



Tirana, February 15, 2008

**Attn:**

**I.**

**American Bank of Albania  
Raiffeisen Bank,  
National Bank of Greece, Tirana branch  
Credins Bank,  
Procredit Bank,  
Popular Bank,**

**II. (Optional)**

**National Commercial Bank,  
United Bank of Albania,  
Tirana Bank,  
International Commercial bank,  
Emporiki Bank,  
Credit Bank of Albania  
First Investment Bank  
Alpha Bank  
Union Bank  
Italian Bank of Development**

**III.**

**Albanian Banks' Association**

**IV. (optional)**

**Financial Supervisory Authority**

**Subject: Consultation questionnaire on Albanian Regulatory Impact Assessment Exercise prepared by Bank of Albania (working group)**

Dear Sirs,

**Bank of Albania** and **Association of Albanian Banks**, with support from the World Bank's **Convergence Program** and the **EU Interreg "Aquifalc" Program**, under the project "**SPI ALBANIA**", are going to perform a Regulatory Impact Assessment (RIA) designed by working groups, where Bank of Albania and market participants will collaborate closely in the perspective of EU Accession.

RIA has the main focus on strengthening our ability to use this approach in order to improve the way in which we make policy. RIA requires the policy makers should use evidence and economic analysis to substantiate and explain their proposals. An important part of this process is the consultation with stakeholders as it promotes public reliability and provides stakeholders with the opportunity to contribute to an effective policy making process. RIA training exercise includes in case of Albania an important part of the legislation that give attention to bank transparency. Bank of Albanian is working on updating the guideline no.49, dated 22.04.1999 "**On the transparency of banking operations and services**" and drawing-up the new one on "**Minimum requirements for disclosure of information by banks and branches of foreign banks**".

Herebelow, you will find attached a questionnaire and we would appreciate if you could contribute on its completion.

The questionnaire is designed to provide us with evidence relating to the nature of the problem that the regulations are going to address, as well as the costs and benefits of the regulations.

In addition, we would appreciate having your written response by February 20, 2008, then we will invite you to an open discussions meeting scheduled on February 21<sup>st</sup>.

Yours sincerely,

Bank of Albania (working group)

# Impact Assessment questionnaire

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| <b>Section 1: What is the problem?</b> |
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In this section we consider what the rationale for a particular regulatory intervention might have been.

**We believe that we should deal with two projects under the same option – *bank transparency* – The Projects here below consist on two separate parts of the process of transparency of banks and branches of foreign banks with the public and market participants, that we will treat them separately in two detailed regulatory acts, based on their importance, as two integral parts of one single process.**

**“On the transparency of banking operations and services” which is based on the requirements of the new law “On Banking” as well as the issues identified in the banking system pertaining to their transparency with regards to products and banking services offered to the public in general and clients in particular. The project focuses mainly on the regulatory requirements on the way and format of providing information for the clients about the products and banking services offered, in particular on publishing the effective interest rates of deposits/loans, their method of calculation, elements of loan and deposit contracts, marketing of products and services, maintaining confidentiality of client’s information, dealing with complaints from the latter etc.**

**“Minimum requirements for disclosure of information by banks and branches of foreign banks”, is based on the requirements of the Basel II, Third Pillar, and the new law “On Banking”, which primarily deals with regulatory requirements of the supervisory authority on the publication of the information of banks and branches of foreign banks with regards to their activity, financial conditions, progress, risks faced in the environment of their activity, policies and their processes of administration, as well as accounting policies for the public and the market participants.**

**Question 1: do you agree with us that the problem is as described above?**

Please explain your answer, including evidence (or suggesting the type of evidence that would be relevant) where at all possible. For example, what evidence do you think would demonstrate or in fact does demonstrate that there was significant regulatory failure?

