

M E M O

In June, Messrs. Shkelqim Cani and Mihai Bogza, members of the Convergence team, visited several Banks Associations (BAs) from EU member countries with a view to ascertain their technical capabilities and readiness to extend technical assistance to Convergence and the BAs in the Convergence countries. The BAs to which visits took place were **Verband der Privaten Bausparkassen e.V. (VPB)** - Berlin, June 10, **the Association of German Banks (AGB)** - Berlin, June 10, **the British Bankers' Association (BBA) - London**, June 20 and **the Hellenic Bank Association (HBA) - Athens**, June 27. The BAs were selected in view of either the strong presence of their members in the Convergence countries of operation, or because their outstanding reputation of performance. The assessment was almost exclusively based on discussions with representatives of the BAs visited. The Convergence team enjoyed excellent availability and openness in those discussions.

The areas of particular interest for assessing the capabilities of the BAs visited referred to:

- macro- and microeconomic analysis
- regulatory impact analysis
- relationship with stakeholders and members
- capacity building for member banks
- legal and regulatory analysis and proposals
- financial market infrastructure
- international role
- consumer protection

The results of the assessment, based on our visits and review of their materials submitted during these meetings are summarized in the annex attached.

Comments:

I. Verband der Privaten Bausparkasse e.V. (VPB)

1. The VPB is a relatively small bank association, both in terms of number of members (16) and in terms of market share of its members – about 5% of the total bank assets in Germany. Also, since it represents the interests of highly specialized credit institutions, the scope of its activities is significantly more limited than that of associations of universal banks.

With the limited size of VPB comes also one of its main strengths, namely its capability to ensure involvement of all its members in the working groups. On the other hand, specialization allows VPB to maintain a comparatively lower number of staff and a smaller budget, as the number of issues affecting its members is potentially smaller as compared with those affecting universal banks.

2. The VPB does not perform complex macro-economic analysis, as its capabilities are mainly in the legal aspects. Also, while members report data to the Association, those data are used primarily for estimates of the Bauspar market size and trend, and not for micro-analysis purposes. No quantitative impact analysis is performed on the various legislative changes.

3. The VPB expressed willingness to help BAs in the Convergence countries and pointed out to such past actions in countries like Czech Republic and Slovakia. However, as it has a very limited number of professionals (five, plus the Managing Director) and in view of its high specialization, their assistance has come so far only in talks with the authorities in countries which have in place the Bauspar system, in support for instance of increased subsidies for the Bauspar product.

It is our assessment that while the experience of VPB may be useful for BAs in Convergence countries as far as internal organization and establishing of a bank Ombudsman function is concerned, VPB's capability to provide short-or medium-term experts to assist BAs is non-existent.

II. The Association of German Banks (AGB)

1. AGB is one of the major bank associations in Germany. Its 230 members represent about 40% of the total market share and employ 170,000 staff. It is also one of the oldest bank associations in Europe, with a history starting in 1901, although its activity has been discontinued from 1945 to 1951.
2. The tasks of AGB are to inform its members about the political and economic issues affecting the banking sector, to act as a contact point at political level, to cooperate with other national or international associations and to ensure information of the general public about bank activities, thus promoting mutual trust. AGB operates a Deposit Insurance Fund for its members and a bank Ombudsman. Besides, AGB has a separate structure to operate the IT of the payment system for its stakeholders. Finally, AGB is very much involved in European issues and keeps an office in Brussels to maintain permanent contact with the European Commission.
3. AGB employs 130 staff. While no budget numbers were disclosed to the Convergence team, the representatives of AGB claimed that the staff is highly qualified and well paid by local standards.
4. Issues affecting the banking sector are identified both by AGB and by its members. Once singled out as important, issues are debated in one of the 16 working committees, in which both the AGB and the members are represented, until consensus emerges. Then policy dialogue starts with the authorities, who are usually open to listen to the banking community.
5. AGB does not perform quantitative impact analysis of the issues brought forward. Their perception about the usefulness of such an analysis is rather pessimistic, as they seem to believe that in most cases the accuracy of such analysis would be quite reduced. In addition, the Association does not gather data from their members and therefore has very limited capacity to perform macro-and micro-economic analysis.
6. One of the strongholds of AGB seems to reside in its capability to educate the general public. A number of initiatives have been mentioned, aiming to make ordinary people more familiar with bank products. AGB has even a program to educate the young students, in a friendly and attractive manner.
7. AGB has occasionally provided support upon request to bank associations in Central and Eastern Europe. The names of Albania, Bulgaria, Croatia, and Romania were mentioned, without specific details.

