



SPI Project:  
**Ombudsman**

Version: May 2007

**Regulatory Impact Assessment**  
Approach Note

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# Economic impact features

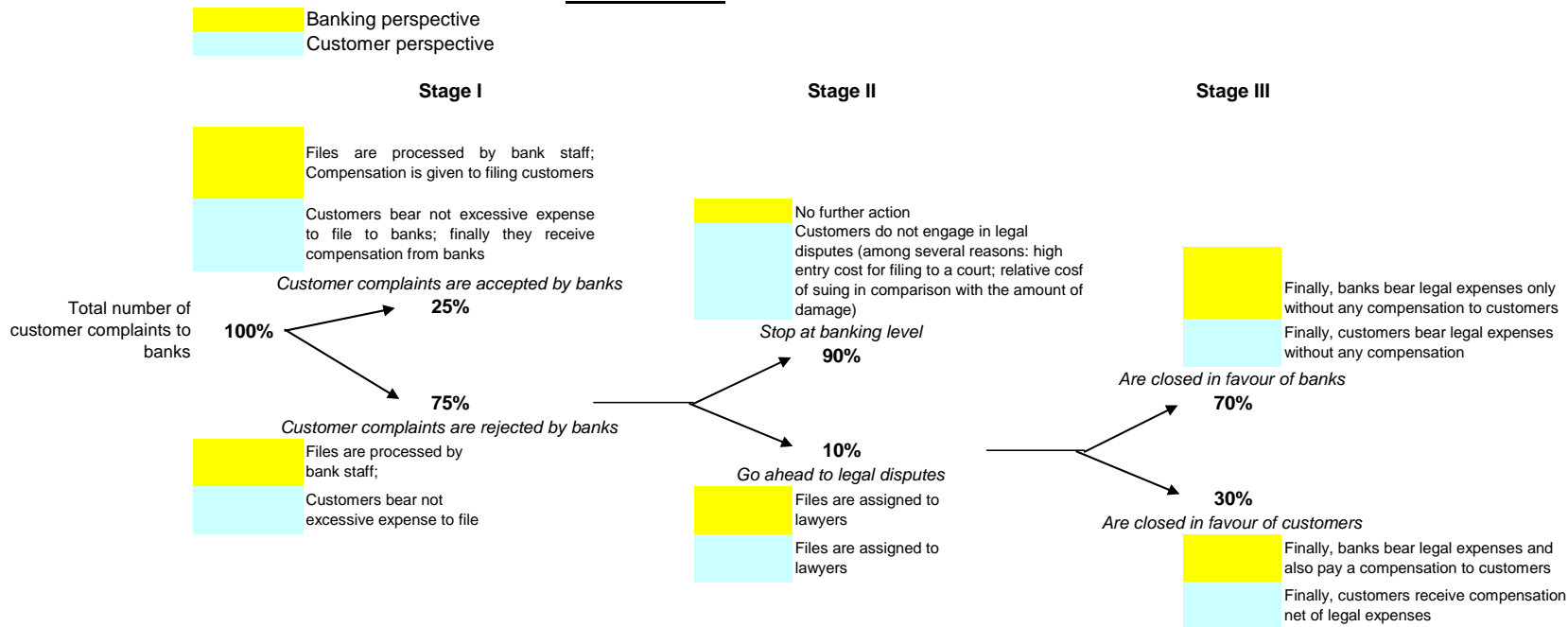
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- A. Introduction of Bank Ombudsman within the existing framework to deal with bank customers' disputes;
  
  - B. Increase of household savings being channeled through banking intermediation due to enhanced industry reputation because of Ombudsman functioning.
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# Economic impact assessment - 1

