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**(ONGOING) IMPACT ASSESSMENT ON  
A CREDIT CARDS REGULATORY PROPOSAL**

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*How to Design Better Financial Regulation*

*September 29, 2008*

*Ljubljana*

*SLOVENIA*

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**Regulatory Affairs**

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# Current presentation as a brainstorming session

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**Disclaimer:**

This presentation draws from an Impact Assessment exercise still in the process of being finalized

**In this context, please note that:**

- All data which follow are for simulation purposes only. Most of them are about to be replaced with evidence-based figures;
- Moreover, since not accomplished, the document underpinning the current presentation has not been presented yet to target authorities and other interested parties.

# An inter-disciplinary team work

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- To produce a professional contribution for a technical discussion, convergence and coordination of different competences and background is crucial

## Unit

- Regulatory Affairs
- International Relations
- Yapi ve Kredi Bankasi

## Professional

- Mr Riccardo Brogi
- Ms Serena Massimi  
Ms Gea Straccamore
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Mr Muhammet Mercan

# Regulatory Affairs committed to speak the Better Regulation language

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- A pioneering “line of products” for a market participant:

*the undertaking of the **Impact Assessment Reports***

- **Purpose of the Impact Assessment Report:**

To provide policy makers with an evidence-based analysis that could promote and facilitate a policy dialogue on whether the current regulatory proposal on credit cards is «justified in terms of a proper understanding of the nature of perceived problem» [1].

[1] CESR - CEBS - CEIPOS, *Impact Assessment Guidelines*, April 2008.

# The issue to deal with

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- In Turkey, a draft of new Credit Cards' legislation aims to cap interest rates for credit card loans at a level that is at most two times the deposit interest rate.
    - *Example:* Deposit Rate=10% → Max Credit Card Rate: 20%
  - Currently:
    - contractual market interest rate (monthly): 4.54%;
    - deposit interest rate (monthly): 1.35%.
- As a result, the proposed legislation would halve monthly credit cards rates from the current 4.54% to implied 2.7%.

# Structure of Impact Assessment Report

- The Issue;
  - Background;
  - International comparison;
  - Problem scoping
    - ✓ Problem identification;
    - ✓ Policy goals at risk;
    - ✓ Policy options.
  - Causal model of impacts;
  - Impact Analysis Evidence
    - ✓ Impact on the sample of banks;
    - ✓ Impact on consumers;
    - ✓ Impact on Government.
  - Conclusions;
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- Annex A – Impact Assessment Calculations;
  - Annex B – Data and Assumptions



# Causal Model of Impacts – some conclusions

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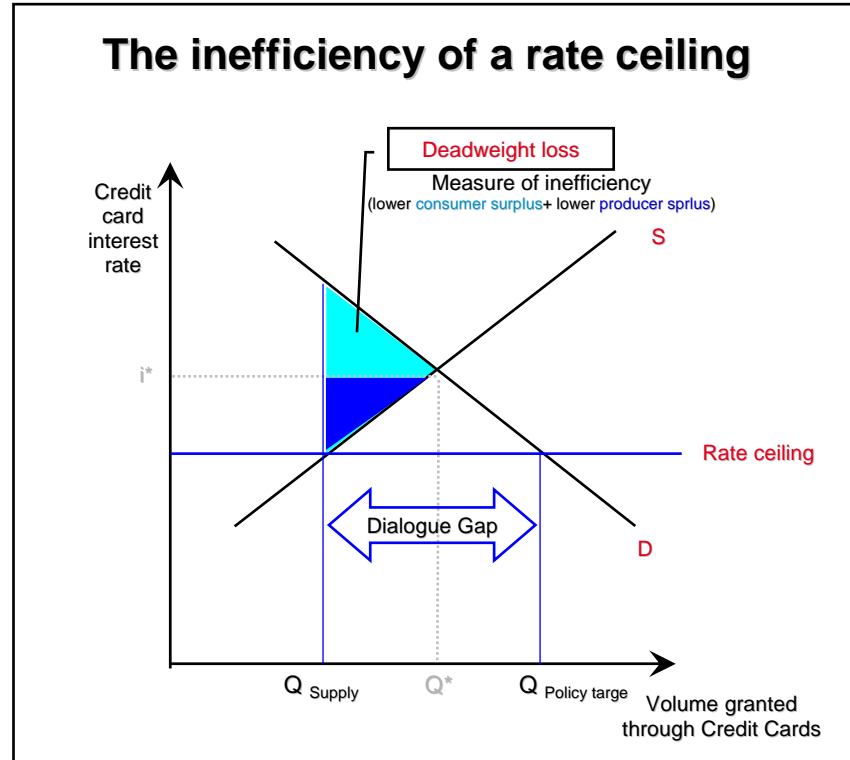
- ❑ To figure out which possible consequences a proposed policy intervention may bring about;
- ❑ To get the full picture from a dynamic perspective;
- ❑ To identify policy objectives negatively influenced;
  
