

Romania RIA Knowledge Transfer and Capacity Building Program



COMISIA DE SUPRAVEGHERE A ASIGURĂRILOR



Phase I Assembling a RIA Team in Romania

Bucharest, 16-17 May 2007

Venue:
National Bank of Romania

Minutes

List of Participants

#	National Bank of Romania
1	Ms. Oana Mesea
2	Ms. Madalina Mortici
3	Ms. Antoaneta Alexe
4	Ms. Andra Pineta
5	Mr. Gabriel Valvoint
	Ministry of Economy and Finance
6	Ms. Mihaela Nedelcu
7	Ms. Simona Butoi
8	Mr. Emanuel Constantin
	Insurance Supervision Commission
9	Ms. Beatrice Verdes
10	Mr. Bogdan Ion
11	Mr. Mihai Anton

#	National Securities Commission
12	Ms. Oana Marinoiu
13	Ms. Camelia Oprea
14	Mr. Albert Schreiber
	Commission for Supervision of Private Pensions System
15	Ms. Adina Dragomir
16	Ms. Anca Petre
	National Authority for Consumer Protection
17	Mr. Mihai Meiu
	General Secretariat of Government
18	Mr. Dragos Negoita
19	Mr. Ionut Pavel

List of Instructors

Speakers
Mr. Paul Gower, Senior Adviser - Oxera (UK)
Mr. Claus-Michael Happe Head of Better Regulation Unit - Ministry of Finance (Germany)
Ms. Ramona Bratu, SPI Director of Bank Products and Services
Ms. Oana Nedelescu, SPI Director of Analytics and Policy
Mr. Riccardo Brogi - Convergence Program - RIA Program Director
Facilitator
Mr. Alberto Bazzan, HR Advisor

Workshop Highlights

❖ What?

- RIA is the process of systematic analysis of the likely impacts of a proposed intervention by regulatory authorities as well as the range of alternative options.

❖ When?

- Impact Assessment can be ex-ante while designing a regulatory intervention or ex-post to review implementation;
- The case for regulatory action may arise from market failures, risks and incentive problems.

❖ How?

- Impact Assessment can be approached in a systematic way;
- Incremental costs can be classified in direct/indirect, one-off/ongoing ones;
- Measurement of incremental benefits is more difficult and can be done in terms of market outcomes can be measured directly, even if it is difficult, but better results may be obtained from indirect measures;
- Standard Cost Model is a tool which measures administrative burden;
- Assessment can also be performed with regard to social and environmental impact other than economic one.

❖ Who?

- At EU level and both across Europe and world-wide the use of RIA has been spreading;
- Romanian Government has already using RIA methodology for some policy initiatives;
- It is a core element of the Convergence Romania Financial Sector Modernization Program.

Wednesday, May 16th

Introductory remarks

The workshop was opened by the SPI Technical Secretariat (SPI), who acknowledged the broad participation of financial markets regulators and other relevant authorities and made a brief description of the objective of the program offered by Convergence.

SPI has highlighted that the quality of regulation issue is part of the international agenda since 1995, when OECD produced the first international standard for regulatory quality.

In the EU, the regulatory quality was integrated in the Lisbon Strategy and became the centerpiece of the European Commission regulatory activity towards the “Better Regulation” aim. The importance given to regulatory quality started from the recognition that a simple and high-quality regulatory environment is a key factor of competitiveness, growth, employment, and economic growth.

Improving regulatory quality implies that a better trade-off between the costs and benefits of regulation can be achieved. Regulatory Impact Assessment (RIA) is one of the key tools for optimizing regulation by putting the evaluation culture of regulation at the core of policy design.

SPI has illustrated the benefits of RIA by providing examples from the Romanian experience with projects being undertaken under the Romania SPI Committee auspices.

Finally, SPI has outlined the objectives and structure of the Convergence RIA Knowledge Transfer and Capacity Building Program and has made a description of the main parts of the first 2-day first phase of the program.

Presentation: Key steps in as standard RIA process (by Convergence)

Convergence has then taken the floor in order to go through the steps that should be taken to perform a RIA, drawing from international

relevant practice followed by the European Commission, the UK and Ireland.

Firstly, Convergence has drawn attention to the stages of the regulatory management and how RIA can support each of them. It was outlined that RIA has to be performed at the very beginning, when the need for regulatory design rises. After having clarified that **ex-ante RIA** takes place before any regulatory action is started, Convergence has gone through the 2 stages for ex-ante RIA:

- **Initial/preliminary RIA**: to be prepared as soon as a policy idea arises;
- **Full/final RIA**: this document builds on information contained in initial RIA and includes feedback received during the consultation phase.

