



Public-Private Financial Sector Modernization

The World Bank's Convergence Program SPI Platform

European Banking Federation

26th Meeting of Associates

Tirana, 5 June 2008

Luigi Passamonti

Head, Convergence Program

World Bank

Public-Private Cooperation

The Conceptual Framework

“Where public policy issues were involved, we established a tradition of extensive consultation right across the relevant sections of the market.

We recognized early on that intervention needed to be informed by those who properly understood the subtleties of the market, if we were to reduce the risk of unforeseen consequences.

In some instances this approach involved encouraging the market itself to address the particular issue in question as a preferable alternative to official action.”

Sir Edward George, (Fmr) Governor, Bank of England

Public-Private Cooperation Opportunities and “Challenges”

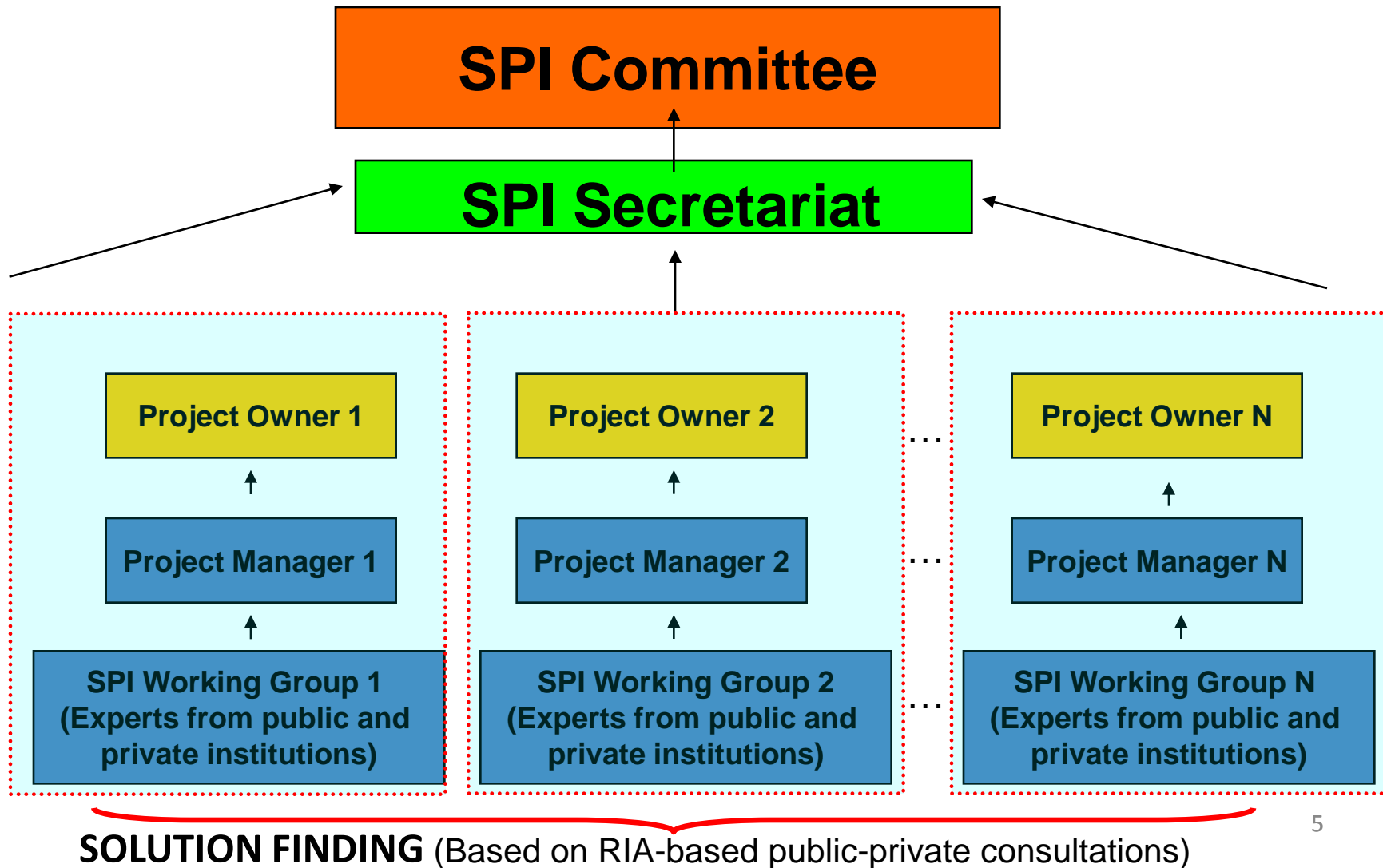
- Strong policy dialogue in advanced jurisdictions
 - UK FSA: 23 formal consultations in 2007 (18 in 2006)
 - 135 submissions to EU Retail Policy Green Paper (2007)
 - Market participants invest in knowledge because it has impact
- Market participants can take key self-regulatory actions
 - Patti Chiari (ABI), Deposit Insurance (BDB), STEP (ACI)
- But, if authorities are less committed to policy dialogue, market participants have weaker incentives to invest in knowledge, advocacy and collective actions
 - Negative externalities and large private opportunity losses
 - A large banking group has inventoried 273 unsolved issues in C&SEE!