- ✓ In this case the policy objectives that are negatively influenced are the following:
  - Proper functioning of the financial market (efficient allocation of financial resources);
  - Performance of the financial system (i.e. financial efficiency and stability);
  - Performance of the economy (i.e. economic growth and price stability);
  - Access to finance for households;
  - Prevention of black economy



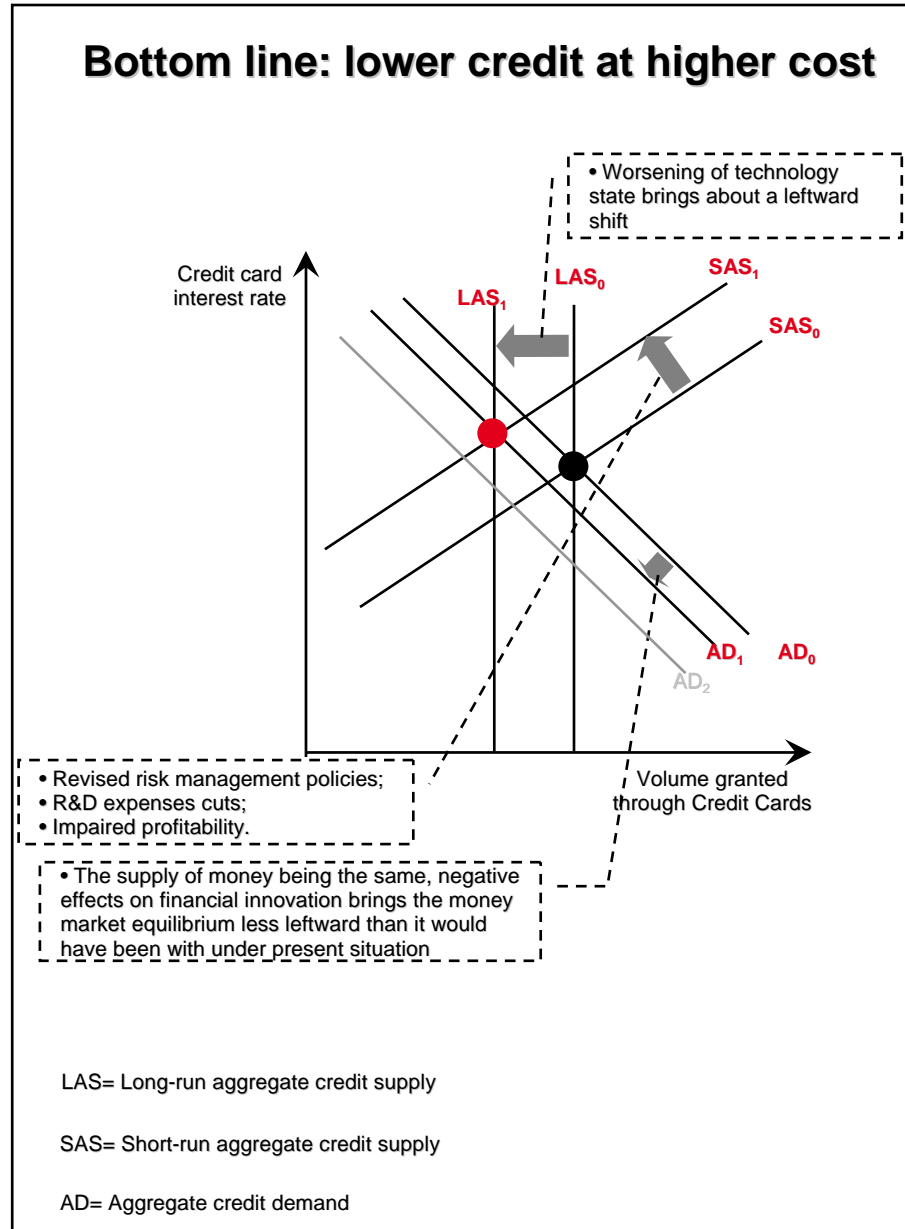
# International benchmarking

Regulatory profile					
Country	Is there a cap in place?	Regulation referring to cap-like measures	Key methodological criteria	Formula (to determine the cap)	Who sets the cap
USA	Not set at Federal level	U.S. Truth in Lending Act 1968 - Regulation Z	Each U.S. state has its own statute which dictates how much interest can be charged before it is considered usurious or unlawful.		
UK	No	Consumer Credit Act 1974	The Credit Act permits a court to reopen terms of credit agreement that it finds "extortionate" so as "to do justice between the parties"		
Austria	No	Federal Act of 8 March 1979 governing Provisions to Protect Consumers	According to case law, interest rates of about 20% or more are regarded as being contra bona mores.		
France	Yes	Consumer Code	i) In France the interest rates to be applied by a bank cannot exceed the reference rate by more than 33% percent ii) the reference rate is represented by the <b>sector average interest rate (SAIR)</b> iii) Ministry of Economy and Finance designates Banque de France to set the cap	Cap= SAIR+ (33%*SAIR)	Banque de France (on a quarterly basis)
Germany	Yes	Sect. 138 of German Civil Act	The courts have defined a usury interest rate ceiling of approximately twice the <b>average rate for consumer credit (ARCC)</b> .	Cap = ARCC*(1+100%)	Jurisprudence
