

Romania RIA Knowledge Transfer and Capacity Building Program



Consultation questionnaire

Attn:

- Representative of the banking community
- Representative of consumers association

Romania Regulatory Impact Assessment Exercise by Convergence Program

Dear Sir,

The Romanian regulators are participating in an initiative organized by World Bank administered *Convergence Program*. The purpose of this initiative is to strengthen our ability to use the disciplines of impact assessment (IA) in order to improve the way in which we make policy. IA does this by requiring policy makers to use evidence and economic analysis to justify and explain their proposals. Consultation with stakeholders is a key part of the IA process because it promotes public accountability and provides stakeholders with the opportunity to contribute to the evidence base that should underpin the policy making process.

Participants in this knowledge transfer and capacity building program are the following: National Bank of Romania, Prime Ministry's Unit, Ministry of Economy and Finance, National Securities Commission, Insurance Supervision Commission, Commission for Supervision of Private Pensions System and National Authority for Consumer Protection.

Such IA training exercise involves us undertaking a retrospective IA on an existing piece of financial regulation. In this case we are looking at NBR Regulation no. 3/2007 on restrictions of the credit risk on credits granted to individuals. We are writing to you in your capacity as one of the key stakeholders affected by this piece of regulation. We have attached to this letter a questionnaire and we would be most grateful if you could arrange for its completion.

The questionnaire is designed to provide us with evidence relating to:

- a) the nature of the problem that the regulation is seeking to address and
- b) the costs and benefits incurred to banks and consumers taking into consideration four options.

Once the evidence has been gathered we will complete a final IA report setting out in a clear and transparent fashion what the problem was and why the regulatory response was the best means for addressing the problem.

Clearly, since this is a theoretical consultation exercise being undertaken over a shortened period of time we would not expect you to be able to devote a large amount of resource to this exercise. Nevertheless, we will be following this up with a face-to-face meeting to quality check all stakeholder responses and enhance our understanding of your answers. And, since we do intend to consult with stakeholders in the future, we regard this as a useful exercise for you too, so are looking forward to hearing from you. We very much value your cooperation.

If you have any questions regarding this exercise please contact

- Ms. Oana Mesea, Regulation and Licensing Department, National Bank of Romania, on tel: 307 01 71
- Mr. Gabriel Valvoi, Regulation and Licensing Department, National Bank of Romania, on tel: 313 04 10/1229
- Mr. Onetiu Dorel, Supervision Department, National Bank of Romania, on tel. 313 04 10/1344

Yours sincerely

ANNEX A: Impact assessment questionnaire

Project SPI:

**Proposed regulation: Regulation nr. 3/2007 on restriction of
the credit risk on credits granted to individuals**

**Questionnaire for banks and consumers on restriction of the
credit risk on credits granted to individuals**

This questionnaire is part of an IA simulation exercise being carried out by functions of the Romanian government in concert with the World Bank and external IA experts from the UK and Ireland. Its purpose is to provide us with information about a problem to which a regulatory solution was found and information on the costs and benefits of the regulatory solution and of two alternative options that could in principle have been chosen instead.

Section 1: What is the problem?

In this section we consider what the rationale for a particular regulatory intervention might have been.

We are looking at NBR Regulation no. 3/2007 on restrictions of the credit risk on credits granted to individuals

In our view, the problem being addressed by this regulation is as follows: there are two distinct elements to be considered:

- a) the repeal of the 2005 regulation, and
- b) the introduction of the 2007 regulation.

The 2005 regulation needed to be repealed because of EU competition. Instead 2007 regulation was introduced in order to manage potential market failure consisting in not properly managing credit risk.

Question 1: do you agree with us that the problem is as described above? Please explain your answer, including evidence (or suggesting the type of evidence that would be relevant) where at all possible.

Question 2: the regulatory failure caused by the 2005 regulation could not have corrected itself without intervention. Do you think that the policy concerns that gave rise to the 2007 regulation would have been corrected by the market in the short term? Please explain your answer, including evidence (or suggesting the type of evidence that would be relevant, for instance statistics from other similar foreign experiences) where at all possible.

Section 2: What are the possible policy solutions.

In this section we identify 4 possible policy solutions to the problem identified in section 1 above. Clearly other options could have been considered.