The World Bank's Convergence Program

- Set up in 2005 to foster public-private policy dialogue in South-East Europe
 - Coordination failures hamper modernization
 - Promoting transparent and robust dialogue framework
 - Building up market analytical and policy design skills
 - Italian Banking Association benchmark
- Has adopted EU policy design tools
 - “Better Regulation” key to deal with reform agenda
- Operational instrument: SPI Platform
 - Time-to-launch: 6 months
 - Time-to-first regulatory proposals: 12 months

The SPI Platform (1)

SOLUTION ENDORSEMENT AND ENACTMENT



The SPI Platform (2)

1. SPI Committee sets reform program

- Central Bank, Banking Association, Ministry of Finance, Consumer Protection Agency, Convergence Program
 - Industry can propose issues of interest
 - Analytical work starts if authorities do not object
 - Authorities agree ex-ante to act on proposed WG solutions

2. SPI Secretariat is the “engine” of the platform

- “Executive Project Manager”
- 2-3 staff with banking, consulting and policy background
- Close liaison with Banking Association and Central Bank
- Convergence Program’s technical support
 - Catalytic, enabler, “honest broker”, gap filler

3. Working Groups prepare analytical solutions

- Bank and official experts work side-by-side

SPI Platform Impact

- Efficient processing of large modernization program
 - 10-15 key projects/year
 - Operating costs: 0.5% of annual gains for banking sector
- Banking association influence leapfrogs
 - It acquires “right of initiative”
 - Many more issues to handle... and results to show...
- Proven successful in Romania
 - www.spi-romania.eu
 - New SPI countries: Albania, Adriatic Region, Bangladesh..

