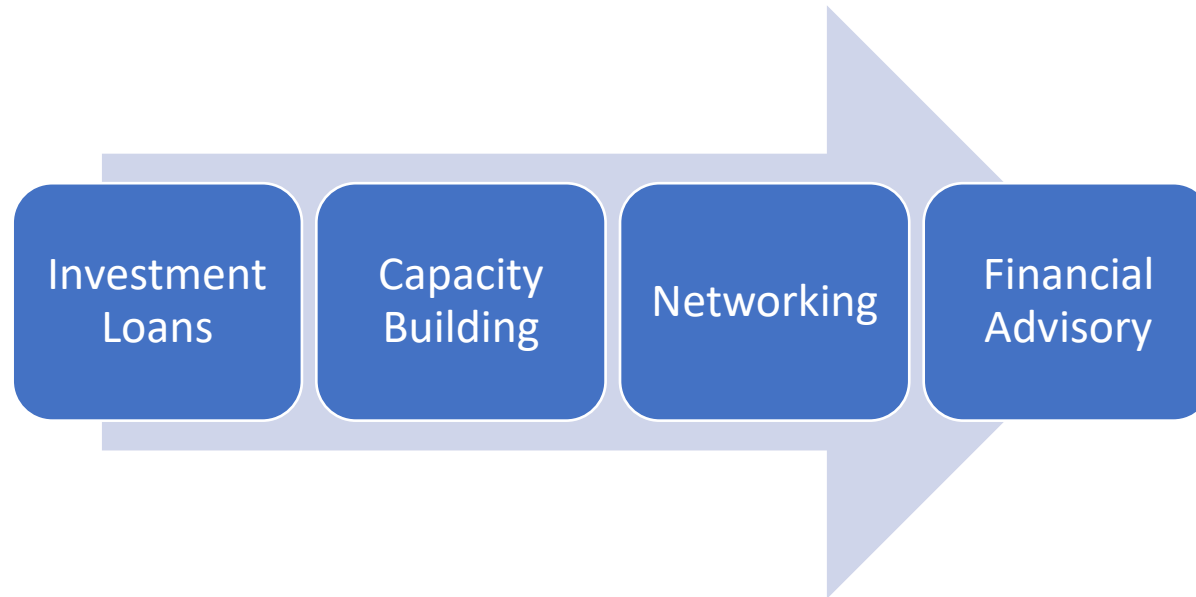


To create and preserve  
jobs in rural areas

# From Global Transaction Banking to Social Transaction Banking

## The approach to Social Transaction Banking – Social Organisations

Empower Social  
Organisations

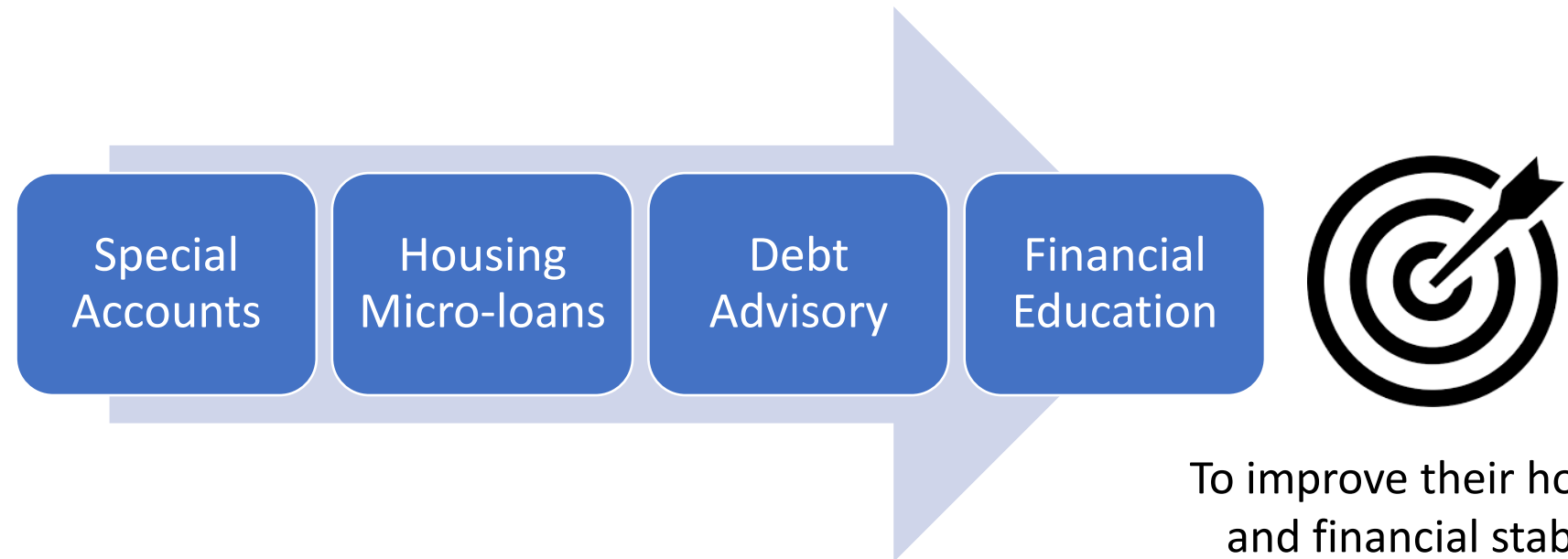


To expand their  
social impact

# From Global Transaction Banking to Social Transaction Banking

## The approach to Social Transaction Banking - Individuals

Stand By People in  
Financial Difficulties

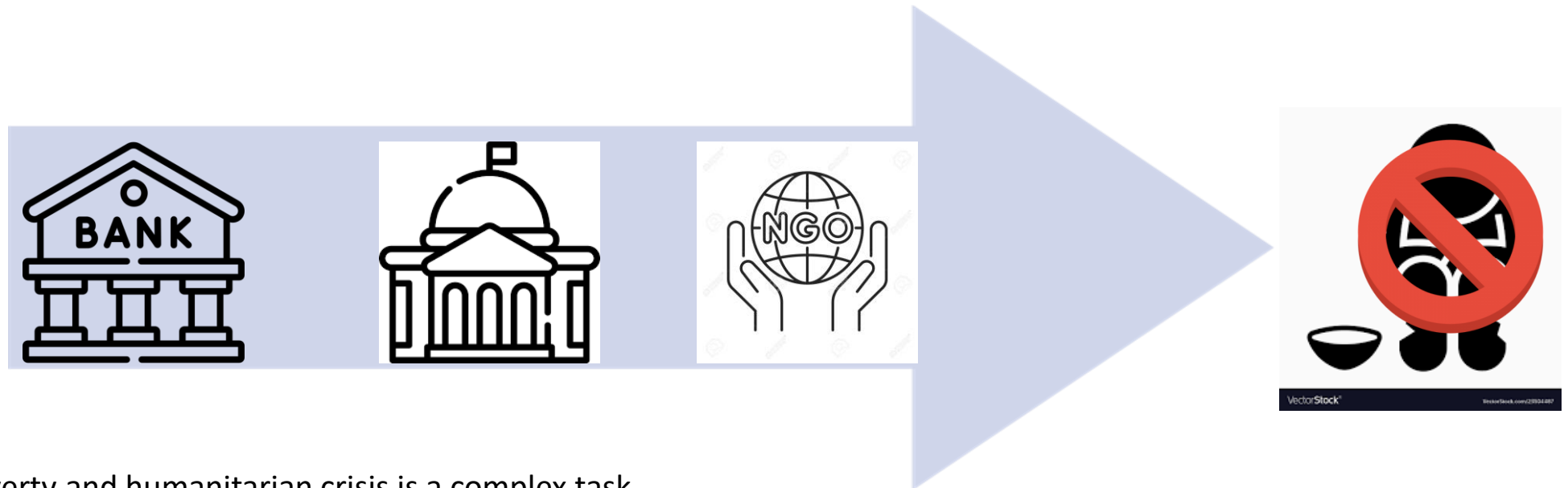


To improve their housing  
and financial stability



# From Global Transaction Banking to Social Transaction Banking

## The Last Mile – The hidden Engine



- Responding to poverty and humanitarian crisis is a complex task.
- Requires a significant mobilisation of resources
- Not just goods and services but funds and getting them to people in need of support.
- Join effort by **banks, governments and IDOs**
- Communities located in rural or hard-to-reach areas
- from card and mobile wallet solutions to biometric identity verification systems which support cash disbursements to the community

# From Global Transaction Banking to Social Transaction Banking

## The approach to Social Transaction Banking – How

By Foster Starting  
Entrepreneurs



Banking Products



Non- Banking Product



To create  
new jobs

To Support Microfinance  
Businesses



Banking Products



Non- Banking Product



To create and preserve  
jobs in rural areas

By Empower Social  
Organisations



Banking Products



Non- Banking Product



To expand their  
social impact

To Stand by People in  
financial difficulties



Banking Products



Non- Banking Product



To improve their housing  
and financial stability

# From Global Transaction Banking to Social Transaction Banking

## Conclusions

Trade growth alone is not sufficient to address poverty, can create:

Inequality = income disparities, poverty reduction limited

We need: Trade gains be inclusive and benefit the poorest

How:

- Trade Policies and Governance
- Regulatory Frameworks
- Fair Trade
- Measures to address markets failures



UNIVERSIDAD  
PANAMERICANA®



Latin America and  
Caribbean Centre

THANK YOU