The Options analyzed are the following:

I. Do Nothing Option - Maintaining the provisions of Norms No. 10 of July 27th, 2005 on mitigation of the credit risk related to credits granted to individuals;

II. Option 1 – The new Regulation no. 3/2007 on restriction of the credit risk on credits granted to individuals.

III. Option 2 - Self Regulation (e.g. A Voluntary Code elaborated by Lenders Professional Association)

IV. Option 3 – Bring amendments to Norms no. 10 / 2005 in order to keep uniform limits at the level of all financial institutions, but at the same time, adjusted to different categories of consumers (incomes)

Considering each of these options, please prepare answers to the questions in the following Cost Benefit Analysis (CBA) Section, to be later discussed during a meeting with our representative. For each answer, please provide a qualitative and, if possible, a quantitative assessment with a monetary value attached.

Section 3: Cost-Benefit Analysis

I. Do Nothing Option – Maintaining the provisions of Norms No. 10 of July 27th, 2005 on mitigation of the credit risk related to credits granted to individuals

Costs to regulated banks		
	Questions	Answer
1.	The repealed regulation prevented banks from granting higher volumes of loans. Do you think that maintaining the old norms would have significantly prevented an increase of lending/access to credit without impairing the quality of credit?	

Benefits to regulated banks		
	Questions	Data¹
1	We think that “do nothing option” would have affected credit activity. Please provide information on the following items	
a.	- Annual Growth Rate of Credits granted to individuals	
b.	- NPL rate	
c.	- Market Share	
2	Do you think that there are other benefits that have not been considered? Please suggest	Answer

¹ Please provide data regarding the period before the implementation (by the end of 2006) of Regulation 3/2007

Market impact – (addressed both to banks and to consumers)		
	Questions	Answer
1	We think that “do nothing option” would have affected the quality and variety of products and efficiency of competition. How do you assess that the following items would have been affected?	
1.	Quality of products offered (<i>Please choose among the proposed options</i>)	a) significant increase _____ b) significant decrease _____ c) no significant effect _____
2.	Variety of products (e.g. no. of products offered to individuals) (<i>Please choose among the proposed options</i>)	a) significant increase _____ b) significant decrease _____ c) no significant effect _____
3.	Efficiency of competition (<i>Please choose among the proposed options</i>)	a) significant increase _____ b) significant decrease _____ c) no significant effect _____

Costs to consumers		
	Questions	Answer
1.	Do you think that consumers’ access to lending is limited under these circumstances?	
2	Do you think the current option can bring other costs to consumers? Please write if any.	

Benefits to consumers		
	Questions	Answer
1.	Do you think that the lending limits could protect consumers against over-indebtedness?	
2.	Do you think the current option can bring other benefits to consumers? Please write, if any.	

Unintended consequences <i>(addressed both to banks and to consumers)</i>		
	<u>Questions</u>	<u>Answer</u>
	Development of responsible lending practices and access to credit to specific categories of clients are the main specific policy objectives considered by the regulation. Do you think that this option brings unintended consequences (both positive and negative)?	

Impact on competition <i>(addressed both to banks and to consumers)</i>		
	Questions	Answer
	Do you think that this option brings implication for competition (namely, competition between Romanian firms, and competition between Romanian firms and other passporting EU firms)? Please explain your answer, including evidence (or suggesting the type of evidence that would be relevant) where at all possible.	

Social impact <i>(addressed both to banks and to consumers)</i>		
	Questions	Answer
	What are likely to be, according to your opinion, social impacts of this option (e.g. restriction of access to regulated credit sources, potential inflation of house prices)? Please explain your answer, including evidence (or suggesting the type of evidence that would be relevant) where at all possible.	

Further impacts not considered		
	Questions	Answer
	Do you think that there are other impacts which are worth of being taken into account of and which have not been identified yet? Please explain your answer, including evidence (or suggesting the type of evidence that would be relevant) where at all possible.	

II. Option 1 – Elaboration of a new regulation (Regulation no. 3/2007)

Costs to regulated banks		
	Questions	Data
Compliance costs		
We think that Option I results in compliance costs incurred by banks both for elaboration of internal norms and for procedural and IT changes. Please provide an approximate estimate of the following itemized cost categories.		
1. Elaboration of internal norms		
1.1.	- no. of persons that worked at the elaboration of norms	
1.2.	- no. of days worked by all the persons indicated in 1.1 for the elaboration of norms	
1.3.	- average monthly salary of people involved in the elaboration of norms	
2. IT Costs		
2.1	- the total no. of persons that worked at the implementation of IT system	
2.2	- no. of days worked by all the persons indicated in 2.1 for the elaboration/installation of new software	
2.3	- average monthly salary of an IT person in the bank	
2.4	- <i>new soft acquisition</i>	
3. Training of personnel costs		
3.1	- no. of training sessions held for the new norms	
3.2	- no. of hours of a training session	
3.3.	- average monthly salary for a trainer	
4. Validation Costs		
4.1	- no. of persons collaborating with NBR in the process of validation	
4.2	- no. of days worked by all persons indicated in 4.1 for the validation process of norms	
4.3	- average monthly salary of people	

Costs to regulated banks		
	Questions	Data
	involved in the elaboration of norms	
Indirect costs²		
1.	- There are indirect costs to banks produced by option 1 that you may deem should be considered?	