SPI Builds A Strong Partnership

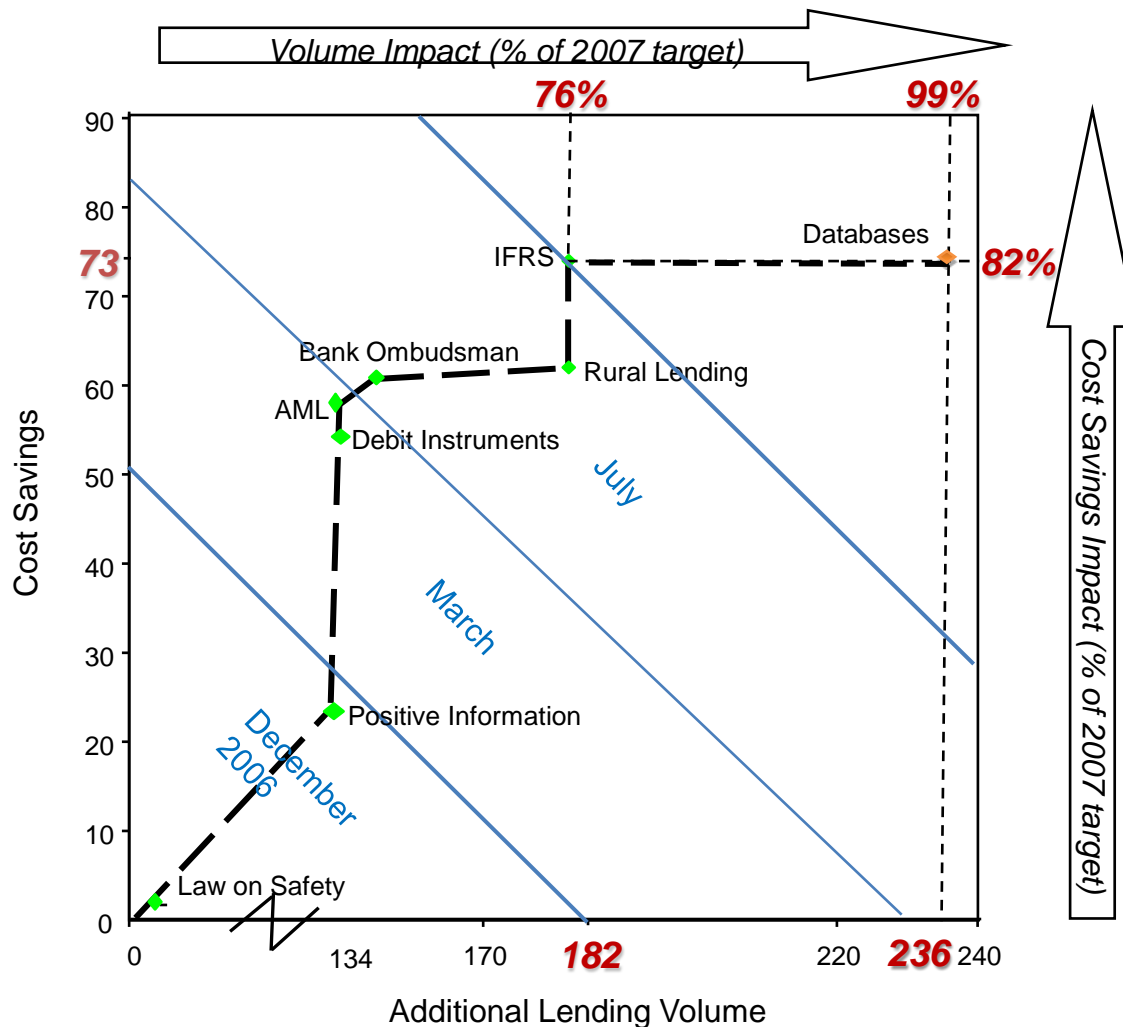
	Central Bank	Banking Association	SPI Secretariat
Issue Identification	Proposes issues where market technical input is useful	Proposes issues that hamper business development or create inefficiencies	Supports building up a public-private program
Solution Searching	Provides experts	Provides experts	Make project working groups (PWG) produce concrete results in short time
Consensus-Building	Monitors PWG emerging solutions and supports its PWG members	Monitors PWG emerging solutions and supports its PWG members	Looks for international benchmarks on disputed issues Analyzes feasibility, impact and implications of different options
Enactment Promotion and Monitoring	Promptly acts on PWG recommendations	Monitors public actions and follows up if necessary	Supports analytical requirements for final decision-making

Romania's 2007 Modernization Program

Italian Banking Association CRITERIA	European Central Bank CRITERIA				
	Asymmetric information	Completeness of the market	Increased opportunities to engage in financial transactions	Reduced transaction costs	Increased competition
Business development	Positive credit information sharing	1. Rural lending 2. Credit Rating Agencies	Law on bank guarantees	Loss-Given-Default Database	Mortgage Loan Database
Industry competitiveness	Stress testing	MiFID implementation		1. Prudential IFRS 2. Debit Instruments E-Settlement 3. AML Law 4. Law on Safety	
Industry reputation			1. Ombudsman 2. Consumer education		
Total	2	3	3	5	1