## Feature A

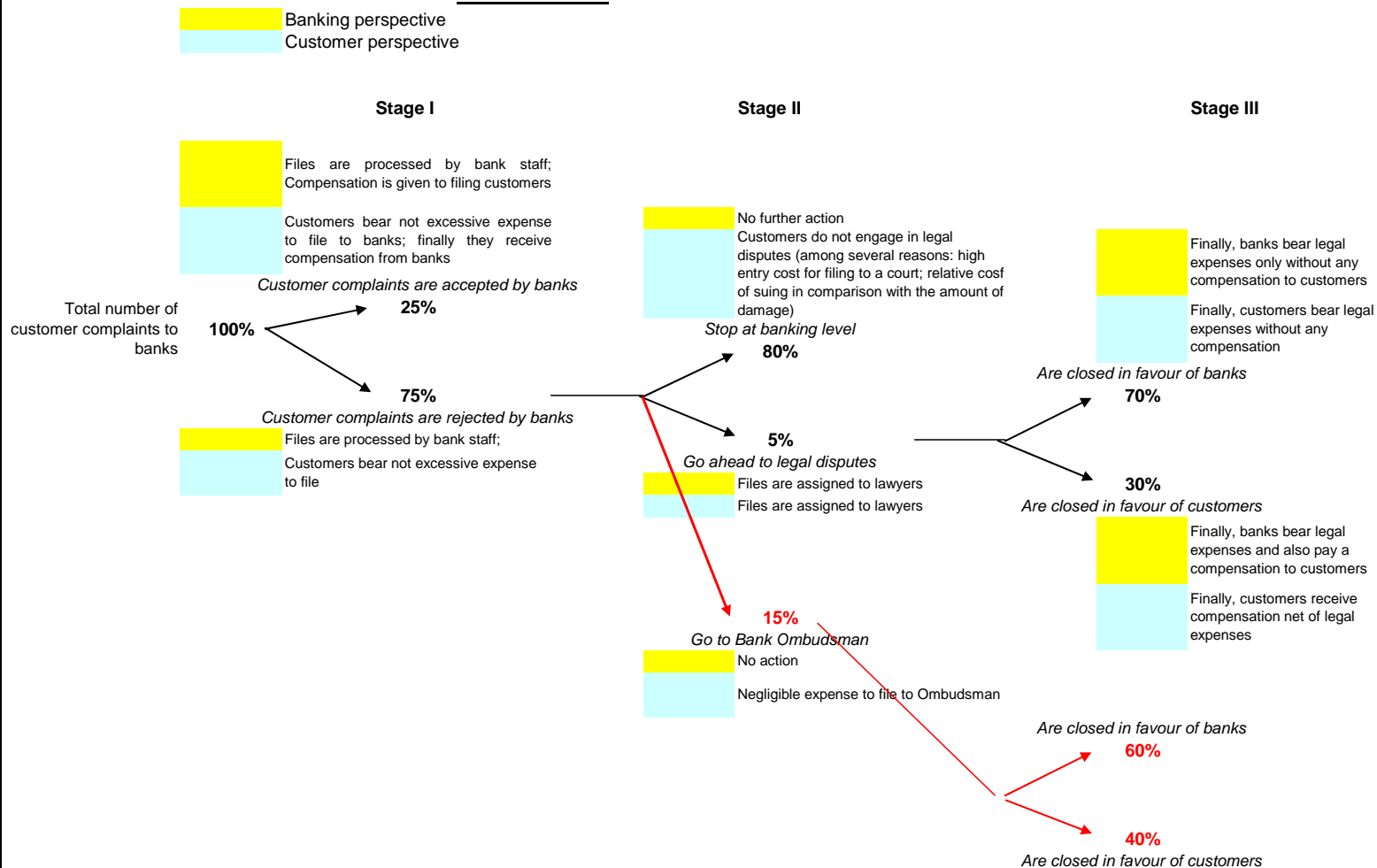
### Baseline - without Bank Ombudsman



# Economic impact assessment - 2

## Feature A

### Scenario - with Bank Ombudsman



# Economic impact assessment - 3

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## Feature A

A	No. of expected complaints addressed to the banking system end of 2006 (#)	63,810
B	Annual growth rate of complaints (%)	40%
C	No. of expected complaints in 2007 (#) [A*B]	89,333
D	<u>Bank customers</u> : expenses paid in baseline (Mln, EUR)	0.2
E	<u>Bank customers</u> : expenses paid in scenario [net of compensation received] (Mln, EUR)	-0.2

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# Economic impact assessment - 4

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## Feature A



# Economic impact assessment - 5

## Feature A

I

Savings for banks:

1-year horizon: (Mln, Eur)

0.2

1-year horizon:  
(expenses decrease, %)

9%

5-year horizon: present value (Mln, Eur)

1.9

J

Tax revenue to government:

1-year horizon: (Mln, Eur)

0.03

5-year horizon: present value (Mln, Eur)

0.2

# Economic impact assessment - 6

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## Feature B

A	Outstanding household deposits (Mln, Eur)	29,648
B	Household deposits inflow as a result of higher industry reputation due to Bank Ombudsman (%)	0.10%
C	Incremental household deposits as a result of higher industry rep. due to Ombud. (Mln, Eur)	29,6
<hr/> <b>Benefits from bank deposits increase</b> <hr/>		
D	<u>Customer perspective</u> : baseline – yield on savings (%)	0%
E	<u>Customer perspective</u> : scenario – yield on savings with bank deposits account (%)	4%

