



# Public-Private Financial Sector Modernization

The World Bank's Convergence Program SPI Platform

BACEE Annual Meeting  
and CEE/SEE Banking Forum

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# 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)
    - Insightful “roadmap” to authorities for regulatory design
    - Large market response because authorities “listen”
- Market participants can take key self-regulatory actions
  - Patti Chiari (ABI), Deposit Insurance (BDB), STEP (ACI)
- When authorities are less committed to policy dialogue, market participants have weaker incentives to invest in knowledge & advocacy -- and also in collective actions
  - Negative externalities (and large private opportunity losses)
    - A large banking group has inventoried 273 untackled regulatory issues in Central and Southern Europe

# The World Bank's Convergence Program

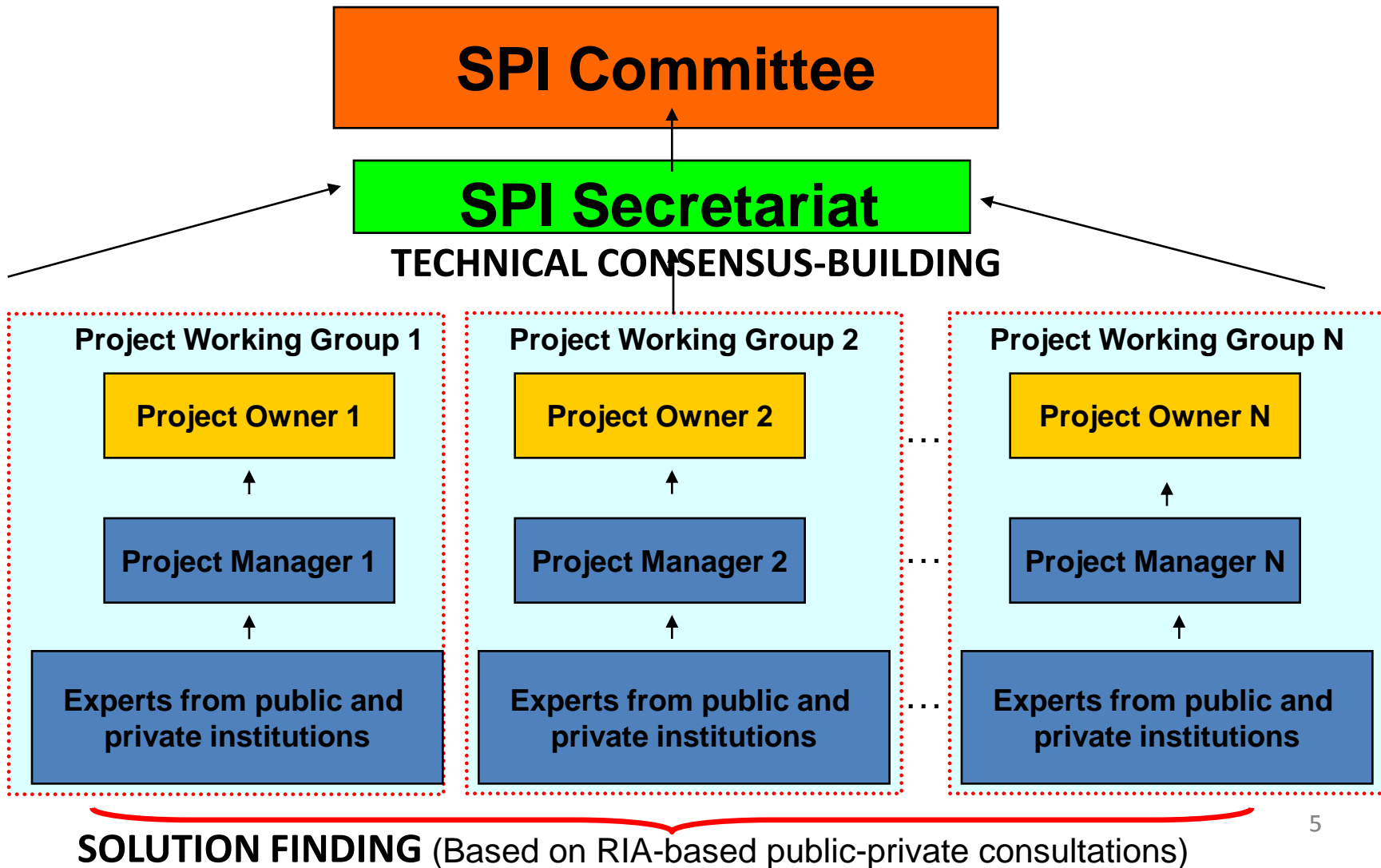
- Set up in 2005 to explore how to foster public-private financial sector policy dialogue in South-East Europe
  - Public-private coordination failures hamper modernization
- Has adopted EU “Better Regulation” policy development tools
  - Promoting transparent and robust dialogue framework
  - Building up market analytical and policy discussion skills
- Operational instrument: SPI Platform
  - Time-to-launch: 6 months
  - Time-to-first regulatory proposals: 12 months
- Proven successful in Romania
  - [www.spi-romania.eu](http://www.spi-romania.eu)
  - New SPI countries: Albania, Adriatic Region, Bangladesh..

