



TERMS OF REFERENCE

FINANCIAL MODERNIZATION SEARCH ENGINE

A Practical Market Segment Application

17 January 2010

Context

The Convergence Program has invested considerable resources since 2006 to develop a practical methodology to assist public and private financial sector stakeholders in identifying financial modernization opportunities in their country.

Starting with the ABI's high-level three-pronged taxonomy (business development, cost efficiency and reputation), Convergence Program later added the European Central Bank criteria to measure financial integration progress before sketching the main principles to identify regulatory changes opportunities through an innovative [analysis](#) conducted by Prof. Spallone (March 2009) sponsored by the Regione Puglia's Aquifalc Program.

The current need

In order to provide more useful guidance to public and private financial sector stakeholders, the Spallone analysis needs to be expanded into a more operationally-relevant (and hence detailed) questionnaire to explore market failures in respect of existing regulations through the ECB five efficiency-enhancing criteria (asymmetry of information, market completeness, contractual certainty, cost efficiencies and competition).

The Convergence Program has therefore decided to retain an expert (or group of experts) to prepare a "Practical Market Segment Financial Modernization Opportunities Search Engine".

The Convergence Program five-year operational legacy would not be complete in the absence of this need-driven analysis that will further strengthen its hands-on implementation focus. This analysis, which will be posted on the website next to the Spallone search engine, will form part of the methodological and analytical package that successor institutions to the Convergence Program will be able to rely on in furtherance of financial modernization initiatives in Eastern Europe and elsewhere.

The deliverable

The document to be prepared will expand the analytical approach shown on slide 7 of the Spallone analysis relative to a specific market segment. The latter could be, at the experts' choice, either SME lending or retail deposit services, as each of them is particularly relevant to produce large-scale impact from financial modernization initiatives.

It will be articulated as follows:



1. **The expert(s) will provide a reasoned explosion of each of the five ECB market inefficiencies into operationally relevant dimensions using relevant examples.**
2. **To each operational dimension, the expert(s) will then associate several regulatory change opportunities that may result into better market outcomes.**

Taking the five ECB criteria in aggregate, the document will end up containing a large range of suggested regulatory change opportunities in respect of the market segment taken as reference for this assignment.

It will be critical that the expert(s) pay extraordinary care in presenting logic and details of the analysis in a simple and clear format that facilitates its immediate understanding and practical utilization by financial services experts operating in many different jurisdictions, most likely without guidance.

The document delivered must be of a quality that allows its posting on the Convergence Program website without need for any further improvement.

Timing

It is estimated that the task will take about four weeks to complete, assuming involvement of junior part-time experts guided by a senior expert, with regular interface with and feedback from Convergence Program staff.

The task needs to be completed by 28 February 2010. **No deadline extension will be granted.**

Resources

The junior and senior experts will require a budget for up to fifteen and four full-time equivalent working days respectively.

Total cost should be around EUR XYZ

Reporting

The senior expert will report to the Head of the Convergence Program.