

## 2008 Project Proposals for SPI Committee Endorsement

	I. Business Competi tiveness	II. Industry Competitiveness			III. Industry Reputation
	-	<i>1) Database for risk rating the corporate clients</i>	<i>2)Improving the payments framework</i>	<i>3)Reducing the paper-based documents</i>	-
<b>Description - background</b>		<p>At present banks use their own or their mother-banks' databases in order to risk rate their clients for credit scoring. The National Institute for Statistics offers poor information on the performance of the companies by sector and no information by industry; therefore, the accuracy of the credit rating based on that is low. At the same time, databases from other countries are not very relevant in the Romanian companies' case. In order to improve the risk rating, a database could be created in order to provide the industry/ sector benchmark. The database could also allow the release of the sector studies that would help banks to improve their portfolio and to better manage the credit risk. The database could also be extended in order to provide risk rating per company/ industry, rating that should be compliant with local and international risk management principles and widely recognized by the market.</p>	<p>Currently, there are three EU projects in respect of payments: implementation of the PSD, integration in TARGET 2 and integration in SEPA. The Romanian industry has taken steps in order to raise awareness on the three European initiatives. A structured, coordinated and coherent approach would facilitate the smooth implementation and integration.</p>	<p>Eliminating the paper-based documents associated to cross-border outgoing &amp; incoming payments and the paper-based account statement, in general</p>	

<b>Impact drivers</b>	Industry economic driver	The existence of a national benchmark for risk rating for companies would allow banks to have a higher quality credit portfolio and thus to diminish the losses generated by the lending activity or the costs with recovering bad debts.	With a coordinated approach at the banking community level, banks could decrease their individual costs with the implementation and integration. This would enable banks to clarify their strategies.	Reduce costs for banks and companies to trace and collect such documents Improve reconciliation process for both banks and companies	
	Public good driver	By decreasing the banks' losses and costs, a room for reducing the prices of the bank products and services would be created. The higher quality of the loan portfolios is addressing also the concerns on the financial stability and the database could offer an efficient tool for monitoring financial stability	The structured approach would facilitate NBR's responsibilities in regulating, supervising and ensuring the stability of the Romanian payment system. Public would be kept informed on the changes and the way their concerns are addressed.	Improving reporting process in relation with banks and companies and increase the propensity towards automation/ dematerialization Improving ecological status on medium and long term	
	Economics	To be determined	To be determined		
<b>SPI Committee Involvement Rationale</b>		The public-private framework would facilitate the rapid identification of a suitable and feasible solution for creating and managing the database.	SPI Committee's endorsement would facilitate the decision on the most appropriate way for approaching the three European projects.	The public-private oversight of the proposals would ensure a balanced approach and the identification of the most appropriate measures to be proposed.	
<b>Actionable SPI Committee Proposal</b>  (prepared by SPI Secretariat)		A document on the opportunity and feasibility of the database	A document describing the impact of the three European initiatives and proposing a coordinated, structured and coherent Romanian approach, i.e. the establishment of a National Payments Committee as a permanent body and of a National Plan.	A document describing the issues and the possible measures, stating the implications.	

<b>Proposed SPI Secretariat Contribution</b>  (in addition to preparing SPI Committee Proposal)		SPI Secretariat to prepare a study on the data providers and/or owners on the Romanian market. SPI Secretariat to perform a bank survey in order to assess the banks interest in developing a common database. SPI Secretariat to search for international experience in creating and managing such databases.	SPI Secretariat could prepare a paper on the impact of the three European initiatives on the main players of the Romanian payment system SPI Secretariat could support a banking survey on the identified criticalities and on the general strategies and plans of the banks.	The SPI Secretariat could help design a banking survey that would outline the magnitude of this issue at the banking sector level and would ask for ideas on how to improve the situation. SPI Secretariat could also look into the international experience.	
<b>Expected RBA Contribution</b>		<ul style="list-style-type: none"> <li>• To provide experts for the working group</li> <li>• To run the industry survey</li> </ul>	<ul style="list-style-type: none"> <li>• To provide experts for the working group</li> <li>• To run the industry survey</li> </ul>	<ul style="list-style-type: none"> <li>• To provide experts for the working group</li> <li>• To run the industry survey</li> </ul>	
<b>Other Expected Contributions</b>		NBR, MEF and NIS to provide experts for the working group	NBR, MEF, TransFonD and NSC to provide experts for the working group. NBR to undertake leadership.	NBR, MEF and MoJ to provide experts for the working group	
<b>Summary of Envisaged Convergence Role</b>	Analytical				
	Consensus – building	Facilitating the access to international experience	Facilitating the access to international experience	Facilitating the access to international experience	
<b>Estimated completion date of actionable SPI document</b>		Sept. 2008  High level impact	June 2008  High level impact	Dec. 2008  High level impact	