Italy	Yes	Law 108/1996, Anti-usury	On a quarterly basis the <b>Average Overall Effective Rate (AOER)</b> is computed along the following criteria: i) AOER is drawn from market interest rates for each business segment ii) Each business segment is made up of omogeneous operations (considering the following: nature, amount, object, maturity, risks and guarantees) iii) previous quarter as reference period iii) market interest rates	Cap= AOER+ (50%*AOER)	Ministry of Economy (on a quarterly basis with a decree)
Spain	Not defined by law	Anty Usury Law - 23 June 1908	It is ruled by the Court on a case by case basis		

# Impact on industry economics (1)



# Impact on industry economics (2)



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**Bottom line quantitative impact  
calculations:  
a feasible task and useful  
decision-making “compass”**

# Impact on Consumers (1)

Scenario	1 <sup>st</sup> full year impact	5-year impact
<b>Present situation</b>		
Number of people	<b>250.000</b>	<b>2.660.000</b>
<b>Proposed new regulation</b>		
Number of people	<b>96.000</b>	<b>- 1.500.000</b>
Reduction in new Credit Card Clients	<b>154.000</b>	<b>4.160.000</b>

# Impact on Consumers (2)

All figures:  $\cong$   Baseline  
 Year:  $t_1$   Option 1

<b>A</b>	Incremental credit card outstanding volume (TRYMn)	1,400
<b>B</b>	Annual growth Rate of balance per credit card (%)	15%
<b>C=A*B</b>	Estimated avg balance/credit card (TRY Mn)	765
<b>D=A/C</b>	Marginal number of credit cards (#)	1,878,000
<b>E</b>	Number of credit cards/cardholder (#)	1.5
<b>F=D/E</b>	Number of new credit cardholders (#)	1,250,000
<b>G</b>	% of people accessing to finance through c. cards	20%
<b>H=F*G</b>	Number of people financially included through c. cards (#)	1Y: 250,400 5Ys: 2,650,000