BOLD BLUE: NBR Proposals; **BOLD RED:** RBA Proposals; Black: Other Proposals

SPI Romania 2007 – Benefits and Costs



Costs
EUR 390k

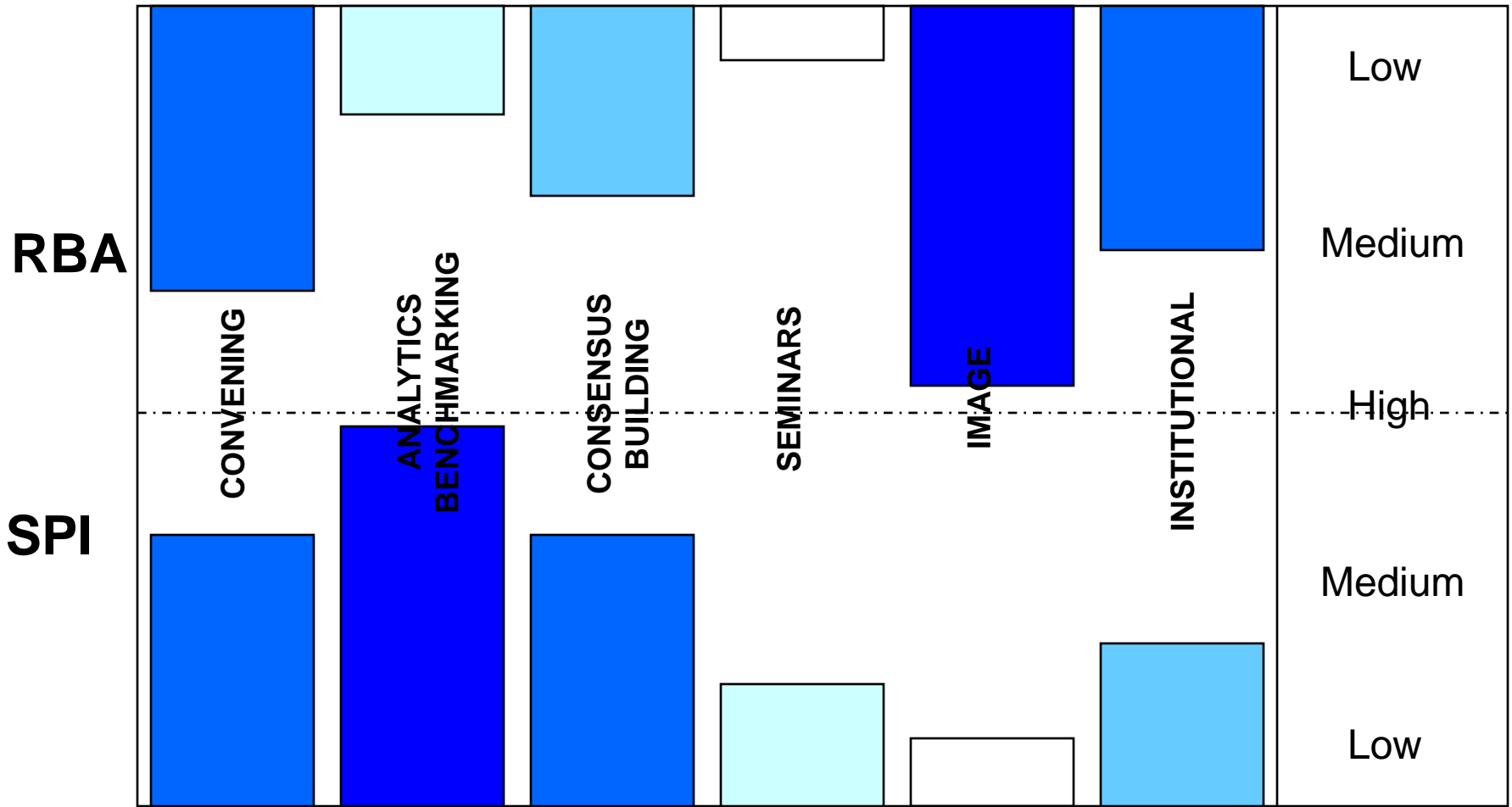
- SPI Secretariat
- Convergence Program
- Experts