		I. Business Competitiveness	II. Industry Competitiveness			III. Industry Reputation
		-	<i>4)Centralized database for AML purposes</i>	<i>5)Improving account stopping regulation</i>	<i>6)Improving access to and availability of the basic banking products and services</i>	-
<b>Description - background</b>			In order to comply with provisions of AML regulations, banks have to create and maintain updated lists with suspect persons and PEPs. Instead of this situation, banks could join forces in creating and maintaining an unique database at the system level that could be easily accessed by all the participating banks and by NBR.	The current regulations on debt recovery don't provide, on the account stopping procedure, exhaustive details on the circuit of documents and on the banks' obligations under it. Therefore, banks are exposed to the risk of being penalized for not observing the legal requirements. At the same time, the account stopping processing and management requires dedicated infrastructure from the banks and is time consuming.	One of EC priorities refers to the accessibility and affordability of the basic banking products and services such as current accounts, ATM and credits. Industry representatives appreciate that basic banking services are accessible and affordable to Romanian consumers. However, although some of the banks do not charge any fees for opening a current account or for issuing a credit card, these products bear costs such as management fee and transaction charges that could be considerable as compared to their income. A comparison with the level of average charges/monthly salary in other countries could show if the industry assessment on the basic bank products is correct. The design of a simplified basket of bank products and services with a fair level of charges would improve consumers' access to them.	
<b>Impact drivers</b>	Industry economic driver		By sharing the costs of creating and maintaining the database, banks could reduce their operational costs. At the same time, an correct and updated database has the potential to improve the quality of the portfolio of clients.	Through a better regulation, banks would be able to better observe the law requirements and thus reduce the costs with legal penalties. At the same time, cost with the account stopping processing could be reduced.	Banks could have a real image on the impact of their charges on ones monthly budget and could assess their readiness to compete with European banks in the integrated market. At the same time, they could save costs with designing a simplified basket to be offered to consumers.	

	Public good driver		The creation of a single database would enhance the tools for monitoring banking stability. The decrease in the operational costs could have positive effects on the price of banks products and services.	The decrease in the banks' costs with penalties and account stopping processing	This initiative would contribute to improve the affordability and accessibility of the basic bank products and, on this basis, the financial intermediation rate.	
	Some economics		To be determined. In order to have an indication on the size of the issue, RIA performed on the AML law amendments for aligning it with Third Directive could be used. RIA showed that the responsibilities for observing the provisions on PEPs would generate, at the banking system level, 0.69 mln RON as incremental annual staff costs and 10 mln RON as one-off IT investments.	According to a 2006 Roland Berger study, garnishment processing costs for the entire Banking system amount to 5 million Euro.	To be determined	
	<b>SPI Committee Involvement Rationale</b>		A public-private initiative would facilitate the identification of the solution that would satisfy both the industry's and the central bank's interests.	The structured dialogue between private and public stakeholders (banks, NBR, MEF, MoJ and NACP) would enable the identification of the ways to clarify and to simplify the account stopping procedures	SPI Committee aegis would guarantee the soundness of the analysis and the objectivity of the solution.	
	<b>Actionable SPI Committee Proposal</b>  (prepared by SPI Secretariat)		A document outlining a possible solution for creating and managing the database, estimated net effects and the implementation plan.	A document to serve as a guiding blueprint for drafting the revised regulations on account stopping procedures	A study on the accessibility and affordability of basic bank products, containing also the proposed basket of bank products and services, that could serve as a benchmark for banks and for authorities.	

<b>Proposed SPI Secretariat Contribution</b>  (in addition to preparing SPI Committee Proposal)		The SPI Secretariat could look for international experience in the area to be used as a benchmark and could perform a RIA to estimate the net effects on the banking industry, on the central bank and on consumers.	The SPI Secretariat could help design a survey outlining the issues that need to be clarified in the account stopping procedure both from the banks' and customers' perspective	SPI Secretariat could search for international studies and benchmarks and could run a bank survey	
<b>Expected RBA Contribution</b>		<ul style="list-style-type: none"> <li>• To provide experts for the working group</li> <li>• To provide data for RIA</li> </ul>	<ul style="list-style-type: none"> <li>• To provide experts for the working group</li> <li>• To run the industry survey</li> </ul>	<ul style="list-style-type: none"> <li>• To provide experts for the working group</li> <li>• To run the industry survey</li> <li>• To validate the solutions</li> </ul>	
<b>Other Expected Contributions</b>		NBR to provide experts for the working group	NBR, MEF, MoJ and NACP to provide experts for the working group	NBR, MEF and NSC to provide experts for the working group. NSC to validate the solution with consumers.	
<b>Summary of Envisaged Convergence Role</b>	Analitica	To supervise SPI Secretariat activity			
	Consensus – building	To facilitate the access to international experience	Facilitating the access to international experience	Facilitating the access to international experience	
<b>Estimated completion date of actionable SPI document</b>		Medium level impact	Medium level impact	Dec. 2008  Medium level impact	