# The SPI Platform Principles

- Public-private stakeholders decide program
  - Focus: market-building regulatory improvements requiring large coordination efforts outside core mandate of a single authority
  - Unanimous agreement required for actions
- Banks and consumers are analytical partners
  - Transparent analytical processes (EU Better Regulation)
- Leverages domestic capabilities
  - International consultants where needed
- Organizational and methodological support from World Bank's Convergence Program
  - Operating on stage but behind the scene
    - No direct technical advice

# 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 also propose issues of interest
    - Analytical work starts if authorities do not object
  - Authorities agree 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”, dialogue gap filler...

## 3. Working Groups prepare analytical solutions

- Official and banking experts work side-by-side



ROMANIA

CONVERGENCE FINANCIAL SECTOR MODERNIZATION

Public-Private Special Projects Initiative

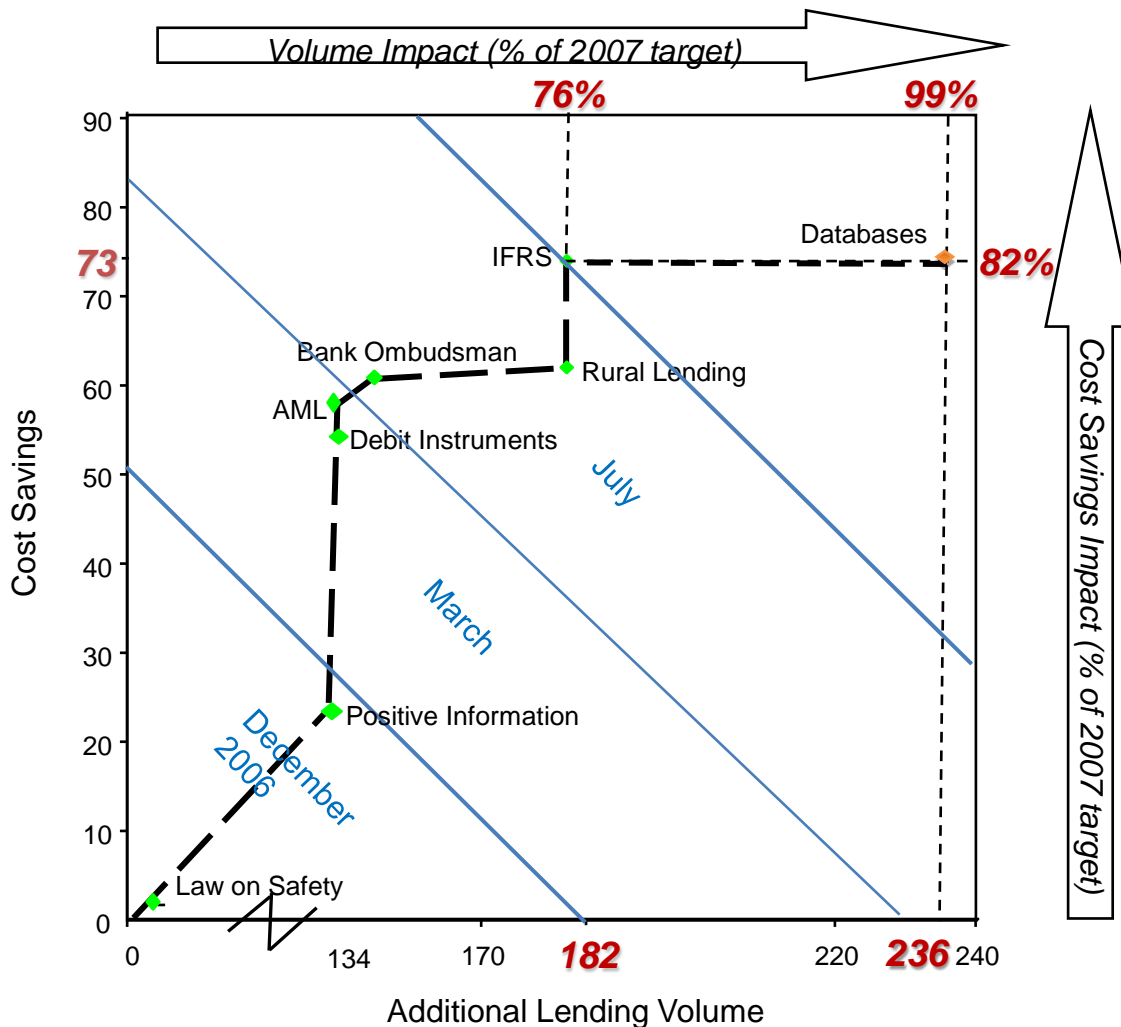


# Romania's 2007 Modernization Program

Italian Banking Association	FINANCIAL SECTOR MODERNIZATION CRITERIA	European Central Bank				
		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		
<b>Total</b>	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

# The SPI Secretariat Practices

## EU *Better Regulation*

Steps	Purpose
<b>Scoping of problem</b>	
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”).

<b>Analysis of impact</b>	
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
<b>Consultations</b>	
9. Data Questionnaire	To collect market structure data to feed into cost and benefit analysis
10. Policy Options Questionnaire	To learn market participant opinions on various policy options
<b>Conclusion</b>	
11. Final Recommendations	Final report based on Cost Benefit Analysis and market feedback