# Economic impact assessment - 7

## Feature B

Benefits from bank deposits increase



# Economic impact assessment - 8

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## Feature B

Benefits from bank deposits increase

J

Government perspective: tax rate (%)

16%

K

Government perspective: tax revenue increase  
[(G+I)\*J]

1-year horizon: (Mln, Eur)

0.2

5-year horizon: present value (Mln, Eur)

1.3

# Economic impact assessment - 9

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## Feature B

### Benefits from lending volume increase

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L	Loan/deposit multiplier	0.7
M	New flow of loans as a result of household deposits inflow (Mln, Eur) [C*L]	21.2
N	<u>Customer perspective: incremental lending available to customers (Mln, Eur)</u>	
	<u>1-year horizon: (Mln, Eur)</u>	21.2
	<u>5-year horizon: present value (Mln, Eur)</u>	118.6

# Economic impact assessment - 10

## Feature B

### Benefits from lending volume increase

O	<u>Bank perspective</u> : average interest rates applied by banks on new loans to households (%)	9.5%
P	<u>Bank perspective</u> : average annual interest rate from new loans to households (Mln eur)	
	<u>1-year horizon</u> : (Mln, Eur)	2.0
	<u>5-year horizon</u> : present value (Mln, Eur)	11.3
Q	<u>Government perspective</u> : tax rate (%)	16%
R	<u>Government perspective</u> : tax revenue increase levied on net interest margin for new loans [P*Q]	
	<u>1-year horizon</u> : (Mln, Eur)	0.2
	<u>5-year horizon</u> : present value (Mln, Eur)	0.9

# Economic impact assessment - 11

Feature A+B

## Legend:

**Number:** First full year

**Number:** Present Value, 5-year horizon

Stakeholder	Impact on volume (Mln Eur)	Net impact on P&L (Mln Eur)						
Government		<table border="1"> <tr><td>Tax revenue</td></tr> <tr><td>0.4    2</td></tr> </table>	Tax revenue	0.4    2				
Tax revenue								
0.4    2								
Customers	<table border="1"> <tr> <td>Deposit accounts</td> <td>Loans</td> </tr> <tr> <td>29    165</td> <td>21    118</td> </tr> </table>	Deposit accounts	Loans	29    165	21    118	<table border="1"> <tr><td>Benefits</td></tr> <tr><td>1    11</td></tr> </table>	Benefits	1    11
Deposit accounts	Loans							
29    165	21    118							
Benefits								
1    11								
Banks		<table border="1"> <tr><td>Income</td></tr> <tr><td>2    14</td></tr> </table>	Income	2    14				
Income								
2    14								
Estimated annual cost for Bank Ombudsman set up and functioning*		0.12 Mln Eur						

\*= Source: Project Working Group, *Recommendation for Establishing a Bank Ombudsman in Romania*, March 2007, p. 4.

# Analytics - 1

## Data and Assumptions:

a)	No. of complaints received until Oct. 2006 from 3 large bank respondents	#	8,827			
b)	Estimated No. of complaints received at the end of 2006 from 3 large bank respondents	#	10,592			
c)	Total market share of the three respondent banks	%	16.6%			
d)	No. of expected complaints for the whole banking system at the end of 2006	#	63,810			
e)	Percentage composition of the average amount of compensation called for by customers					
	Below 10 Eur	%	70%	class value	5	Eur
	More than 5 and no more than 100 Eur	%	20%	class value	40	Eur
	More than 100 Eur	%	10%	class value	250	Eur
f)	Annual cost of a bank staff	Eur	17,000			
g)	Working days over a year	#	270			
h)	Daily cost of a bank staff (and of external lawyer as proxy)	Eur	63			
	Daily cost of a lawyer hired by bank	Eur	82			
	Daily cost of a lawyer hired by a customer	Eur	57			
i)	No. of complaints to handle by bank staff in Stage I					
	Easy cases (handling time: 30 min)	%	75%			
	Medium (handling time: 4 h)	%	20%			
	New cases (handling time: 1 day)	%	5%			
j)	Average handling time needed by a lawyer of a bank for each complaint in Stage II	FTE	1.0			
k)	Average handling time needed by a lawyer of a customer for each complaint in Stage II	FTE	2.0			