SPI Romania's 2008 costs:
60%-40% Central Bank-Banking Association

SPI Romania Partners

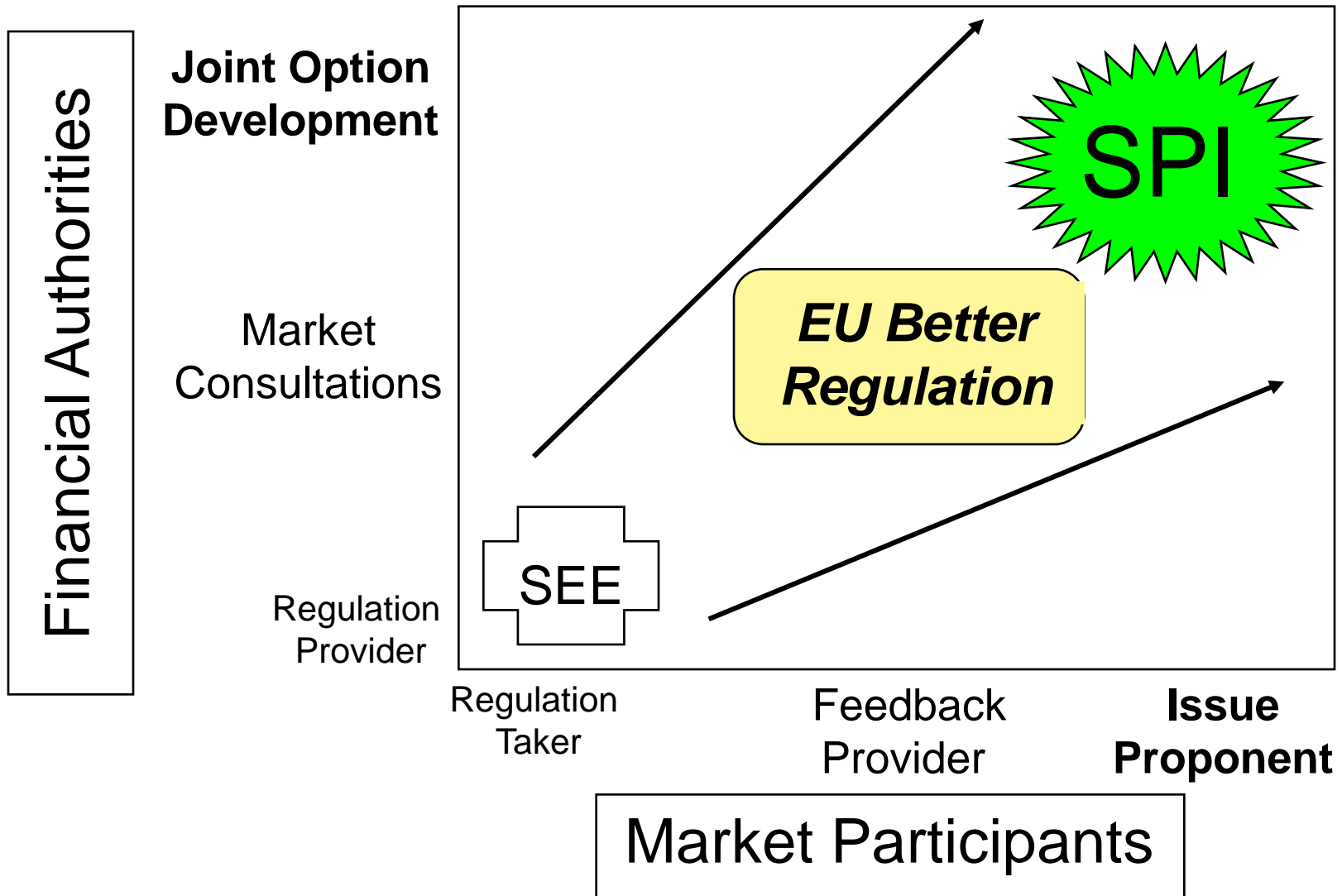
- National Bank of Romania
- Romanian Banking Association
- National Authority for Consumers Protection
- Ministry of Economy and Finance
- Ministry of Agriculture and Rural Development
- Ministry of Interior and Administration Reform
- Anti-Money Laundering Office
- TransFonD
- Credit Bureau
- National Authority for the Supervision of Personal Data Processing
- Rural Credit Guarantee Fund
- Grading Commission for Comestible Seeds
- Romanian Commodities Exchange
- Romanian Stock Exchange
- National Securities Comission
- The National Association for Consumers' Protection and Promotion of Programs and Strategies from Romania
- Italian Banking Association
- OECD
- International Finance Corporation
- World Bank
- Raiffeisen Bank
- Raiffeisen Banca pentru Locuințe
- OTP Bank
- Banc Post
- CEC
- BCR
- Alpha Bank
- BRD-GSG
- UniCredit Țiriac Bank
- RIB Romanian International Bank
- Credit Europe Bank
- ING Romania
- Citibank
- ABN AMRO
- ATE Bank Romania
- Coface Romania
- Cargill
- KPMG
- Deloitte
- Clifford Chance
- Algorithmics
- Bearing Point
- Financial Ombudsman Service, UK
- Goodwood Financial Consulting