III. The British Bankers' Association (BBA)

1. BBA is an old, large and traditional association focused in the areas of wholesale, retail banking, financial policy regulations, lobbying and communications to UK authorities and the EU, Euro research and statistics. The association is not involved in any deposit insurance or payment system functions. BBA's annual budget is about 7 millions pounds with almost half of it paid by contributions of the biggest banks. Generally, BBA meets its daily needs through BBA's internal specialists, member banks (temporarily) and rarely, they can call on external assistance.
2. BBA's core activities encompass: a) influencing decision-makers in the banking and financial industry legislative and regulatory system in UK, EU and internationally; b) promoting and defending the industry (response to media, public, Government and global initiatives, such as IAS adoption and disclosures, money laundering, taxation, CAR, corporate governance, financial fraud prevention and

detection, etc.); c) providing value-added services to members and prime stakeholders through PR, parliamentary activities, Financial Ombudsman Services, training workshops, conferences, publications, statistics, , etc.

One of the main hallmarks of BBA's wholesale products, different from other BAs, is development of LIBOR, which has been recently sold commercially to information providers.

3. The types of regulations BBA is usually engaged in fall into two categories: prudential regulations (to promote an environment of fair competition) and client-protective regulations such as ethical regulations, code of business conduct, etc. Since more than 80% of laws and regulations in the UK banking industry are supplied by Brussels, BBA's international function has rapidly grown over the recent years, emphasizing BBA's efforts to create consensus among UK and Brussels officials.
4. BBA's strength is undoubtedly its increasingly pro-active international functions. This has been attributed to their reputation as industry group experts holding important seats in European and international level forums. BBA's international policy claims the successful lobbies for the Investment Services Directives, the Consumer Credit Directive, leading role on seeking changes to IAS 39 from the EC, being principal interlocutors of the Basel Committee, giving oral hearings in front of the European Parliament to support the extension of Lamfalussy process in banking, insurance, etc., consultations on post-FSAP agenda through chairmanship in the European Banking Federation (EBF), where BBA's CEO is heading the EBF's executive committee. BBA has been leading the process of establishing an International Banking Federation (IBFed) with the participation of EBF, US and Canadian BAs, based in London's BBAs offices.
5. Pre-consultations are being regarded as a critical point to create consensus among industry members, groups, consumer associations (powerful voice in Government, without their consensus the Government is too skeptical) and authorities. In UK, is mandatory for the authorities to call for opinion, views and consultations of all the stakeholders before initiating a regulation. Similar to ABI, BBA's policy of consensus making with all stakeholders is grounded to its proper governance.
6. When comparing ABI with BBA, the following differences are observed: BBA does not apply the same methodical system as ABI does concerning issue prioritization. ABI takes a pro-active stand through its position papers presented to the authorities. BBA applies only qualitative, not quantitative methods and instruments to assess regulatory impact. They obviously do not perform analytical work as a measuring device and they do not engage themselves into any sort of high-quality academic work. Their data gathering from members when compared to ABI is narrower.
7. BBA and ABI share the same similarities in the following aspects:
 - Issue management through: a) papers prepared in the context of the consultations initiated by the authorities; b) direct contacts with members and non-members approaching the BBA for specialized feedback; c) BBA's proactive role through contacts with decision-making and regulatory bodies, banking sector representatives, etc.
 - Organizational procedures, i.e. working groups, committees, etc, where member banks take active part.
 - Media relations

BBA has expressed willingness to render its assistance to Convergence by making available its publications, offering direct advice through the network of its experts, providing seminars, training and conferences.