Other direct costs		
	Questions	Answer
1.	Do you think that this option can produce other direct costs that have not been taken into account? Please explain your answer, including evidence (or suggesting the type of evidence that would be relevant) where at all possible	

Benefits to regulated banks		
	Questions	Data³
1	We think that "Option I" has affected credit activity. Please provide information on the following items	
a.	- Annual Growth Rate of Credits granted to individuals	
b.	- NPL rate	
c.	- Market Share	
2	Do you think that there are other benefits that have not been considered? Please suggest	Answer

² Namely, those costs which are negative effects of a regulatory policy in the market. Indirect costs are usually divided further into the costs resulting from a change in the quantity, the quality and the variety of products sold, as well as a change in the effectiveness of competition.

³ Data referring to 1 year implementation period.

Market impact– (addressed both to banks and to consumers)		
	Questions	Answer
1	We think that “Option I” would have affected the quality and variety of products and efficiency of competition. How do you assess that the following items would have been affected?	
1.	Quality of products offered (<i>Please choose among the proposed options</i>)	a) significant increase _____ b) significant decrease _____ c) no significant effect _____
2.	Variety of products (e.g. no. of products offered to individuals) (<i>Please choose among the proposed options</i>)	a) significant increase _____ b) significant decrease _____ c) no significant effect _____
3.	Efficiency of competition (<i>Please choose among the proposed options</i>)	a) significant increase _____ b) significant decrease _____ c) no significant effect _____

Costs to consumers		
	Questions	Answer
1	Do you think that consumers’ access to lending is limited under these circumstances?	
2.	Do you think that lending costs will increase?	
3.	Do you think that lower income consumers will be disadvantaged because of taking in consideration the deductible expenses (living)?	
4	Do you think the current option can bring other costs to consumers? Please write if any.	

Benefits to consumers		
	Questions	Answer
1.	Do you think that consumers’ access to lending is improved under these circumstances?	
2.	Do you think the current option can bring other benefits to consumers? Please write, if any.	

Unintended consequences (<i>addressed both to banks and to consumers</i>)		
	Questions	Answer
	Development of responsible lending practices and access to credit to specific categories of clients are the main specific policy objectives considered by the regulation. Do you think that this option brings unintended consequences (both positive and negative) ⁴ ?	

Impact on competition (<i>addressed both to banks and to consumers</i>)		
	Questions	Answer
	Do you think that this option brings implication for competition (namely, competition between Romanian firms, and competition between Romanian firms and other passporting EU firms)? Please explain your answer, including evidence (or suggesting the type of evidence that would be relevant) where at all possible.	

Social impact (<i>addressed both to banks and to consumers</i>)		
	Questions	Answer
	What are likely to be, according to your opinion, social impacts of this option (e.g. restriction of access to regulated credit sources, potential inflation of house prices,)? Please explain your answer, including evidence (or suggesting the type of evidence that would be relevant) where at all possible.	

⁴ For banks, an example could be the losses registered within the period between the elaboration and validation of internal norms.

Further impacts not considered (<i>addressed both to banks and to consumers</i>)		
	Questions	Answer
	Do you think that there are other impacts which are worth of being taken into account of and which have not been identified yet? Please explain your answer, including evidence (or suggesting the type of evidence that would be relevant) where at all possible.	.

III. Option 2 Self Regulation (e.g. Voluntary Code)

Costs to regulated banks		
	Questions	Answer
Compliance costs		
1	Elaboration of the Voluntary Code	
1.1.	Should a self-regulatory solution have been adopted, do you think that banks would have incurred additional ⁵ significant costs? If yes, please explain some example of costs.	
2. Elaboration of internal norms		
2.1.	In comparison to your reply to Question 1 under Option 1, how do you assess the elaboration of self-regulatory norms (e.g. Voluntary Code) in terms of staff required?	
a.)	Option 2 would have been significantly more expensive than option 1 in terms of staff required	
b.)	Option 2 would have been significantly less expensive than option 1 in terms of staff required -	
c.)	Option 2 would have been not significantly different from option 1 in terms of staff required	
3. IT Costs (<i>to prepare and implement adequate software programs with different parameters on indebtedness, scoring and other internal procedural rules related to lending activity</i>)		

⁵ In comparison with “do nothing option”.