# Analytics - 2

## Data and Assumptions: working out the weighted loan/deposit multiplier

	RON	EUR+other currencies	Total
Total Loans to households (RON, Mln)	24,084.4	17,291.0	41,375.4
	58%	42%	100%
Reserve requirements (%)	20%	40%	
New deposits	<b>100</b>		
marginal assets			
	RON	EUR+other	Total
Reserves	11.64	16.72	28.36
Loans	46.57	25.07	<b>71.64</b>
<b><i>Weighted loan/deposit multiplier</i></b>			<b>0.72</b>
	58.21	41.79	100.00



# Analytics - 4

		2007	2008	2009	2010	2011	2012		
Deposit side	Outstanding households deposits (Mln, Eur) a)	29,648.4	29,648.4	29,648.4	29,648.4	29,648.4	29,648.4		
	Deposits inflow as a result of higher industry reputation due to Bank Ombudsman (%) b)	0.10%	0.10%	0.10%	0.15%	0.15%	0.20%		
	Incremental deposit inflow as a result of higher industry reputation due to Bank Ombudsman (Mln, Eur) c)=a*b	29.6	29.6	29.6	44.5	44.5	59.3		
	PV of incremental deposit inflow as a result of higher industry reputation due to Bank Ombudsman (Mln, Eur) d)	29.6	27.7	25.8	36.2	33.8	42.1	165.6	
	<b>Customer perspective:</b>								
	Baseline: yield on savings at home (%) e)	0%	0%	0%	0%	0%	0%		
	Scenario: yield on savings with bank deposits (%) (*) f)	4%	4%	4%	4%	4%	4%		
	Scenario: interest accrued from savings with bank deposits (Mln, Eur) g)=c*(f-e)	1.2	1.2	1.2	1.8	1.8	2.4		
	Scenario: PV of interest accrued from savings with bank deposits (Mln, Eur) h)	1.2	1.1	1.0	1.4	1.4	1.7	6.6	
	<b>Bank perspective:</b>								
Difference between interest for deposits and interbank market (%) i)	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%			
Savings from fund raising from households than other options (Mln, Eur) j)=c*i	0.30	0.30	0.30	0.44	0.44	0.59			
PV of savings from fund raising from households than other options (Mln, Eur) k)	0.30	0.28	0.26	0.36	0.34	0.42	1.7		
<b>government perspective:</b>									
Tax rate (%) l)	16%	16%	16%	16%	16%	16%			
Hgher tax revenue (Mln, eur) m)=(g+j)*l	0.2	0.2	0.2	0.4	0.4	0.5			
PV of higher tax revenue (Mln, eur) n)	0.2	0.2	0.2	0.3	0.3	0.3	1.3		
Loan/deposit multiplier for households o)	0.7	0.7	0.7	0.7	0.7	0.7			
New flow of loans as a result of new deposits from households (Mln, Eur) p)=c*o	21.2	21.2	21.2	31.9	31.9	42.5			
<b>Customer perspective:</b>									
Incremental lending available to customers (Mln, Eur) q)=p	21.2	21.2	21.2	31.9	31.9	42.5			
PV of incremental lending available to customers (Mln, Eur) r)	21.2	19.8	18.5	25.9	24.2	30.1	118.6		
<b>Bank perspective:</b>									
Average interest rates applied by banks for new loans to hoseholds (%)** s)	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%			
Average annual interest rate from new loans to hoseholds (Mln eur) t)=q*s	2.0	2.0	2.0	3.0	3.0	4.0			
PV of average annual interest rate from new loans to hoseholds (Mln eur) u)	2.0	1.9	1.8	2.5	2.3	2.9	11.3		
<b>Net interest margin accrued to banks (%)**</b>									
Average annual net interest marging rate from new loans to hoseholds (Mln eur)	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%			
PV of average annual net interest margin from new loans to hoseholds (Mln eur)	1.0	1.0	1.0	1.4	1.4	1.9			
<b>government perspective:</b>									
Tax rate (%) v)	16%	16%	16%	16%	16%	16%			
Hgher tax revenue (Mln, eur) w)=t*v	0.2	0.2	0.2	0.2	0.2	0.3			
PV of higher tax revenue (Mln, eur) x)	0.2	0.1	0.1	0.2	0.2	0.2	0.9		

\*: source NBR, Monthly Bulletin - Statistical Section, 2/2007, pp. 29-30, taking into account both Ron/Eur denominated deposits

\*\*: source NBR, Monthly Bulletin - Statistical Section, 2/2007, pp. 31-32, taking into account both Ron/Eur denominated loans