Romania's Complementary Capabilities



Notes	SPI extends RBA capabilities	Stronger SPI capabilities	SPI extends NBR links to MEF/NACP	Weak for both (RBI)	Much stronger RBA capabilities	Broader RBA Reach

The SPI Value Proposition



Our Short-Term Plan: SPI Adriatic



Romania



convergence

Adriatic

Albania

Montenegro

Croatia?

Kosovo?

Macedonia?

Serbia?

SPI Albania 2008 Potential Projects

	European Central Bank CRITERIA				
Italian Banking Association CRITERIA	Asymmetric information	Completeness of the market	Increased opportunities to engage in financial transactions	Reduced transaction costs	Increased competition
Business development	1. Corporate /consumer lending 2. Scoring card system for individuals	3. Stock exchange 4. Leasing transactions 5. Securitization 6. AAB Strengthening 27. Consumer credit	7. Agricultural lending 8. Lending to tourism 9. Lending to municipalities 10. Mortgage loans 11. Structural lending 12. Lending environment 13. Lending to PPPs 29. FX open positions	14. Strengthening bank staff	
Industry competitiveness	15. Credit risk in consumer lending 16. Better credit risk management 17. KYC policies	28. Corporate governance and requirements for their administrators	18. Expansion of banks activities 30. Revising capital adequacy ratio	19. Reducing cash transactions 20. Auction procedures for buildings 21. AML reporting 22. Write-off of bad debts 23. Account stopping 31. Reviewing guidelines on banks' liquidation 32. BoA reporting 33. Harmonizing accounting policies	
Industry reputation	34. Improving access to basic banking products	24. Financial ombudsman			25. "Effective" interest rate (EIR) 26. Consumer financial education 35. Enhancing financial consumer's protection
	6	7	10	9	3

BOLD BLUE: BOA Proposals; **BOLD RED:** AAB Proposals; Black: Other Proposals

Beyond SPI Adriatic

- Significant financial sector modernization opportunities in several EU neighbors
 - Russia, Turkey, Ukraine, Azerbaijan, Moldova
 - Ownership and financial links suggest usefulness of coordinated SPI platforms
- Principals (EBF Associates, authorities, international banks,...) promote SPI Platform
 - Based on SPI Romania benchmark
- World Bank's Convergence Program available to "coach" country SPI Platforms
 - Public-private advisory mandate
 - Cost-recovery basis

Issues For Discussion

1. Does financial sector modernization offer an opportunity to strengthen the “market voice”?
2. Are banks willing to mobilize expertise to prepare modernization solutions?
3. Can banking associations link member’s fees to tangible results for their members?
4. Can SPI Platforms accelerate growth of banking associations?

