

ALBANIA
FINANCIAL SECTOR MODERNIZATION
PUBLIC CONSULTATION QUESTIONNAIRE

Financial sector modernization

“Financial modernization refers to the process of financial innovation and organizational improvements in the financial system that reduces asymmetric information, increases the completeness of markets, increases opportunities for agents to engage in financial transactions through (explicit or implicit) contracts, reduces transaction costs and increases competition.” – An ECB Executive Board Member

Dear market participant,

Bank of Albania and the Association of Albanian Banks are interested in hearing the market’s opinion on practices, norms and regulations presently applicable in the Albanian financial market that may need to be updated to enable the delivery of financial services activities at conditions that prevail in more developed EU countries.

The changes should help meet one or more of the five major modernization objectives outlined by the European Central Bank, as summarized in the statement placed at the opening of this document.

In line with the EU Better Regulation principles, we may consider setting up a structured platform to analyze these modernization proposals in collaboration with market participants, and with analytical support from the World Bank’s Convergence Program. A similar platform is already active in Romania (www.spi-romania.eu).

We cordially invite you to give your opinion by returning to the Bank of Albania the attached questionnaire duly filled. The questionnaire consists of two parts: Section A invites proposals on any issue that you consider as a priority for the Albanian financial market and that meets any of the above mentioned ECB modernization objectives. Section B allows you to comment on the relevance for Albania of about 30 modernization issues identified as priorities in Romania.

After consolidating your answers, the Bank of Albania will organize a public consultation to discuss the possible elements of a modernization program and the feasibility to carry on proposed analytical initiatives in partnership with relevant public and private stakeholders.

For any question you may have, please contact us at X@bankofalbania.org or secretariat@aab-al.org.

Sincerely,

Governor
National Bank of Albania

Chairperson
Association of Albanian Banks

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PLEASE RETURN IT TO: [X@bankofalbania.org] and [secretariat@aab-al.org]
BY [DEADLINE]

Name of Institution:

Contact Person:

SECTION A
ALBANIAN FINANCIAL SECTOR MODERNIZATION PROPOSALS

Please indicate modernization projects that would have a positive impact on financial services activities in Albania.

The envisaged topics should meet the following set of three *eligibility criteria*:

- ***Relevance for both market players and authorities***

Projects should have important public and private benefits in order to motivate authorities and market participants to join forces in their preparation.

The public good benefits refer to financial innovation and organizational improvements that reduce asymmetric information, complete the market framework, and increase opportunities for public and competition among market players.

Examples of public benefits:

- *potential reduction in costs to users of bank products and services;*
- *improved access to bank products and services;*
- *improved regulatory and enforcement environment;*
- *enhanced tools for monitoring financial stability.*

Examples of private benefits:

- *improvement of market infrastructure, accounting and reporting systems;*
- *diversification and growth of market opportunities;*
- *reduction of costs.*

- ***Specific market participant impact***

Projects should envisage the following areas of interest:

- (a) new product development;
- (b) cost efficiencies; and
- (c) better industry-consumer relationships.

- *Alignment with the strategic directions set by the EU Commission*

Modernization projects should contribute to the national and international efforts to build a EU single financial market.

The **objectives** of the Commission’s financial services policy over the next 5 years are to:

- *consolidate dynamically towards an integrated, open, inclusive, competitive, and economically efficient EU financial market;*
- *remove the remaining economically significant barriers so financial services can be provided and capital can circulate freely throughout the EU at the lowest possible cost – with effective levels of prudential and conduct of business regulation, resulting in high levels of financial stability, consumer benefits and consumer protection;*
- *implement, enforce and continuously evaluate the existing legislation and to apply rigorously the better regulation agenda to future initiatives;*
- *enhance supervisory cooperation and convergence in the EU, deepen relations with other global financial marketplaces and strengthen European influence globally.*

Please make proposals by answering the questions below.

1. Proposed issue

Title of the issue	
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2. Description of the proposed issue

Short description of the issue /situation to be solved	
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3. Fit with European Central Bank financial sector modernization criteria ((please tick in the appropriate box)

ECB Modernization Criteria	Your Assessment
Asymmetric Information	
Completeness of Markets	

Broader Access to Financial Contracts	
Reduction in Transaction Costs	
Increased Competition	

4. Is the issue of public and private interest and why?

	Short Description
Public interest in the issue	
Private interest in the issue	

5. Estimated economic impact ((please tick in the appropriate box)

	High	Medium	Low
Estimated economic impact			
Some economics (if available)			

6. Market Participant Impact of project (please tick the appropriate box)

New product development	
Costs reduction	
Better industry-consumer relationships	

7. International reference (if any)

	EU level	Deadline (if any)	Other EU country
International reference			

SECTION B
RELEVANCE FOR ALBANIA OF ROMANIAN MODERNIZATION ISSUES

Following are thirty or so projects proposed to be undertaken in Romania by the public private SPI partnership (Special Projects Initiative) in 2008.