Costs to regulated banks		
	Questions	Answer
3.1	In comparison to your reply to Question 2 under Option 1, how do you assess the elaboration of self-regulatory norms (e.g. Voluntary Code) in terms of implied IT costs?	
a)	Option 2 would have been significantly more expensive than option 1 in terms of implied IT costs	
b)	Option 2 would have been significantly less expensive than option 1 in terms of implied IT costs	
c)	Option 2 would have been not significantly different from option 1 in terms of implied IT costs	
4. Training of personnel costs		
4.1	In comparison to your reply to Question 3 under Option 1, how do you assess the elaboration of self-regulatory norms (e.g. Voluntary Code) in terms of implied training costs?	
a)	Option 2 would have been significantly more expensive than option 1 in terms of implied training costs	
b)	Option 2 would have been significantly less expensive than option 1 in terms of implied training costs	
c).	Option 2 would have been not significantly different from option 1 in terms of implied training costs	

Benefits to regulated banks		
	Questions	Data⁶
1	We think that “Option II” has affected credit activity. Please provide information on the following items	
a.	- Annual Growth Rate of Credits granted to individuals	
b.	- NPL rate	
c.	- Market Share	
2	Do you think that there are other benefits that have not been	Answer

⁶ Data referring to 1 year implementation period.

	considered? Please suggest	
--	----------------------------	--

Market impact– (addressed both to banks and to consumers)		
	Questions	Answer
1	We think that “Option I” would have affected the quality and variety of products and efficiency of competition. How do you assess that the following items would have been affected?	
1.	Quality of products offered (<i>Please choose among the proposed options</i>)	a) significant increase_____ b) significant decrease_____ c) no significant effect_____
2.	Variety of products (e.g. no. of products offered to individuals) (<i>Please choose among the proposed options</i>)	a) significant increase_____ b) significant decrease_____ c) no significant effect_____
3.	Efficiency of competition (<i>Please choose among the proposed options</i>)	a) significant increase_____ b) significant decrease_____ c) no significant effect_____

Costs to consumers		
	Questions	Answer
1.	Do you think that lending costs will increase?	
2.	Do you think that self – regulation could lead to arbitrary decision in lending to individuals?	

Benefits to consumers		
	Questions	Answer
1.	Do you think that consumers’ access to lending is improved under these circumstances?	
2.	Do you think the current option can bring other benefits to consumers? Please write, if any.	

Unintended consequences (addressed both to banks and to consumers)		
	Questions	Answer
	Development of responsible lending	- Distortion of competition;

Unintended consequences (<i>addressed both to banks and to consumers</i>)		
	Questions	Answer
	practices and access to credit to specific categories of clients are the main specific policy objectives considered by the regulation. Do you think that this option brings unintended consequences (both positive and negative) ⁷ ?	

Impact on competition (<i>addressed both to banks and to consumers</i>)		
	Questions	Answer
	Do you think that this option brings implication for competition (namely, competition between Romanian firms, and competition between Romanian firms and other passporting EU firms)? Please explain your answer, including evidence (or suggesting the type of evidence that would be relevant) where at all possible.	

Social impact		
	Questions	Answer
	What are likely to be, according to your opinion, social impacts of this option (e.g. restriction of access to regulated credit sources, potential inflation of house prices)? Please explain your answer, including evidence (or suggesting the type of evidence that would be relevant) where at all possible.	

Further impacts not considered (<i>addressed both to banks and to consumers</i>)		
	Questions	Answer
	Do you think that there are other impacts which are worth of being	

⁷ For banks, an example could be the losses registered within the period between the elaboration and validation of internal norms.

Further impacts not considered (<i>addressed both to banks and to consumers</i>)		
	Questions	Answer
	taken into account of and which have not been identified yet? Please explain your answer, including evidence (or suggesting the type of evidence that would be relevant) where at all possible.	