ROMANIA

CONVERGENCE FINANCIAL SECTOR MODERNIZATION

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# SPI Romania Partners

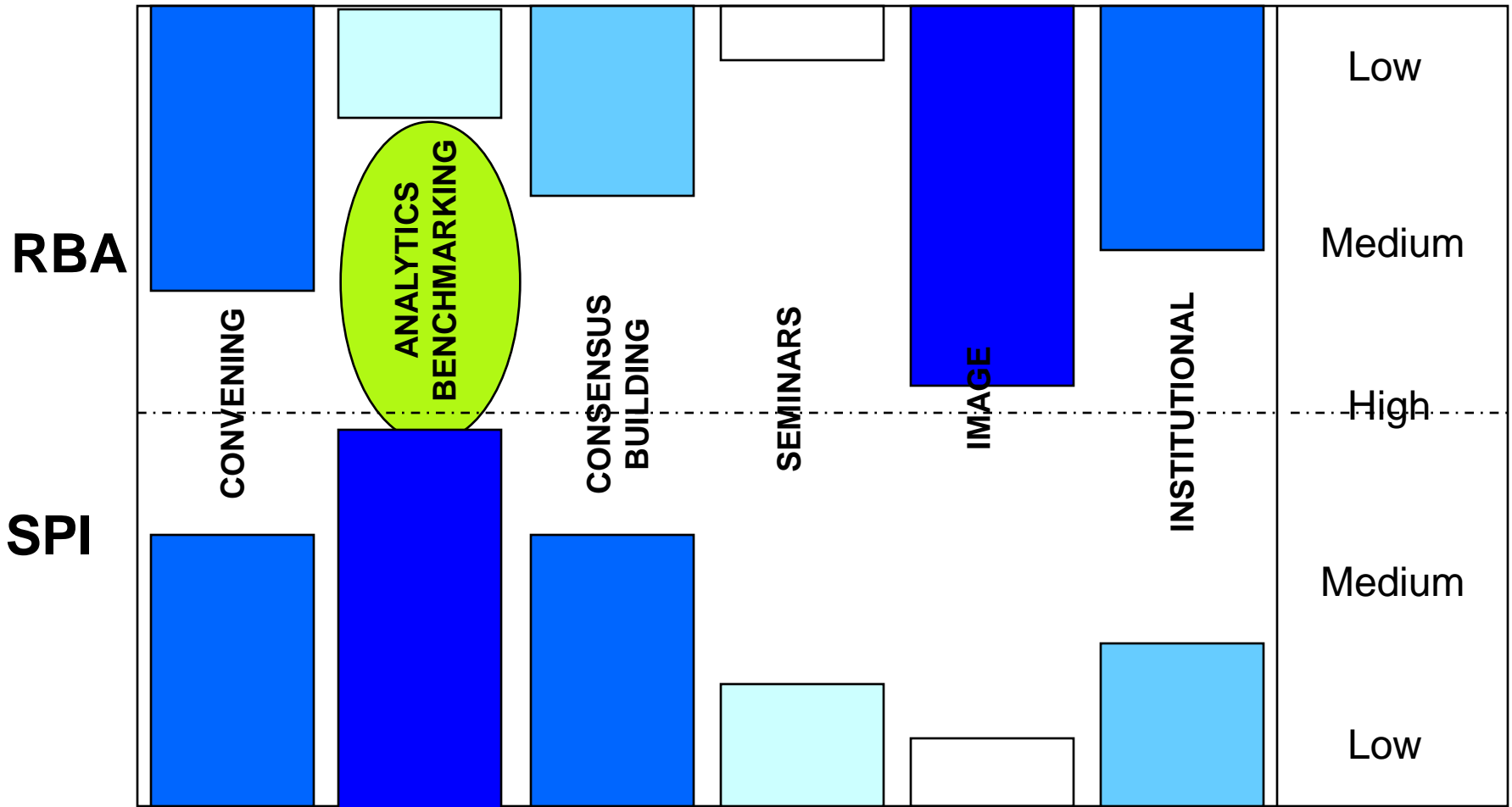
## 120+ Experts Mobilized

- 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

# SPI Builds A Strong Partnership

	Central Bank	Banking Association	SPI Secretariat
<b>Issue Identification</b>	Proposes issues where market technical input is useful	Proposes issues that hamper business development or create inefficiencies	Supports building Public-private program
<b>Solution Searching</b>	Provides experts	Provides experts	Make project working groups (PWG) produce concrete results in short time
<b>Consensus- Building</b>	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
<b>Enactment Promotion and Monitoring</b>	Acts on PWG recommendations	Monitors public actions and follows up if necessary	Supports analytical requirements for final decision-making