Proposed Next Steps

1. EBF Associates organize follow-up SPI country seminars with authorities
 - SPI Adriatic perimeter and elsewhere
2. EBF channels EBF Members' experiences to SPI Platforms
 - EBF-Convergence Program MoU?
3. EBF notes usefulness of SPI Platform to ECB and DG Enlargement
 - Encouraging adoption of “Better Regulation” by non-EU financial authorities



Background Slides

The 5 Functions of the SPI Secretariat

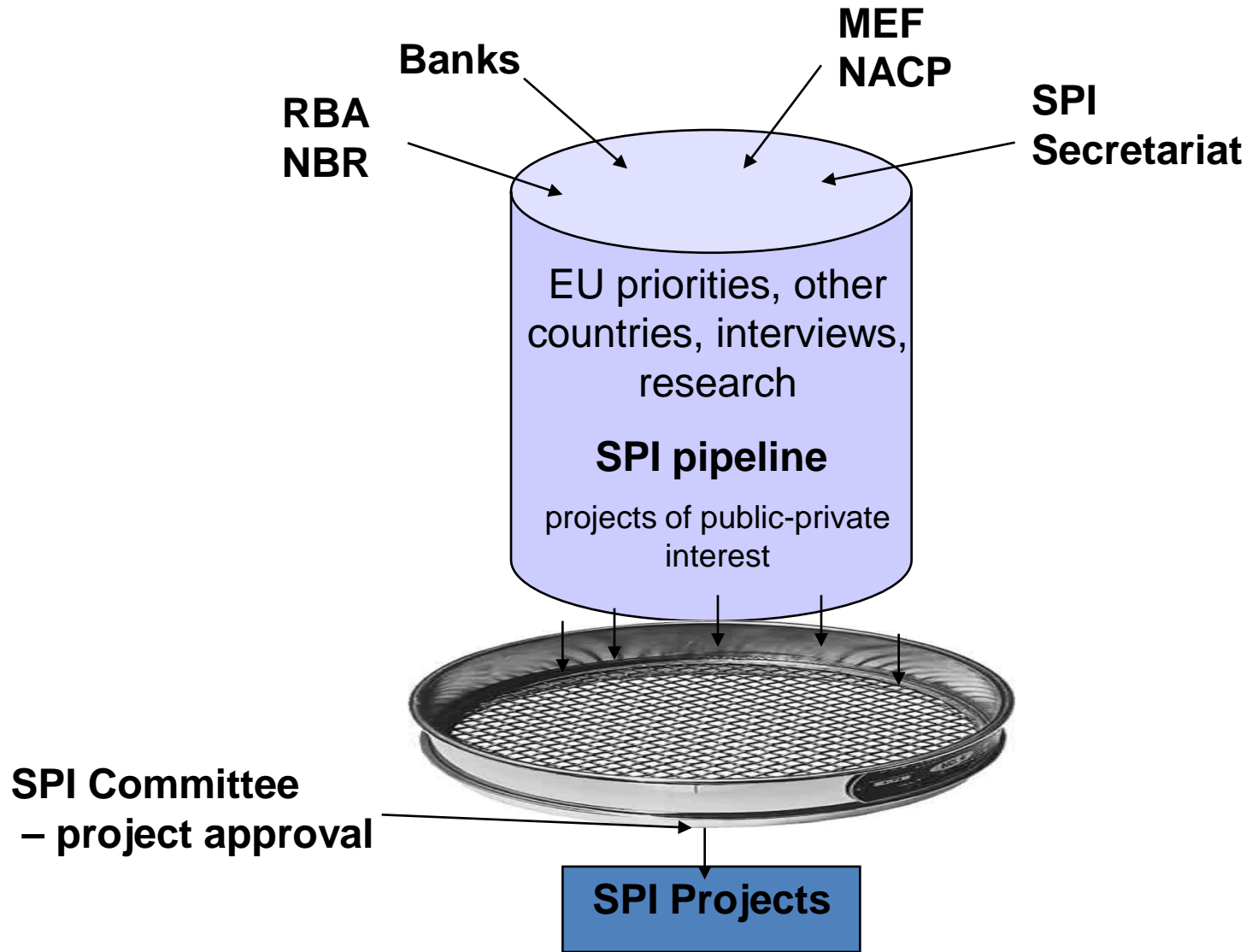
The SPI Secretariat Practices

EU *Better Regulation*

Steps	Purpose
Scoping of problem	
1. Problem identification	To understand if a market/regulatory failure creates the case for regulatory intervention.
2. Definition of policy objectives	To identify the effects of the market /regulatory failure to the regulatory objectives.
3. Development of “do nothing option”	To identify and state the status quo.
4. Alternative policy options	To identify and state alternative policies (among them the “market solution”).

