

Unleashing Romania's Financial Revolution

Consumers are at the center of Romania's fast growing financial industry, and for the first time, banks are faced with a hitherto unknown phenomenon: Customer service.

For years, consumers in Romania have been complaining about arbitrary bank policies, which they say are tacitly condoned by financial legislation that offers little or no room for recourse.

"A consumer who has a dispute with a bank because of an inappropriately levied charge has little chance to have the situation resolved to his or her satisfaction," says Romania's National Authority for Consumer Protection.

The country's financial sector lacks an effective conflict resolution mechanism that can impart a fair solution when disputes arise.

But the consumer watchdog says the situation is changing.

Driven by EU accession and with it the need to bring Romania's financial sector in line with EU requirements, and motivated by the industry's own desire to create a modern and competitive sector, the country is in the process of revamping the financial landscape through far-reaching reforms.

The effort is led in part by the Special Projects Initiative (SPI), a public-private partnership, which brings together the consumer protection agency and the country's main stakeholders in the financial sector.



Mihail Meiu heads the Consumer Protection Agency

A Public-Private Partnership Shows the Way

Set up in 2006, [SPI](#) is mandated by Romania's government and private sector to take the country's financial industry into the 21st century.

While the initiative focuses first and foremost on micro-regulatory reforms to facilitate financial transactions among institutions, SPI is also helping strike a balance between efficient business processes, prudent risk management and consumer orientation.

"By integrating the consumer perspective into the financial sector reform process, and by carefully reviewing how these policy changes will affect consumers, the Romanian population is for the first time empowered to make informed choices on financial issues," says Mihail Meiu, Director of the Romanian National Authority for Consumer Protection.



Oana Nedelescu, Director for Analytics and Policy at SPI

SPI was instrumental in establishing the country's first Ombudsman for the financial industry, which will become operational in November 2007.

"The Ombudsman provides a free, fair, and swift conflict resolution mechanism that will help resolve disputes between banks and their clients," explains Oana Nedelescu, Director for Analytics and Policy at SPI.

What distinguishes SPI from previous attempts to modernize Romania's financial industry is that the program is as much government-initiated as it is private sector-driven. It has so far mobilized more than 100 financial sector experts from 17 public institutions and 16 banks, which work together in public-private working groups identifying regulatory and institutional solutions for the sector's most pressing modernization requirements.

The SPI Secretariat in Bucharest provides analytical and technical support to the working groups and is responsible for identifying projects and preparing reform proposals for subsequent review and approval by the SPI Steering Committee, the program's managing body.

The Steering Committee includes the country's main financial sector stakeholders: the National Bank of

Romania (NBA), the Ministry of Economy and Finance, the Romanian Banking Association (RBA), the National Authority for Consumer Protection and the World Bank-administered Convergence Program, a public-private financial sector development initiative for South-East Europe.

Luigi Passamonti, Head of Convergence, says the financial industry's willingness to reform itself has been the driving force behind the reform process.



*Luigi Passamonti
heads the
Convergence
Program at the World
Bank*

"Too often, the necessity for government intervention in the financial sector - be it through licensing, regulatory, and supervisory functions - obscures the fact that the sector's development depends essentially on the private sector's own initiative to bring about change, assuming of course that it acts responsibly and in the interest of the public good."

Keeping the Customer Satisfied

With providers of financial services in Romania facing increased competition from new market entrants, many institutions are forced to review their products and services with the consumer in mind.

The banks' loan business is among the first product lines to benefit from a radical change in credit reporting and information sharing among financial institutions.

Ramona Bratu, Director of Bank Products and Services at SPI, explains that consumers with temporary work contracts and without negative credit records will soon be able to apply for a loan on the basis of their credit rating, a business practice that is common in many countries today.

This new form of credit check represents a significant shift from the current practice where banks are hard pressed to approve a loan even if the applicant does not have a bad credit history.

"Customers who do not figure in the Credit Bureau database because they simply never defaulted on a loan will have their credit request rejected, unless they can present proof of long-term employment or collateral to secure the loan," says Ms. Bratu.

Over the past months, SPI has been working with all stakeholders to improve the current credit check process and expand Credit Bureau services. Soon, credit information will not only include negative financial data about consumers, but also positive information.



*Ramona Bratu,
Director of Bank
Products and Services
at SPI*

"Bank customers who have paid their bills on time in the past and don't have a negative credit report on file will finally be rewarded with a substantially simplified solvency check," says Mr. Meiu.

The SPI Secretariat prepared recommendations for the banking industry in support of spreading the practice of positive information sharing among financial institutions. As a result, credit reports are now being adapted to provide better insights into a customer's solvency.

Sector experts suggest that introducing positive information sharing among financial institutions could also improve the quality of credit in Romania and expand lending opportunities for banks. They say that open-ended employment is not necessarily a good indicator of an applicant's future solvency, and banks should look at employees with temporary work contracts as prospective customers and not as latent risk.

"Assuming that 900,000 or 10% of Romanian employees have temporary work contracts, banks are potentially missing out on a significant share of the market," says Ms Nedelescu.

Meanwhile, an SPI white paper is providing the rationale for a nation-wide financial literacy campaign, arguing that better informed clients are more likely to make sound investment choices.

Romania's Consumer Protection Authority is endorsing the campaign, which will teach consumers basic financial concepts such as borrowing, investing, and saving for retirement.

"Too often, the consumer was – and still is in many cases – an easy catch for financial institutions because of their lack of experience and knowledge in financial matters," says Mr. Meiu.

Better Service, Cheaper Service

That cheaper service need not be synonymous with inferior quality is shown by an SPI project to revamp Romania's clearance system for debit instruments.

The partnership assisted with the drafting of a new law on checks, drafts, and promissory notes, which will reduce the settlement periods of debit instruments from 9 to 3 or less working days by migrating the paper-based clearance process to an electronic solution.

Romania processed 7.5 million debit instruments in 2005, and the savings associated with the electronic process could be significant for both industry and consumers. *"Processing checks electronically not only means much faster payments, but also cheaper services as a result of a more efficient infrastructure,"* says Mr. Meiu.