IV. Option 3 – Bring amendments to Norm 10 / 2005 in order to keep uniform limits at the level of all financial institutions, but at the same time, adjusted to different categories of consumers (incomes)

Costs to regulated banks		
	Questions	Data
Compliance costs		
We think that Option 3 results in compliance costs for banks. Please provide an approximate estimate of the following itemized cost categories.		
1	Elaboration of new internal norms	
1.1	In comparison to your reply to Question 1 under Option 1, how do you assess Option 3 solution in terms of staff required?	
.a)	Option 3 would have been significantly more expensive than option 1 in terms of staff required	
b).	Option 3 would have been significantly less expensive than option 1 in terms of staff required -	
c).	Option 3 would have been not significantly different from option 1 in terms of staff required	
2. IT Costs (<i>to prepare and implement adequate software programs with different parameters on indebtedness, scoring and other internal procedural rules related to lending activity</i>)		
2.1	In comparison to your reply to Question 3 under Option 1, how do you assess Option 3 solution in terms of implied IT costs?	
a)	Option 3 would have been significantly more expensive than option 1 in terms of implied IT costs	
b)	Option 3 would have been significantly less expensive than option 1 in terms of implied	

Costs to regulated banks		
	Questions	Data
	IT costs	
c).	Option 2 would have been not significantly different from option 1 in terms of implied training costs	
3. Training of personnel costs		
3.1	- no. of training sessions held for the new norms	
3.2	- no. of hours of a training session	
3.3.	- average monthly salary for a trainer	

Other direct costs		
	Questions	Answer
1.	Do you think that this option can produce other direct costs that have not been taken into account? Please explain your answer, including evidence (or suggesting the type of evidence that would be relevant) where at all possible	

Benefits to regulated banks		
	Questions	Data⁸
1	We think that "Option 3" has affected credit activity. Please provide information on the following items	
a.	- Annual Growth Rate of Credits granted to individuals	
b.	- NPL rate	
c.	- Market Share	
2	Do you think that there are other benefits that have not been considered? Please suggest	Answer

⁸ Data referring to 1 year implementation period.

Impact on competition (addressed both to banks and to consumers)		
	Questions	Answer
1	We think that "Option I" would have affected the quality and variety of products and efficiency of competition. How do you assess that the following items would have been affected?	
1.	Quality of products offered (<i>Please choose among the proposed options</i>)	a) significant increase__ b) significant decrease____ c) no significant effect_____
2.	Variety of products (e.g. no. of products offered to individuals) (<i>Please choose among the proposed options</i>)	a) significant increase_____ b) significant decrease_____ c) no significant effect_____
3.	Efficiency of competition (<i>Please choose among the proposed options</i>)	a) significant increase_____ b) significant decrease_____ c) no significant effect_____

Costs to consumers		
	Questions	Answer
1.	Do you think that lending costs will increase?	
2.	Do you think that lower income consumers will be disadvantaged because of taking in consideration the deductible expenses (living)?	

Benefits to consumers		
	Questions	Answer
1.	Do you think that consumers' access to lending is improved under these circumstances?	
2.	Do you think the current option can bring other benefits to consumers? Please write, if any.	

Unintended consequences (<i>addressed both to banks and to consumers</i>)		
	Questions	Answer
	Development of responsible lending practices and access to credit to specific categories of clients are the main specific policy objectives considered by the regulation. Do you think that this option brings unintended consequences (both positive and negative)?	

Impact on competition (<i>addressed both to banks and to consumers</i>)		
	Questions	Answer
	Do you think that this option brings implication for competition (namely, competition between Romanian firms, and competition between Romanian firms and other passporting EU firms)? Please explain your answer, including evidence (or suggesting the type of evidence that would be relevant) where at all possible.	

Social impact (<i>addressed both to banks and to consumers</i>)		
	Questions	Answer
	What are likely to be, according to your opinion, social impacts of this option (e.g. restriction of access to regulated credit sources, potential inflation of house prices)? Please explain your answer, including evidence (or suggesting the type of evidence that would be relevant) where at all possible.	

Further impacts not considered (<i>addressed both to banks and to consumers</i>)		
	Questions	Answer
	Do you think that there are other impacts which are worth of being taken into account of and which	No.

Further impacts not considered (<i>addressed both to banks and to consumers</i>)		
	Questions	Answer
	have not been identified yet? Please explain your answer, including evidence (or suggesting the type of evidence that would be relevant) where at all possible.	

III. General questions

A. Do you consider Regulation no. 3 is the best option for your interest?

Yes

No

B. Do you think that the new norms validated by NBR will improve credit quality?

Yes .

No

C. Do you think that the new norms validated by NBR will improve the portfolio of clients?

Yes

No