Given the broad similarity of Albania and Romania’s financial sector characteristics, it is possible that issues raised by the SPI Romania stakeholders (National Bank of Romania, Romanian Banking Association, Ministry of Economy and Finance and National Authority for Consumer Protection) could be also relevant to the Albanian market. Undertaking Albanian and Romanian projects in parallel would be cost-efficient and could contribute to harmonizing the two markets with obvious benefits for market participants which would have access to potential economies of scale.

The project proposals are structured according the classification used by Italian Banking Association.

Please state your opinion on the relevance of these projects for Albania financial market.

	I. Business Development		
	<i>1)Developing lending to municipalities</i>	<i>2)Increasing bank lending under PPPs</i>	<i>3)Facilitating structural lending</i>
Description - background	Local public authorities have to undertake municipal projects on infrastructure, transportation and other, and one of the eligible financing sources are the bank loans. Banks see some constraints in lending to municipalities as the legal framework still has unclear issues such as municipalities’ bankruptcy or some provisions difficult to apply (such as the compulsoriness for credit rating) or poorly applied (such as public access to municipalities’ budgets and to execution of budgets for assessing the indebtedness level).	PPP is a viable method of introducing private management, know – how and resources in public services, through long term contracts. Although the national legislation has been recently amended in order to be better aligned with EU Directives and the institutional framework has been completed by establishing a special unit in MEF, banks appreciate that additional measures have to be taken in order to reach a better level of risk sharing among the public and private partners and to clarify legal aspects.	Beneficiaries of structural funds will have to co-finance projects by 50 percent and will often use loans to cover this share. Banks that should ensure these loans are reluctant to get involved in this kind of lending because of the unclear regulations and guides for implementing the structural programs. Although the government has established a National Guarantee Fund, not all banks have signed partnerships with the new institution and are reluctant in accepting the guarantees issued by it as these are accepted as explicit guarantees only based on the Fund compliance with

			some conditions (such as auditing conditions).
Relevancy for Albania			
How would you adapt it to Albania's needs?			
Comments			

	I. Business Development		
	<i>4) Promoting refinancing through securitization</i>	<i>5) Supporting thermal rehabilitation of houses</i>	<i>6) Development of Interbank Direct Debit</i>
Description - background	<p>The Securitization Law was enacted in 2006 and banks worked on creating homogeneous evaluation rules for several types of buildings, but there are no signs that the market is functioning.</p> <p>One reason could be that banks prefer loans for abroad instead of getting new financing sources by refinancing their mortgage loans. Due to the RMO regime, the cost of final loans financed from foreign sources is high. Another reason is that the norms implementing the law provide that only mortgage banks and commercial banks can issue mortgage securities.</p>	<p>A governmental project for thermal rehabilitation of house has been launched recently. The program provides that the thermal rehabilitation projects will be financially sustained by the State Budget (34% of the total costs), local budgets (33% of the total costs) and the rest by banks. Banks seem reluctant to enter into such loans because of the loan contracting party would be the tenants' associations and they see a legal problem in that. Banks would feel more comfortable to deal with companies specialized in administrating properties.</p>	<p>In Romania, compared to other European countries, Inter-bank Direct Debit is not a very popular bank product. The utilization of the IDD is low not only because of the low demand, but also because of some unclear aspects in the specific regulations that make banks reluctant in offering this product (i.e. the closing date for receiving complaints, the validation of the subscription code and invoice number, etc.). By non-offering this product, Romanian banks will be disadvantaged in the single European market context.</p>
Relevancy for Albania			
How would you adapt it to Albania's needs?			
Comments			