		I. Business Competitiveness	II. Industry Competitiveness				III. Industry Reputation
		-	<i>7) Centralized tax roll</i>	<i>8) Electronic employment register</i>	<i>9) Facilitating bad debts recovery</i>	<i>10) Improving cooperation framework on consumer protection</i>	-
<b>Description - background</b>			For recovering bad loans, banks have, in certain circumstances, the right to foreclose upon all the debtor's assets. For this purpose they have to identify the assets. Banks can ask information in this respect from the local tax registers. There are cases in which banks are not aware of the possible assets belonging to the debtor and the jurisdictions where these are placed. Therefore, theoretically, banks have to inquire all the local authorities in Romania. The situation could be similar when the public authorities are trying to recover debts.	According to the Labor Code, employers have to maintain electronic registers with data on their employees and to send them to Labor Inspection Authorities. For individual loan applications, banks are asking for employment evidence and are verifying data usually by phone. The lack of a better checking modality caused in some cases losses for banks that were defrauded (through false documents and confirmations). The existence of a centralized electronic register to which banks can have access would decrease the fraud risk.	Although the loan contracts are executory titles, the procedures of taking into possession the debtors' goods are long and costly. In order to speed up the recovery procedures some amendments to the respective legal framework (Law no. 99/1999 and Civil Code) should be brought.	NACP is the authority that regulates the consumer protection issues, covering also consumer loans, and that supervises the application of the regulatory provisions by the market operators, including banks. A protocol of cooperation between RBA and NACP would create a platform for a structured and continuous dialogue for better regulations and for a proper implementation of the regulatory provisions.	
<b>Impact drivers</b>	Industry economic driver		Access to a centralized tax register would decrease banks costs with the identification of the assets and would facilitate a more rapid recovery.	This initiative would decrease banks losses from frauds	By improving the regulatory framework for debt recovery, banks' costs would diminish.	Such a way of cooperation would decrease banks' compliance costs.	

	Public good driver		Authorities could also redeem easier the debts and could decrease their expenses. Consumers could benefit of a reduction in the banks' charges.	Consumers and state budget could benefit from lowering banks' losses. Consumers could spend less time in gathering documents for loan applications.	Consumers and state budget could benefit from the decrease in banks' losses.	Through this cooperation framework NACP could improve their understanding on implementation issues.	
	Some economic	CS	To be determined	To be determined	To be determined	To be determined	
<b>SPI Committee Involvement Rationale</b>			SPI Committee would stimulate the identification of a solution suitable for all involved parties	SPI Committee would facilitate the coagulation of the public – private forces needed to undertake the initiative	SPI Committee endorsement would facilitate the promotion of a legislative initiative.	SPI Committee aegis would facilitate the dialogue and the identification of the objective and balanced cooperation solutions.	
<b>Actionable SPI Committee Proposal</b> (prepared by SPI Secretariat)			A document on the most suitable solution and its implementation plan	A document evidencing the benefits for all stakeholders and defining the co-operation framework between the major stakeholders	A document emphasizing the disadvantages brought by the existing situation and proposing the necessary law amendments	A document outlining the common interest and the benefits arising from the cooperation of the two institutions and proposing the text of the protocol to be signed.	
<b>Proposed SPI Secretariat Contribution</b> (in addition to preparing SPI Committee Proposal)			SPI Secretariat could search for similar experience in EU and could perform a bank survey on the importance of this issue in the recovery activity	SPI Secretariat could search in the international experience for similar solutions and could perform RIA to estimate the size of losses due to the lack of data validation in individual lending	SPI Secretariat could prepare the questionnaire for the bank survey in order to assess the problems encountered by banks in debts recovering.	SPI Secretariat could support the dialogue of the two institutions by providing ideas on the areas of cooperation, based on similar international experience	
<b>Expected RBA Contribution</b>			<ul style="list-style-type: none"> <li>• To provide experts for the working group</li> <li>• To run the industry survey</li> <li>• To approve the solutions</li> </ul>	<ul style="list-style-type: none"> <li>▪ To provide experts for the working group</li> <li>▪ To run the industry survey</li> <li>• To approve the v solutions</li> </ul>	<ul style="list-style-type: none"> <li>• To provide experts for the working group</li> <li>• To run the industry survey</li> <li>• To approve the amendment proposals</li> </ul>	<ul style="list-style-type: none"> <li>• To provide experts for the working group</li> <li>• To run the industry survey</li> <li>• To approve the solutions</li> </ul>	



<b>Other Expected Contributions</b>			MEF could contribute with experts in the PWG and should endorse the solution and implementation plan.	NBR, Labor Inspection Authorities and NAPDP to provide experts for the working group. Labor Inspection Authorities to endorse the identified solutions.	Ministry of Justice and NBR to contribute with experts in the PWG. Ministry of Justice to promote the legislative initiative.		
<b>Summary of Envisaged Convergence Role</b>	Analytical						
	Consensus – building		Facilitating the access to international experience	Facilitating the access to international experience	Facilitating the access to international experience	Facilitating the access to international experience	
<b>Estimated completion date of actionable SPI document</b>			Medium level impact	Medium level impact	Medium level impact	Medium level impact	