Once the regulatory intervention has been enacted, an **ex-post RIA** (also called evaluation) should be fulfilled during the implementation phase of the regulation considered.

The Ministry of Economy and Finance representatives also pointed that a dedicated staff are performing RIA within the Ministry. The RIA team receives requests from other departments and performs RIA on the legislative acts that they promote.

Finally, a review of the existing regulation is highly suggested in order to verify whether the regulation is still meeting its intended effects or not. This last step would result in the confirmation/modification/revoke of the regulation itself.

Secondly, Convergence has stressed when RIA is needed and what the value added of RIA is. With regard to the former, among others, RIA opens the regulatory design to the stakeholders involved as well as determines whether or not benefits are justified by costs. As for the latter, it is important that RIA be performed as early as possible of the regulatory of the regulatory proposal.

After that, the RIA process that should be undertaken at the inception of a regulatory proposal has been illustrated step by step. Before going into detail, it has been stressed that RIA is a highly iterative process rather than a linear one. The main messages delivered per each step are the following:

1. Identification of the problem: it has to be identified and described as clearly as possible. Check list from EC RIA Guidelines has been provided;
2. Definition of the objective and the intended effect: drawn from EC RIA Guidelines, objective definition should be specific, measurable, accepted, realistic and time dependent;
3. Identification and definition of options: “do nothing” option has always to be considered among the alternative options taken into account;
4. Impact analysis of options identified: costs and benefits should be quantified and monetized. The most used analytical tools for a RIA are the cost-benefit analysis, the sensitivity analysis and scenario analysis. Qualitative approach adds a key complementary assessment tool based on best professional judgment rather than actual figures;
5. Enforcement and monitoring arrangements: costs from such arrangements pertaining to each option can significantly affect the choice of the selected option;
6. Comparison of the options: positive and negative impacts of each option should be compared and, where possible and appropriate, a preferred option should be identified.
7. Outline of policy monitoring and evaluation: once the option has been chosen, much more detailed enforcement and monitoring arrangements has to be figured out;
8. Consultation with stakeholders: several benefits come from this step. Among them, that to surface possible unintended consequences from the regulatory proposal.

Presentation: A framework for assessing the costs and benefits of financial regulation (by Mr. Paul Gower - Oxera)

Mr. Gower has made a presentation about the methodological framework that Oxera has implemented for the assessment of costs and benefits of financial regulation.

Other than reminding the importance of performing a RIA as soon as possible, it has been first stressed that market failure analysis is vital at an early stage. In fact, regulatory intervention might be considered provided that a market failure occurs. All potential government

interventions have to be considered among the options, including the “no action” solution.

It is important that RIA scope be determined in terms of several items, among them the relevant markets and the identification of affected parties. The parties affected may include those who incur direct/indirect costs and those who benefit directly/indirectly. Baseline/counterfactual must be meaningful and time scale chosen may affect net impact.

Benefits of government intervention are improvements in market outcomes compared with a situation without intervention. With no intervention, adverse effects in the provision of financial services may arise from market failures (asymmetric information, market power and externalities), risks (operational, default, systemic) and incentive problems.

There might be also considered both unintended consequences as well as how behaviors of markets participants may change when government intervention occurs.

Then Mr. Gower has talked about the assessment and quantification of costs. Direct costs can emerge for all parties involved, including the regulator, whilst compliance costs instead are likely to be incurred by financial firms rather than customers. Costs can be also classified as policy and administrative ones. The former refer to way in which a firm changes its behavior or strategy. The latter refer to the need to comply with third-party information requirements to statutory bodies. Administrative costs are usually measured using Standard Cost Model which equates time taken on a task with the unit cost of the task.

Only incremental costs do have to be considered. Costs can also be split into one-off/ongoing.

Mr. Gower’s illustration has then gone ahead to financial benefits whose measurement is a difficult practical exercise. It needs to think in terms of improvements in market outcomes seen from the perspective of consumers/firms, whole economy. Market outcomes can be measured directly, even if it is difficult, but better results may be obtained from indirect measures.

Policy interventions can affect either the competitive structure of markets or ways in which firms compete (dimensions of competition)

Following Oxera's presentation, participants have been grouped and have been asked to think about some domestic regulation that might be improved and then that might need a RIA. Participants pointed out the Fiscal Code and some other regulations which would benefit from a RIA.

After lunch the session has started with groups that have briefed on their previous brainstorming.

Presentation: Experience on executing Impact Assessment in Germany (by Mr. Claus Happe – German Ministry of Finance)

Mr. Happe has taken the floor with the purpose to illustrate his working experience in dealing with regulatory measurement.

Firstly, Mr. Happe has set the context where at European level the Council invites Member States to put their own national targets by 2008 with regard to reduction of 25% of administrative costs.

