Convergence Romania Financial Sector Modernization

Special Projects Initiative Public-Private Steering Committee

SPI Project: Ombudsman and consumer education

Summary Status Report

Project Owner: Radu Negrea, RBA Secretary General (on behalf of RBA)
Project Manager: Mirela Iovu, Director, Alpha Bank
Deputy Project Manager: Alis Avramescu, Deputy Director, NBR

Project Working Group:
Mihai Meiu, Director, National Authority for Consumers' Protection
Daniela Copoiu, Legal Advisor, Unicredit
Marilena Fedes, Legal Advisor, BRD-GSG (TBC)

Project Technical Anchor:
Mr. Shkelqim Cani, Country Senior Advisor, Convergence Program

SPI Secretariat:
Oana Nedelescu, SPI Director for Analytics and Policy
Ramona Bratu, SPI Director for Bank Products and Services

SPI Committee Meeting
December 20, 2006

I. Introduction

The first SPI Committee Meeting of September 15, 2006 gave its endorsement to the project proposal on the "Ombudsman and Consumer Education". The expected completion date of the project is June 2006. The corresponding project terms of reference (TORs) stipulate as project objective "***the preparation of a background study to support a formal recommendation to the banking industry that a Bank Ombudsman is created in Romania based on evidence of potential benefits for banks and consumers***". In addition, ***a "white paper" will be prepared on the benefits of financial education, including elements of a nation-wide financial literacy campaign***.

II. Steps completed so far

a. Preparation of the study on "Establishing a Banking Ombudsman in Romania"

According to the TORs, Convergence Technical Anchor has prepared a comprehensive background paper on banking Ombudsman (November 2006). The paper constitutes an important reference for the Romanian banking community and authorities on the importance, mandate, organization principles, and procedures of a Banking Ombudsman and included references to relevant EU experience on the matter. At the same time, the document represents a valuable support for the project working group that was established for the undertaking of the SPI project on "Ombudsman and consumer education".

The paper made an assessment of the current status of consumer protection in the Romanian banking sector, drawing from the results of a confidential survey conducted in November 2006 by Convergence with relevant authorities (consumer protection bodies and the NBR) and banks.

Also, the study made a comprehensive review of the banking Ombudsman governing principles; scheme mandate and organization; governance structure; jurisdiction - powers and duties; eligible complainants; scheme participation; profile; procedures to complaint handling; operational & funding issues. The study has also offered information on budget consideration, schemes' main legal documents and procedures, and relevant EU recommendations.

In view of:

- **i)** Considerable flaws in the current Romanian consumer protection;
- **ii)** Romania's EU membership;
- **iii)** Benefits of scheme creation from user's and supplier's perspective;

Convergence recommended to the PWG that: *In order to ensure that Romanian consumers are served fairly and well across Romania, "an independent and effective Bank Ombudsman scheme be established modelled after the European schemes examined by this study"*.

b. Organization of a technical workshop

The study findings and recommendations were presented in a technical workshop in Bucharest, on November 30, 2006 with the aim to provide support to the PWG in charge of the SPI project on "Ombudsman and consumer education" and gather feedback.

The roundtable gathered a diverse audience: representatives of the banking industry, as well as delegates from the National Bank of Romania, the National Authority for Consumers' Protection, and the Ministry of Public Finance.

In addition to the presentation delivered by Mr. Cani, the project manager made a presentation of the study on the "Hellenic Ombudsman for Banking and Investment Services".

It was also outlined that a concrete offer for assistance on establishing a Romanian banking Ombudsman has been received from the UK Financial Ombudsman Service.

The participants demonstrated a great interest in discussing about the opportunity of setting up a Banking Ombudsman in Romania. Also, the roundtable has proven to be a catalyst for the project working group activities. Some banks representatives have also expressed availability to be part of the project working group.

c. Activities undertaken so far by the project working group

The project manager has established a list of priorities that will be discussed at the project strategy meeting to be held in early January, as follows:

Short term:

- To finalize the construction of the PWG, consisting of specialist from legal, PR and retail business - *by early January, 2007;*
- To endorse the TOR by PMG - *by early January, 2007* ;
- To circulate the Background Studies among the PWG for comments and feed-back-*by mid January, 2007*;

Long term:

- The PMG/SPI Secretariat will consult with relevant stakeholders (NBR, RBA and individual banks) on the possible options for institutional setting up and operating principles of the Banking Ombudsman;
- The PMG will prepare a recommendation to the banking industry that a Banking Ombudsman is to be created in Romania based on evidence of potential benefits for banks and consumers and international experience;
- Following the SPI Committee discussion, the PMG will consider the budget considerations for establishing the Ombudsman based on a study prepared by SPI Secretariat (supported by Convergence). Likewise, the PMG will outline a strategy for a nation-wide financial literacy campaign based on a white paper on the benefits of financial education prepared by the SPI Secretariat (supported by Convergence);
- In order to achieve a broad acknowledgement of the benefits of the financial literacy, the SPI Secretariat could organize, with the support of RBA and NBR, an exhibition on how bankers' associations and central banks actively promote financial education of the public;
- The SPI Committee should make a public endorsement for a nation-wide financial literacy campaign.

d. Recommendation to the SPI Committee that a banking Ombudsman is created in Romania

The project management group has reached an agreement that a banking Ombudsman should be created in Romania, based on evidence of potential benefits for banks and consumers and international experience (see attached Recommendation to SPI Committee). Also, a formal recommendation regarding the necessity of setting up the banking Ombudsman has been received from the NACP.

The project management group would therefore like to have the endorsement of the SPI Committee to proceed further with the initiative of setting up the banking Ombudsman. Further consultations will be held with all relevant stakeholders (Romanian Banking Association, National Bank of Romania, Ministry of Public Finance, consumer protection authorities, individual banks, and Ministry of Justice) on the possible options for institutional setting up and operating principles of the Banking Ombudsman.

III. Suggested roadmap for further actions

The following concrete steps could represent a roadmap of the project working group's further actions:

- The PWG agrees on the ***form of the new scheme,*** the desired composition of the ***Scheme's Board*** and its main operating principles (e.g. budget and funding) and submits it for approval to relevant stakeholders (RBA, NBR, consumer protection bodies); These actions (as well as any of the following) could be developed under technical guidance received from the UK Financial Ombudsman Service and possibly from the Hellenic Ombudsman for Banking and Investment Services;
- Relevant stakeholders (RBA, NBR and consumer protection bodies) approve the plan for the setting up of the Ombudsman Board and make ***nominations for the Board*** (tentative date: January 2007);
- The designated Board gathers to determine the scheme's main jurisdictional issues, consider and approve scheme strategy on the design and structure of the new scheme, location, logistics, staffing;
- The Board develops the rules of the new service, policy and practices (manuals, procedures, etc.), makes decisions on the qualifications and appointment of the Ombudsman, location, etc;
- The Ombudsman hires staff and starts staff professional and management training;
- Following necessary setting up approvals, official launch of the new scheme is expected to be on July 2007;
- The new scheme makes application to become a FIN-NET member.