# Romania's Complementary Capabilities

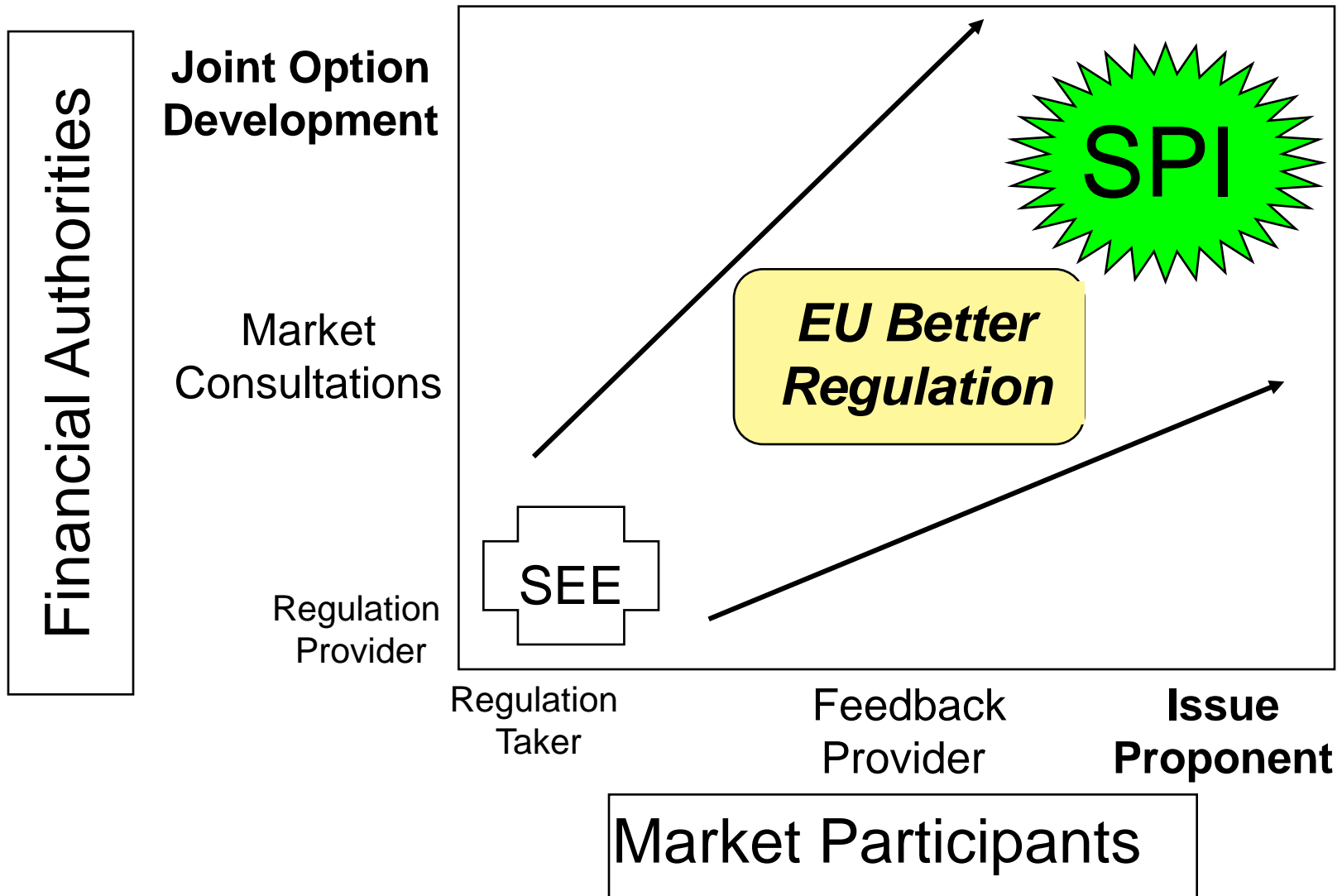


Notes
SPI extends RBA capabilities
Stronger SPI capabilities
SPI extends NBR links to MEF/NACP
Weak for both (RBI)
Much stronger RBA capabilities
Broader RBA Reach

# SPI Platform Impact

- It allows to address regulatory improvement needs that are important but not top priority for authorities
  - Mobilization of domestic multi-disciplinary expertise expands availability of analytical capacity
    - It also facilitates coordination among several actors
- If properly supported, it can process a large modernization program very efficiently
  - 10-15 additional key projects/year
  - Operating Cost: 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...

# The SPI Value Proposition



# From SPI Romania To SPI Adriatic



<b>Adriatic</b>
<b>Albania</b>
Montenegro
Croatia?
Kosovo?
Macedonia?
Serbia?



# SPI Albania Progress

- January 2008 Bank of Albania and Association of Albanian Banks Joint Commitment Letter to Convergence Program
- January SPI Romania Seminar in Tirana
- Feb-April RIA training program
- 15 May SPI Secretariat in place
- 10 June First SPI Committee meeting
  - » Approved the SPI Albania activity program for 2008
  - » Approved the SPI Committee Operating Guidelines
- 19 June Project Owners appointed
- 25 June Project Managers and PWG members appointed
- 3-4 July First PWG Meetings
- October First expected regulatory proposals

# SPI Albania 2008 Potential Projects

ALBANIA

ADRIATIC



## European Central Bank

Italian Banking Association

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