In Germany, a centralized program for the reduction of bureaucracy and better regulation was implemented along the following pillars:

- Appointment of a Regulatory Control Council as independent body under the auspices of the chancellery;
- Creation of a political Steering Committee to monitor the work in progress;
- Standard Cost Model as obligatory measure tool.

The National Regulatory Control Council has been assigned the tasks of screening existing bureaucracy and preventing new bureaucracy.

Specificity of German approach consists in focusing on payroll costs without taking into account overheads, comparing scenario to status quo (baseline) and assuming homogeneity of companies.

Focus has been drawn on information obligations on federal and EU-level; exchange of experiences and knowledge with the Federal States has been undertaken in order to ensure common methodology and discuss simplification.

Ministries reported more than 10,000 information obligations for entrepreneurs, whilst similar monitoring for citizens and administration will follow. Commitment has been made to a national reduction of 25% by 2005.

In January 2007, a second measurement round started as a full scale SCM-baseline valuation as object. Federal Statistical Office measures the administrative burden of 20% information obligations that should cover about 80% of the costs. The method applied for such measurement comprises questionnaires, surveys or on-the-spot interviews.

Mr. Happe stressed that according to the new framework, new legal obligation must be examined in advance to determine new bureaucracy costs and that the new established Council is part of the legislative procedure.

Finally, Mr. Happe stressed that the costs saved in designing new Investment law due to this measurement procedure amounted in more than EUR 5 Mln.

Mr. Happe's presentation was followed by an interactive session where participants raised questions regarding to the presentations made. Among these, one of the main issues raised was related to the imperfection of RIAs and, in this context, their relative usefulness for policy makers. Some participants pointed out that impact assessment could help just a little since that each parameter underpinning it can be doubted and the overall appraisal is likely to give the real picture as things really are. Mr. Happe replied that although he is not keen on this methodology he is not even so pessimistic since this tool can be useful if properly used as it provides important information enabling the regulator to make a better decision ex-ante. Mr. Gower followed by saying that some estimation is better than no estimation at all. SPI and Convergence also added that the more RIA is based on consultation with other stakeholders the more reliable are the data shared and assumptions discussed.

Presentation: Review of 12 SPI Projects RIA – Part I (by SPI)

After a break, SPI illustrated, triggering involvement of participants, preliminary RIA fulfilled on some projects that are undertaken under Romania SPI public-private partnership.

Program design of Phase II

Convergence finally discussed with participants the outline of next Phase II consisting in applying RIA to an existing regulation. Convergence presented the course objective and presented the invited facilitators who will help groups of participants to perform a RIA on an identified regulation or procedure and to redraft the regulation/procedure itself as a result of the ex-post assessment.

Participants were also told in detail the methodology and the steps comprised in the second phase and agreed on the structure outlined.

End of first day.

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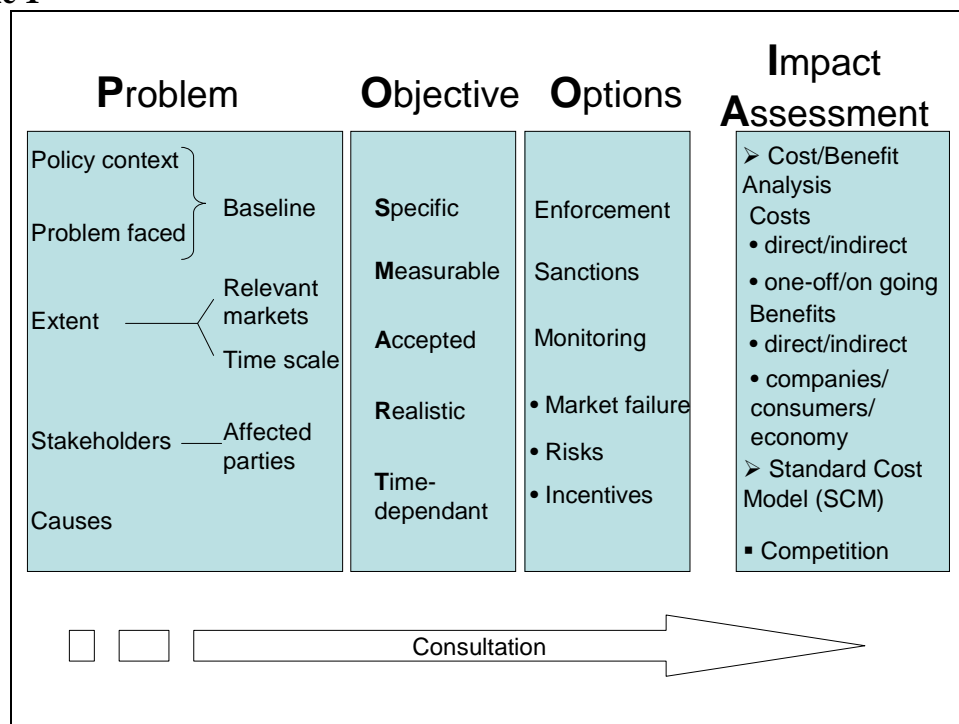
Thursday, May 17th

