anpc
Autoritatea Națională pentru Protecția Consumatorilor

COMISIA DE SUPRAVEGHERE A ASIGURĂRILOR

Regulatory Impact Assessment*

Main Findings and Policy Recommendations

Regulation no. 3/2007 on restriction of the credit risk on credits granted to individuals

National Bank of Romania
November 1, 2007

(*)= based on Draft Impact Assessment Guidelines prepared by CESR, CEBS, CEIOPS

Working Group Composition

Participant	Authority
Mr. Gabriel Valvoi	National Bank of Romania
Ms. Oana Mesea	National Bank of Romania
Mr. Dorel Onetiu	National Bank of Romania
Mr. Emanuel Constantin	Ministry of Economy and Finance
Ms. Beatrice Verdes	Insurance Supervision Commission
Mr. Dragos Negoita	General Secretariat of the Government
Mr. Laura Radut	National Authority for Consumer Protection

Facilitator

Mr. John Pyne, Senior Regulator, Irish Financial Regulator

Table Of Content

1. Problem identification

2. Statutory goals at risk

3. Proposed regulatory action

4. Policy options

5. Stakeholders consulted

6. Feedback goals

Table Of Content

7. Questions asked

8. Feedback and response

9. Cost Benefit Analysis

10. Comparison of the options

11. Policy recommendation.

1. Problem identification

- The repeal of the 2005 norms nr. 10 ("individual lending restrictions"), justified by its partial regulatory failure, created the potential for market failure arising from improper credit risk management.
  - Addressing regulatory failure creates potential market failure!

2. Statutory goals at risk

The working group identified the following **statutory goals at risk**:

- ***General goals:***
  - financial stability; and
  - proper functioning of the credit sector.

- ***Specific goals:***
  - developing responsible lending practices; and
  - provide enhanced access to credits to specific categories of clients.

3. Proposed regulatory action

- To enable credit institutions to grant loans based on their own internal risk management tools rather than abiding by the NBR-set maximum indebtedness level.
  - All credit institutions have developed internal risk management models which are validated by NBR.

4. Policy options

Do Nothing Option	Option 1	Option 2	Option 3
- Maintaining the provisions of Norms no. 10/2005 . -There would have been **maintained restrictions** imposed by NBR, the banks could not develop their own policies in this field.	-The new Regulation no. 3/2007. - **responsible lending** principles based on consumers' risk profile and risk management - no specified levels for indebtedness - lenders shall provide their own levels within their **internal norms** for each category of clients - the internal norms are subject to NBR's validation	- **Self Regulation** (e.g. A Voluntary Code elaborated by Lenders Professional Association).	- Bring amendments to Norms no. 10/2005 in order to keep **uniform limits** at the level of all financial institutions, but adjusted to different categories of consumers (incomes).

5. Stakeholders consulted

- Banks – one commercial bank;
- Non-banking financial institutions – two;
- The National Authority for Consumer Protection - representing the consumers.

6. Feedback goals

- Have we defined the problem properly that is, are we right in identifying a significant risk of market failure?

- What unintended consequences might arise from addressing this market failure and how should we mitigate them?

7. Questions Asked – *credit institutions and consumers (1)*

"Market failure and unintended consequences from addressing it"

- Do you agree that the problem is as described?
- Do you think that the policy concerns that gave rise to the Regulation no.3/2007 would have been corrected by the market in the short term?
- How do you assess that the quality and the variety of products offered and the efficiency of competition would have been affected? (each option)

7. Questions Asked – *credit institutions and consumers (2)*

- **Which are, in your opinion, the unintended consequences? (each option)**

- **What are likely to be, according to your opinion, the impact on competition and the social impact? (each option)**

7. Questions Asked – *credit institutions (3)*

"Are unintended consequences more serious than under old regulation"

- 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?

- Please provide an estimate of the compliance costs incurred taking into consideration the three regulatory options for replacing the old norms.

- Please indicate the benefits foreseen. (each option)

7. Questions Asked – *consumers (4)*

“Impact on access to credit from proposed market failure remedies”

- Do you think that consumers’ access to lending is limited under these circumstances? (each option)
- Do you think that lending costs will increase? (each option)
- Do you think that lower income consumers will be disadvantaged because of taking into consideration the deductible expenses – living expenses? (option 1)

8. Feedback: Problem identification

- The stakeholders agreed that the **problem** was the above mentioned one. However, they raised some issues:

- the new regulation does not create a sound competitive market for credit institutions;

- consumers' interests seemed not to be taken into consideration.

8. Response to feedback

Competition and access to finance were more restricted under the old regulation, as banks had weaker incentives to set their **own risk management systems, th**us

- preventing a **higher level of competitiveness** and
- **restraining some categories of consumers** from obtaining bigger credits.

9. Cost/Benefit Analysis - Consumers

	Do nothing option	Option 1	Option 2	Option 3
Costs	Increased fees and commissions, lending on longer terms, limited access to lending	More time spent on comparing options; higher fees; living expenses deducted from the available resources	Fees and commissions even higher than in the other 2 previous options	limited access for some consumers
Benefits	Protection to overindebtness	Increased variety of products; more opportunities for certain categories	Diversity of products; customer oriented approach; better credit risk management	Increased access to lending for some consumers, protection to overindebtedness
Net Benefits	Difficult to estimate	Difficult to estimate	Difficult to estimate	Difficult to estimate

9. Cost/Benefit Analysis – credit institutions

	Do nothing option	Option 1	Option 2	Option 3
Costs	Asymmetric impact; limited offer	Estimated compliance costs: banks: 21.800 Euro NBFIs: 42.000 Euro	Compliance costs to regulated banks	same as Option 1
Benefits	Lower credit risk because of maximum indebtedness level	More responsible lending; risk management improved	Lower costs than implementing mandatory legal provisions	No estimation provided
Net Benefits	Difficult to estimate	Difficult to estimate	Difficult to estimate	Difficult to estimate

10. Comparison of the options (1)

- Based on the evidence shown above, on the feed-back provided by stakeholders, and taking into account the objectives of this policy: financial stability and improved consumer access to credits, the recommended policy option is **Option 1**

- **The reasons that stand behind this decision are:**

❖ in terms of **benefits and costs for regulated firms**:
- Option 1 offers the highest benefit among the options considered consisting in more responsible lending and improved risk management;
- Although the cost of Options 2 and 3 were not quantified, we do not believe that they would impose significantly lower costs than Option 1;

10. Comparison of the options (2)

- in terms of **benefits and costs for consumers**:

  - Option 1 provides improved access to lending for certain categories of consumers and a wider range of products then the other options;

  - Option 1 may lead to increased credit costs (due to implementation and compliance costs). However, the increased competition between regulated credit institutions may reduce these costs in long term;

10. Comparison of the options (3)

- in terms of **market impact**:

  - Option 1 generates a low variety of products, the efficiency and the quality of products offered is low as well;
  - Option 2 seems to be offering an improved quality and variety of products, and a more efficient competition. However, Option 2 seems unlikely to be favored at this moment due to a different mentality necessary to implement "voluntary regulations",

- in terms of **impact on competition**:
  - Option 1 increases the competition on the credit market, and in the end the consumers are the main beneficiaries.

11. Policy Recommendations

- There is no doubt that the NBR's Regulation nr. 3/2007 has brought an improvement in terms of access to credit, risk management, development of the credit market

- However, the Regulation does not apply to pass-porting entities, which may or may not distort competition,

- Nor does it address a separate problem relating to access to credit, namely the banks' assumption that all consumers' living costs are the same (implying that poorer consumers are assumed to be less able to repay loans than is actually the case)

Thank you for your attention!