**BOLD BLUE:** BOA Proposals; **BOLD RED:** AAB Proposals; Black: Other Proposals 17

# How Could SPI Adriatic Emerge?

1. In several SEE countries, Associations of Banks start discussing initiative to accelerate and broaden modernization program with members
2. Associations of Banks engage with Central Banks and other authorities to launch the public-private initiative
3. If invited, Convergence Program is available to help raise awareness on SPI country program and organize its launch activities
  - Convergence Program helps Central Bank and Association of Banks build up a country modernization program beyond current plans;
  - Once funding sources are identified for a two-year program, Convergence Program helps recruit and train the SPI Country Secretariat;
  - Two-three SEE countries could launch SPI activities in 2009-2010.
4. SPI Country Secretariat prepares country modernization program for SPI Committee approval, based on local stakeholders' proposals
  - Overtime, SPI country programs develop strong SEE common component
5. SPI Country Secretariat launches and supports Project Working Groups
  - Project Working Proposals are ready for SPI Committee endorsement
  - Overtime, increasing regional cooperation among SPI Country Secretariats
6. SPI Adriatic emerges as a confederation of SPI Country Secretariats
  - A Regional Steering Committee harmonizes country programs and solutions
  - Aligned with EU priorities and programs
  - Target: 2010?

# Public-Private Cooperation

## A Central Bank Governor's View

*“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**



Thank you for your attention!

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