IV. Hellenic Bankers' Association (HBA)

The HBA has been representing for almost 80 years domestic and foreign banks (currently 35 active members) alike operating in Greece. However, its full fledged activity as it is performed today has been

triggered only 15 years ago at the onset of major changes such as privatization and modernization in the Greek banking system. The HBA's activities have been clustered in three categories:

1) **developmental role** – serving as a channel of expertise for its members on banking sector and capital market developmental issues by promoting cooperation at all domestic and European levels, contributing to the development of interbank clearing and settlement systems, electronic banking services, bank transaction security, etc.; conducting studies and papers on legal, economic issues;

2) **statutory role** – through i) HBA's contribution in a consultative capacity to legislative and regulatory issues governing the banking system in national and European levels (EBF committees); ii) examination of developments in the areas of banking supervision, money and capital markets, accounting and taxation issues; iii) representation of banks' views to authorities and legislators; iv) communication to public. HBA holds regular meetings at the Board level with authorities, especially with the Central Bank.

3) **social role** - through initiatives regarding, codes of ethics and behavior, consumer protection, corporate governance, labor and social issues, etc.

Among HBA's most acclaimed services are the Banking Ombudsman and the Hellenic Banking Institute, offering training to over 3,000 bank staff yearly.

Apparently, HBA does not possess strong analytical capacity to perform quantitative studies for issue prioritization, nor does it have a distinguished PR policy to replicate as a model.

Having a strong interest in the region due to large Greek bank presence in the area, they are willing to offer their assistance in the development of Balkan BAs and collaborating with our program.

Conclusions:

Finally, after having examined all the four European BAs compared to ABI, as regards to the aforesaid product capabilities and their strategic advantages (please refer to the annex attached), we estimate that there are clear benefits for successful Convergence operations and building institutional capacities of SEE bank associations directly related with the pursuit of technical assistance agreements with several European BA's.

In the areas of RIA and micro-industry data, ABI is the only association that possesses both advanced level of expertise and willingness to share with Convergence.

With respect to financial market infrastructure, consumer protection, relationship with stakeholders and communication policy most BA's we have visited have displayed relevant experience for both Convergence activities and local BA support.

Although all BAs we have visited have exhibited readiness to cooperate with Convergence in the areas outlined above, we believe that we should invest in building specific relationship with HBA given its strong link to the relevance of its institutional development expertise.

ANNEX OF MEMO ON EUROPEAN BANKERS' ASSOCIATIONS
Ability to Assist Convergence

		ABI - Italy	BBA - UK	HBA - Greece	VPB - Germany	AGB - Germany
1	Product capabilities of ≠ BA's					
	<i>a) macro and micro econ. analysis</i>	High	Low	Low	Low	Low
	<i>b) Regulatory Impact Analysis (RIA)</i>	High	Low	Low	Low	Low
	<i>c) relationship with:</i>					
	- <i>stakeholders</i>	High	High	High	High	High
	- <i>members</i>	High	High	High	High	High
	<i>d) capacity building for member banks</i>	High	Low	High	Low	Low
	<i>e) legal and regulatory analysis & proposals</i>	High	High	High	Low (<i>limited</i>)	High
	<i>f) financ. mrkt. infrastruct. activities</i>	High	Low	High	Low	High
	<i>g) international role</i>	Medium	High	Medium	High	High
	<i>h) consumer protection</i>	High (<i>Patti Chiari</i>)	High	Medium	High	High
	<i>i) misc. (labor issues, etc.)</i>	High	Low	Medium	Low	Low
2	BA's willingness to provide technical support to Convergence	High	Medium	High	Low (<i>limited</i>)	Medium
3	Evaluation of their "areas of excellence"	RIA, quantitative analysis, entrepreneurial and service-oriented mindset, analytical, technical and organisational excellence, product diversification	Strong international role and representation through IBFed and EBF, competitive edge with respect to consultations with authorities and consumer associations	Sound organisational skills, model relationship for BA's with Central Bank, training institute	Internal organization, bank ombudsman function	Education of general public
4	Target area for assistance to Convergence	RIA, industry micro analysis, consumer protection	market-based legal and regulatory relationship, relationship with stakeholders	training and institutional development	relationship with customers, product know-how	DIF, banking ombudsman