Recap of Previous Day

The second session started with SPI recapping previous day's discussion. SPI outlined how the 3 respective presentations made on the previous day (namely that on RIA steps, Gower's and Happe's) fit each other within a common framework and pattern.

Therefore, SPI illustrated and outlined the main items being represented by Problem, Objective, Options/Intervention and Impact Assessment and showed how and which of the categories above illustrated Gower's approach and Happe's experience suit the general framework (see Table 1).

Table 1



Presentation: continuation of Review of 12 SPI Projects RIA – Part I (by SPI)

Following that, SPI reviewed the remaining of the first slot RIA of Romania SPI projects, explaining in detail the context of each project, the drivers of impact on financial statements of banking sector and how the impact was worked out.

After this presentation, the formal seminar would have come to an end due to the sudden absence, for health reasons, of Mr. Sonje, the instructor who was expected to lead the two case studies of RIA undertaken by the EC on Basel II and Payment Services.

Finalization of Phase II Design and Concluding Remarks

This discussion was then followed with the finalization of Phase II design. Participants from NBR and Ministry of Economy and Finance already identified possible pieces of regulation/regulatory procedures that could be used for a RIA exercise. Participants also agreed on the tentative dates envisaged for the steps which Phase II is composed of. The first step is likely to take place on June 4th with a 1 full day of class work.

Convergence and SPI have outlined the main conclusions of the first phase of the RIA program, namely:

- the importance of performing RIA, even in a simpler format, to provide evidence for policy choices and regulatory design;
- the importance of the consultation process with various stakeholders when performing a RIA for validating assumptions, data used and findings;
- how RIA actively supports the policy discussions and regulatory design.

Convergence and SPI have stated their availability to remain in touch with participants on any further questions they may have related to RIA.

Informal session

The session continued informally asking participants to simulate a RIA exercise based on an extract of a questionnaire prepared within the Romania SPI Project about Anti-Money Laundering. Participants received a document containing four amendments.

The exercise consisted in brainstorming about the impact that each proposed amendment could have on the banking industry and on consumers respectively, in terms of additional costs/benefits. In case some impact was figured out, the next step was to shape a proper question in order to gather the expected quantitative/qualitative feedback from recipients.

Extra-program hours, also comprising a round of table where all participants expressed their views and promoted a discussion, have resulted beneficial for the next phases of the course because they have allowed the following inputs and feedback to surface:

✓ Linking legal with economic perspectives

The process of deriving economic implications from a given legal context/proposal is not an easy task and need to be practiced step by step.

✓ Impact assessment is not a scientific exercise

RIA execution does not provide undisputable results. It is rather an evidence-based exercise underpinned by data and assumptions. For this reason it is important that data and assumptions are solid as much as possible. This outcome can be achieved better by approaching RIA on a systematic basis and run an effective consultation process with main stakeholders involved.

✓ A Romanian RIA practice has already established

Participants have talked about how the Government has already resorting to RIA to back policy initiatives. Depending on the kind of regulation and the stage of the process, current Government practice towards RIA has been outlined as follows:

- Preliminary RIA performed for all policy options outlined in policy documents of the Government;
- Preliminary RIA performed once the legislative act is prepared, outlining the impact resulting from the possible options in order to enable the decision making;
- Final RIA performed on the final legislative act to accompany it during the legislative enactment process

The Ministry of Economy and Finance representatives also pointed that a dedicated staff are performing RIA within the Ministry. The RIA team receives requests from other departments and performs RIA on the legislative acts that they promote.

✓ Designing an effective regulation before its enactment is more efficient (to meet the intended effect) than intervening afterwards

Regulators can find it beneficial to invest on the regulatory design phase, also resorting to RIA, in order to make policy interventions that are as much tailored as possible to the context in which they will have to work.

✓ RIA activity does not finish with the regulatory intervention

A review of the existing regulation is highly suggested in order to verify whether the regulation is still meeting its intended effects or

not. This last step would result in the confirmation/modification/revoke of the regulation itself.

✓ Social and environmental impact add to the economic one
Impact analysis should be performed with the aim of appraising the social and environmental effects.

After the final wrap up, the 2 –day long Phase I course ended.