	I. Business Development		
	<i>7) Securing down payments made by individuals for real estate projects</i>	<i>8) Standardization of the contractual framework for repo and derivative transactions</i>	<i>9) Green Banking</i>
Description - background	One factor potentially preventing the development of the mortgage market in Romania is the potential buyers' lack of confidence in making advance payments to real estate developers, in lack of some security.	Repos and derivative transactions are subject to bilateral agreements signed by the involved parties. Such agreements are highly recommended and, in some cases, enforced by national regulations, because of the complexity and risks involved. International professional associations (such as ISMA-International Securities Market Association) have transposed the members' experience and know-how into standardized contracts which are increasingly used globally. Repos and OTC derivatives widely used in developed markets are registering very low volumes in Romania.	The issues related to environment protection and global heating are concerning a growing part of the population and companies and many of them would like to support actions for reducing pollution. Banks could provide their clients with options to invest in environmentally friendly banking products through the development of „green products”: energy efficiency mortgages, green car loans (preferential rates for hybrids and other low-emitting vehicle types), alternative energy venture capital, green credit cards (offering donations to NGO for every purchase), flexible financing for fuel efficient technologies, green loans for new condominium construction (energy and resources-efficient projects), etc.
Relevancy for Albania			
How would you adapt it to Albania's needs?			
Comments			

	II. Industry Competitiveness		
	<i>10) Database for risk rating the corporate clients</i>	<i>11)Improving the payments framework</i>	<i>12)Reducing the paper-based documents</i>
Description - background	At present banks use their own or their mother-banks' databases in order to risk rate their clients for credit scoring. The National Institute for Statistics offers poor information on the performance of the companies by sector and no information by industry; therefore, the accuracy of the credit rating based on that is low. At the same time, databases from other countries are not very relevant in the Romanian companies' case. In order to improve the risk rating, a database could be created in order to provide the industry/ sector benchmark. The database could also allow the release of the sector studies that would help banks to improve their portfolio and to better manage the credit risk. The database could also be extended in order to provide risk rating per company/ industry, rating that should be compliant with local and international risk management principles and widely recognized by the market.	Currently, there are three EU projects in respect of payments: implementation of the PSD, integration in TARGET 2 and integration in SEPA. The Romanian industry has taken steps in order to raise awareness on the three European initiatives. A structured, coordinated and coherent approach would facilitate the smooth implementation and integration.	There are areas where the paper-based documents could be eliminated, such as cross-border outgoing & incoming payments, account statement, by modifying the respective regulations.
Relevancy for Albania			
How would you adapt it to Albania's needs?			
Comments			

	II. Industry Competitiveness		
	<i>13)Centralized database for AML purposes</i>	<i>14)Improving account stopping regulation</i>	<i>15)Improving access to and availability of the basic banking products and services</i>
Description - background	In order to comply with provisions of AML regulations, banks have to create and maintain updated lists with suspect persons and PEPs. Instead of this situation, banks could join forces in creating and maintaining an unique database at the system level that could be easily accessed by all the participating banks and by NBR.	The current regulations on debt recovery don't provide, on the account stopping procedure, exhaustive details on the circuit of documents and on the banks' obligations under it. Therefore, banks are exposed to the risk of being penalized for not observing the legal requirements. At the same time, the account stopping processing and management requires dedicated infrastructure from the banks and is time consuming.	One of EC priorities refers to the accessibility and affordability of the basic banking products and services such as current accounts, ATM and credits. Industry representatives appreciate that basic banking services are accessible and affordable to Romanian consumers. However, although some of the banks do not charge any fees for opening a current account or for issuing a credit card, these products bear costs such as management fee and transaction charges that could be considerable as compared to their income. A comparison with the level of average charges/monthly salary in other countries could show if the industry assessment on the basic bank products is correct. The design of a simplified basket of bank products and services with a fair level of charges would improve consumers' access to them.
Relevancy for Albania			
How would you adapt it to Albania's needs?			
Comments			

	II. Industry Competitiveness			
	<i>16) Centralized tax roll</i>	<i>17) Electronic employment register</i>	<i>18) Facilitating bad debts recovery</i>	<i>19) Improving cooperation framework on consumer protection</i>
Description - background	For recovering bad loans, banks have, in certain circumstances, the right to foreclose upon all the debtor's assets. For this purpose they have to identify the assets. Banks can ask information in this respect from the local tax registers. There are cases in which banks are not aware of the possible assets belonging to the debtor and the jurisdictions where these are placed. Therefore, theoretically, banks have to inquire all the local authorities in Romania. The situation could be similar when the public authorities are trying to recover debts.	According to the Labor Code, employers have to maintain electronic registers with data on their employees and to send them to Labor Inspection Authorities. For individual loan applications, banks are asking for employment evidence and are verifying data usually by phone. The lack of a better checking modality caused in some cases losses for banks that were defrauded (through false documents and confirmations). The existence of a centralized electronic register to which banks can have access would decrease the fraud risk.	Although the loan contracts are executory titles, the procedures of taking into possession the debtors' goods are long and costly. In order to speed up the recovery procedures some amendments to the respective legal framework (Law no. 99/1999 and Civil Code) should be brought.	NACP is the authority that regulates the consumer protection issues, covering also consumer loans, and that supervises the application of the regulatory provisions by the market operators, including banks. A protocol of cooperation between RBA and NACP would create a platform for a structured and continuous dialogue for better regulations and for a proper implementation of the regulatory provisions.
Relevancy for Albania				
How would you adapt it to Albania's needs?				
Comments				