<b>I</b>	Number of people financially included through c. cards (#)	1Y: 96,000 5Ys: -1,500,000
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# Impact on Government (1)

Scenario	1 <sup>st</sup> full year impact (Mln, € Present Value)		5-year impact (Mln, € Present Value)	
	Additional costs (relative to 2007)	Additional benefits (relative to 2007)	Additional costs (relative to 2007)	Additional benefits (relative to 2007)
<b>Tax revenue from banking profile</b>				
<b>Present situation</b>				
Tax revenue stemming from marginal credit-card business generated profit	-	<b>3,1</b>	-	<b>32,0</b>
<b>Proposed new regulation</b>				
Tax revenue stemming from marginal credit-card business generated profit	-	<b>1,2</b>	-	<b>- 17,8</b>
<b>Black economy profile</b>				
<b>Present situation</b>				
Tax revenue that could be forgone	-	<b>0,9</b>	-	<b>6,5</b>
<b>Proposed new regulation</b>				
Tax revenue that could be forgone	-	<b>0,3</b>	-	<b>-3,3</b>
<b>Overall Difference</b>		<b>2,5</b>		<b>59,6</b>

# Impact on Government (2)

- A calculation excerpt -

All figures:  $\cong$   Baseline  
 Year:  $t_1$   Option 1

<b>A</b>	Incremental credit card outstanding volume (TRYMn)		1,400
<b>B</b>	Pretax income attributable to C.Card business/incremental outstanding volume (%)		3.1%
<b>C</b>	Tax rate (%)		15.9%
<b>D=A*B*C</b>	Tax revenue (TRYMn)		7
<b>E</b>	Discount factor		0.854701
<b>F=C*D</b>	PV tax revenue (TRY Mn)		6.1
<b>G</b>	PV tax revenue (EUR Mn)	1Y	3
		5Ys	32
<b>H</b>	PV tax revenue (EUR Mn)	1Y	1
		5Ys	-18



# Impact on (sample) banks (1)

Scenario	1 <sup>st</sup> full year impact (Mln, € Present Value)		5-year impact (Mln, € Present Value)	
	Additional costs (relative to 2007)	Additional benefits (relative to 2007)	Additional costs (relative to 2007)	Additional benefits (relative to 2007)
<b>Present situation</b>				
NPL/total loans ratio – CAGR	<b>0%</b>	-	<b>0%</b>	-
Incremental Credit Card debit volume	-	<b>636</b>	-	<b>6.500</b>
<b>Proposed new regulation</b>				
NPL/total loans ratio – CAGR	<b>15%</b>	-	<b>15%</b>	-
Incremental Credit Card debit volume	-	<b>245</b>	-	<b>- 3.600</b>
<b>Difference</b>		<b>391</b>		<b>10.000</b>

# Impact on (sample) banks (2)

- A calculation excerpt -

All figures:  $\cong$   Baseline  
 Year:  $t_1$   Option 1

<b>A</b>	Sample credit card outstanding volume - End 2007 - (TRYMn)		11,000
<b>B</b>	Expected annual growth in the segment (%)		13%
<b>C=A*B</b>	Sample cred.card. outst. Volume - end $t_1$ - (TRY Mn)		12.400
<b>D=C-A</b>	Incremental outstanding volume (TRY Mn)		1,400
<b>E</b>	Discount factor		0.854701
<b>F=C*D</b>	PV outstanding incremental volume (TRY Mn)		1,200
<b>G</b>	PV outstanding incremental volume (EUR Mn)	1Y	630
		5Ys	6,400

<b>H</b>	PV outstanding incremental volume (EUR Mn)	1Y	245
		5Ys	-3,600

# Take-away points

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- ❑ A professional dialogue on evidence-based economic analysis could help authorities better understand the Supply and Demand dynamics of proposed regulatory interventions;
- ❑ The point of view of market participants is very useful to understand supply dynamics (practical knowledge of how banking business is conducted);
- ❑ Involvement of other market stakeholders (e.g. consumers association) would raise both financial education and effectiveness of the regulatory initiatives.

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**Thanks for your attention!**

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