

Romania RIA Knowledge Transfer and Capacity Building Program



COMISIA DE SUPRAVEGHERE A ASIGURĂRILOR



NBR-Proposed Regulation Working Group

Reference facilitator: Mr. John Pyne (Irish FSA)

Minutes of Meeting to prepare the document to be discussed over the consultation process within the RIA exercise on a selected regulation

REGULATION No. 3/2007 ON RESTRICTIONS OF THE CREDIT RISK ON CREDITS GRANTED TO INDIVIDUALS

Bucharest, 28th June 2007

Venue:
SPI Office

Time:
From 09.30 pm to 11.40 am.

Participants:

Representatives of the Multi-institutional WG:

Mr. Gabriel Valvoi - reference person
(NBR)
Ms. Oana Mesea
(NBR)
Mr. Dorel Onetiu
(NBR)

SPI Secretariat:

Ms. Ramona Bratu

Convergence Program:

Mr. Riccardo Brogi

MINUTES

A. Context

The WG is in the process of undertaking an ex-post RIA under the guidance of Mr. John Pyne.

The regulation analyzed is the following: NBR Regulation no. 3/2007 on restrictions of the credit risk on credits granted to individuals.

To start this exercise the multi-institutional Working Group has filled a PPT template drawn from *Impact Assessment Guidelines* produced by CESR-CEBS-CEIOPS. By doing that, the WG has faced, for the first time, the sequential approach and reasoning that a regulator is expected to go through when considering a policy action. It has also prepared a consultation questionnaire. After review by and input from the facilitator, the WG is now in the position to launch the consultation process.

Following is an explanation of the steps taken to prepare for this activity.

Step I: The WG has filled the PPT template here attached in **Annex 1**.

The table of content of the PPT template was structured as follows:

- Problem identification (market/regulatory failure analysis);
- Development of main policy options;
- Definition of policy objectives;
- Analysis of impacts.

Step II: The facilitator has reviewed the PPT Template and has provided suggestions and remarks as they are represented here below:

Comments on RIA template

Step 1

i) market failure?

If I recall correctly, the Regulation 3/2007 replaced an earlier regulation from 2005 that imposed limits (based on income) on the levels of borrowing that consumers could draw down.

To my mind therefore there are two distinct elements to be considered:

- a) The grounds for the repeal of the 2005 regulation, and*
- b) The grounds for the introduction of the 2007 regulation.*

The 2005 regulation needed to be repealed because of EU competition, as identified above, however the market/regulatory failure that necessitated the 2007 regulation remains unclear. I recall from our discussion that there may be a concern among policy-makers that were the 2005 regulation to be repealed without some sort of “step-down” regulation that there was a risk that a lending free-for-all might take place. Perhaps this should be mentioned and explored?

ii) market-led solution?

Regarding Part ii), the regulatory failure caused by the 2005 regulation could not have corrected itself without intervention, however we may also need to comment on whether or not the policy concerns that gave rise to the 2007 regulation would have been corrected by the market in the short term

Step 2

i) do nothing option

Regarding i) above, perhaps we could look at the option of repealing the 2005 regulation but not having the 2007 regulation?

Step 4

CBA of options

Benefits to consumers:

- 1. Consumers on higher incomes will be able to borrow greater amounts for, for example, property investment.*
- 2. It is likely that for those consumers competition may increase, resulting in lower prices (interest rates).*

Costs to regulated firms:

- Given that the level and type of lending that firms can engage in may be restricted is it therefore likely that the opportunities for those firms to maximise revenues and profits will be reduced?

- I'm not sure about the relevance of the variable costs cited above, perhaps this needs to be expanded?

Benefits to regulated firms:

1. The validation of norms may facilitate some planning and investment decisions within firms,

2. Firms may benefit from the “halo effect” of regulation by the NBR,

3. The harmonisation of lending norms may reduce competition between firms.

Consultation process

These comments are offered in the context of this particular exercise which can, of necessity, only involve a limited consultation.

I would suggest that the ppt and the consultation paper template be sent to a senior economist or policy expert in the consumer agency and in the body representing the Romanian banks with a request for an informal meeting, perhaps a week later, at which they might give a reaction. In any event I would suggest that each should be sent the same documents and questions, and they should also be aware that feedback will be given to both parties in relation to both meetings – in other words, the consumers will get feedback on their views and will also be briefed on the views expressed by the banks and the feedback the banks received, and vice versa. It is important that the consultation process be open and transparent.

Step III: the WG has drafted a consultation questionnaire addressed to the main stakeholders. The draft questionnaire prepared by the WG is attached as **Annex 2**.

Step IV: The facilitator has reviewed the document and made the following remarks to implement the consultation questionnaire:

I think this is a good document and represents a systematic approach to obtaining the views of the consultation partners to the costs and benefits. As such this is both its strength and its weakness!

I would not change anything in the document, it seems appropriate, however the focus is exclusively on costs and benefits.

Other issues on which views might be sought are:

1 What, if any, unintended consequences (both positive and negative) may flow from each policy option?

2 What are the implications for competition of each of the proposals (competition between Romanian firms, and competition between Romanian firms and other passporting EU firms). This is a very important issue in the context of this particular regulation.

3 What are likely to be the social impacts of the regulation (possible issues include restriction of access to regulated credit sources, potential inflation of house prices, etc.? Are there particular impacts on socially excluded/vulnerable groups?

I believe these issues should also be addressed in the consultation process, and there should be an explicit invitation to the consultation parties to raise impacts that have not been identified in the consultation paper.

B. Meeting of June 28

The WG members attending the meeting acknowledged all the suggestions that the facilitator had proposed. The discussion consisted in reviewing and sharing each part of the draft questionnaire in view of its finalization for consultation purpose. As a result of the brainstorming a further Working Document was shaped (**Annex 3**). This incorporates amendments raised during the meeting, most of them triggered by facilitator's input. Further suggestions (those in track changes) have been entered by Convergence as a proposal. In order to finalize the questionnaire and make it ready for stakeholders, the Working Group is invited to discuss the current version and if possible make further improvements to come to a final version.