	III. Industry Reputation		
	<i>20)Bank Code of Conduct</i>	<i>21)Responsible borrowing</i>	<i>22)Expanding Banking Mediator</i>
Description – background	The Banking Ombudsman should rely on the industry Code of Conduct when solving the consumers’ complaints. RBA has on its agenda the preparation of the Code for some time, but the current problems and emergencies to be solved prevented an approach of this issue. The Code of Conduct should be also a benchmark for the consumer protection and a reference for consumer education areas.	The indebtedness level of consumers is an EC and Romanian authorities concern. In order to prevent financial crisis and unpleasant situations, consumers should be more aware on the consequences of their borrowing on their family budgets. They should get more support in terms of financial education in order to make better financial planning.	By next year the Banking Ombudsman will be established and functioning. It is designed to cover disputes of banks with individual customers on the banking services and products provided. The projected Payment Services Directive (PSD) provides that member states should have alternative dispute resolution concerning payments and it covers not only individuals, but also SMEs. An opportunity study would be necessary in order to determine whether a separate and specialized body should be organized or the coverage of the Banking Mediator should be extended.
Relevancy for Albania			
How would you adapt it to Albania’s needs?			
Comments			

	III. Industry Reputation			
	<i>23)Enhancing financial consumer's protection</i>	<i>24)Ombudsman knowledge transfer</i>	<i>25) Enhancing corporate Social Responsibility in the Banking Industry</i>	<i>26) Improving the quality of the education and professional training in the banking field</i>
Description - background	Banks have the possibility of changing unilaterally the terms under which they provide the services, sometimes without being obliged to notify the modifications to their clients (as for example by charging a new type of charge. A solution preventing such abusive measures would be highly desirable.	SPI Romania has the experience of researching and formulating recommendations and of preparing the documentary framework for establishing the Banking Ombudsman. There are financial areas that would also need ADR schemes to deal with consumers' complaints and for which supporting packages could be provided on request.	Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. CSR refers to the way companies manage the business processes to produce an overall positive impact on society. In the Romanian banking industry, there are individual initiatives of some banks in this respect, but there are no common policies and initiatives at the community level.	Banks are rapidly expanding their activities and their demand for staff is increasing. They are complaining on the inappropriate level of expertise of the human resources on the market. Because of the high pace of their expansion, banks can afford only short training periods whose consequence is the increase in the operational risk. Other institutions that have interferences with the banking system may feel the need to increase their expertise in the area. The formulation of an aggregate demand for expertise in the next 5 years would help universities, consultants and other institutions to adjust their curricula and programs (especially universities).
Relevancy for Albania				
How would you adapt it to Albania's needs?				
Comments				

	III. Industry Reputation		
	<i>27) Standardizing the minimal information for basic bank products and services</i>	<i>28) Standardizing the advice on selected bank products and services</i>	<i>29) Better information on saving products</i>
Description – background	<p>In respect of financial services, consumers complaint on the lack of knowledge and/or information or of clarity of the contractual terms. The terminology used by the financial industry should be simpler and understandable for all consumers.</p> <p>An obstacle in the achievement of a relevant, clear and simplified content of the information provided to consumers could be, in some cases, the regulatory requirements such as in the case of the prospectus for the investment funds. The simplified prospectus should contain key information, similar and comparable for similar products, in an accurate and understandable language.</p>	<p>MiFID provides specific requirements on financial intermediaries in respect of advice to customers. EC intends to review all directives on the retail financial services in order to insert this kind of requirements; therefore the future need for compliance with the legal requirements is easily predictable. The advice to consumers should be tailored to the client level of financial literacy and should be borne by the industry but endorsed by the regulatory authority.</p>	<p>Banks have to provide clear information on lending costs to consumers: all the costs related to loans have to be expressed in terms of annual interest rate. This allows better information of the public and creates the possibility for comparing offers and facilitates the decision making. The existence of similar information on deposits would have the same effects in respect of investment options.</p>
Relevancy for Albania			
How would you adapt it to Albania's needs?			
Comments			