Analysis of impact	
5. Costs to users	To identify and state the costs borne by consumers
6. Benefits to users	To identify and state the benefits yielded by consumers
7. Costs to regulated firms and regulator	To identify and state the costs borne by regulator and regulated firms
8. Benefits to regulated firms and regulator	To identify and state the benefits yielded by regulator and regulated firms
Consultations	
9. Data Questionnaire	To collect market structure data to feed into cost and benefit analysis
10. Policy Document	To learn market participant opinions on various policy options
Conclusion	
11. Final Recommendations	Final report based on Cost Benefit Analysis and market feedback

1. Issue identification and selection



2. Solution searching

Central Bank (NBR)
Banking Ass. (RBA)
Ministry of Finance
Consumer Protect.
Other stakeholders

- Experts for PWG
- Support for data collection and consultations
- RIA findings validation

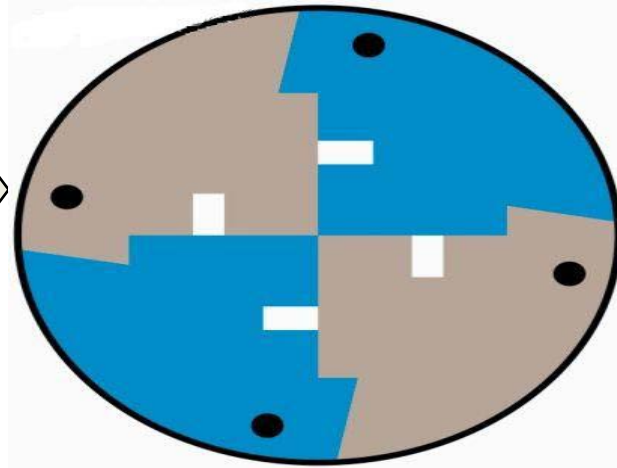
SPI Secretariat

- Identifies the needed expertise
- Searches for solutions in international experience /EU legislation
- Identifies the needs for international/local consultants
- Arranges for the consultants' support
- Prepares documents for discussions
- Drafts RIA questionnaire (as part of the RIA)
- Collects data and performs RIA calculations
- Organizes seminars and other supporting events
- Collects feedback from SPI stakeholders
- Collects and aggregates individual contributions
- Prepares documents presenting the solutions

3. Consensus building

RBA

- Banks review solutions
- Provide input on disputed issues
- **RBA Board endorsement for final recommendation**



NBR

- Revises proposed solutions
- Provides input on disputed issue
- **NBR Board endorsement for final recommendation**

SPI Secretariat

- Looks for international benchmarking
- Performs RIA in order to facilitate best choice
- Asks for independent opinions on disputed issues
- Provides ideas for reaching solutions acceptable to all parties

4. Solution enactment



NBR, RBA and SPI Secretariat coordinate actions in respect of full range of SPI projects

SPI Secretariat

- Prepares the law / regulations enactment packages
- Prepares SPI Committee letters to the legislative initiator or to the NBR Board for NBR regulations
- Provides detailed description of RIA to the legislative initiator or to the NBR Board
- Follows up with the legislative initiator
- Notifies NBR on the initiation of the public consultation process
- Sends SPI Secretariat submission under the public consultation process
- Arranges and/or attends the meetings with institutions involved in the enactment process
- Prepares other documents as required by the legislative initiator

5. Monitoring Results

Financial Impact of Finalized SPI Projects (Mln, EUR) – First Full Year