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If no intervention or further intervention would have taken place, we think that the market would have not corrected the failure by itself in the short term for the following reasons(s):

**We as regulators (supervisors) do not believe that the market could be corrected the failure by itself. Some improvement or some insignificant changes could be occurred to individual banks only by taking the corrective measures or penalties (by BoA).**

**Question 2: do you agree with us that about the analysis above?**

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## **Section 2: What are the possible policy solutions?**

**As the transparency become more challenging and the scope of banks' activities expanded over the years, there is a call for better transparency by regulators and public, investors, market entities as well in Albania, therefore:**

- **We believe that the guideline "On the Transparency of the banking operations and services" is effective since 1999 and the banks' activities have become more complex and dynamic. Also, the new law on banking emphasizes the importance of customer protection by imposing minimal requirement in the law on the transparency of banks, there we believe that to tackle the low compliance of banks with the existing guidelines we need to update it to reflect the nature of the products as well as add requirements and clarify the procedure for instance on customer complaints to encourage stability and attract informed customers into the market.**
- **There is not a specific regulation on disclosing the information by banks on their activity, financial conditions, progress, risk profile and its management, policies and their processes of administration, as well as accounting policies for the public and the market participants (the Law "On banking" and international standards impose these requirements). Therefore, to encourage competitiveness and market**

stability we propose disclosure by banks of the abovementioned information on regular basis.

Question 3: Do you believe that the measures described above will achieve the purpose of a more competitive and stable market? Do you believe any other measures are necessary?

Section 3: Cost-Benefit Analysis

I - Analysis of impacts (Users)

Table 1

| Types of consumers detriment in the absence of regulation | Explanation of detriment  |   |                                      | Potential benefits of regulations   | Qualitative summary results on benefits |
|---|---|---|--------------------------------------|---|---|
|   | The transparency of the banking operation and services.   | Minimum requirements for disclosure of information by banks.            | Qualitative summary results on costs |   |   |
| <i>Sub-optimal choice</i>                                 | Mis-choice of financial products. Consumers can not evaluate the characteristics of a product.  | Mis-oriented in decision making regarding investment in banking system. |                                      | Consumers can take better decisions (they can evaluate the characteristics of a product). |   |
| <i>Reduced choice</i>                                     | In case of imperfect information consumers can not evaluate the characteristics of the products and the quality of the producer (bank). The lack of consumer confidence may |   |                                      | Consumers benefit from the increased choices.   |   |

|  |  |  |   |  |
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|  | make it not worthwhile for firms to offer certain types of product, reducing the choices available to the customers.   |  |   |  |
| <i>Higher costs from operational risk</i>                  | Losses faced by customers because of operational failure (mis-selling, negligent advice, fraud, system breakdown). Higher prices if costs are passed to consumers. |  | Reduction of expected losses and other costs associated with operational failure.                   |  |
| <i>Higher costs from financial risks</i>                   | Losses that arise to consumers as a result of a default of a firm (e.g., deposited funds cannot be returned).  |  | Reduction of expected losses and cost associated with financial failure.                            |  |
| <i>Higher costs from systemic risks</i>                    | Negative externalities where the default of one entity can trigger further defaults in the system.   |  | Reduction of expected losses and cost associated with systemic failure.                             |  |
| <i>Higher prices from market power of firms</i>            | Consumers pay excessive prices to an entity exercising its market power.   |  | Reduction of excessive prices.  |  |
| <i>Higher costs from transaction system inefficiencies</i> | System inefficiencies in presence of information problems, (e.g. consumers need to spent more time to for suitable products or providers).                         |  | Reduction of transaction costs/prices arising from inefficiencies, including consumer search costs. |  |
| <i>Financial exclusion</i>                                 | Even in the case of market efficiency, some consumers may not be able to gain adequate or affordable access to financial services.                                 |  | Value consumers derive from improved access to financial services.                                  |  |

**Question a):** Do you agree with the analysis above? *Please explain your answer, including evidence (or suggesting the type of evidence that would be relevant) where at all possible.*

**Question b):** If you agree with a), please estimate the extend to which the costs to consumers would be reflected (if you can not give numbers please evaluate qualitatively: high, medium, low).

**Question c):** Please estimate the benefits for consumers (if you can not give numbers please evaluate qualitatively: high, medium, low).

**(pls see to the next page table 2)**

## II - Analysis of impacts (Regulated entities)

Table 2

| Regulated institutions costs | On the transparency of the banking operation and services.  | Qualitative summary results | Minimum requirements for disclosure of information by banks.   | Qualitative summary results |
|------------------------------|---|-----------------------------|--|-----------------------------|
| <b>Compliance costs</b>      |   |                             |  |                             |
| <i>One-off costs</i>         | Setting up a policy to deal with the negotiations with dissatisfied consumers.  |                             |  |                             |
|                              | Setting up a new unit to treat consumers complains (recruiting staff, salaries, IT costs).                            |                             |  |                             |
|                              | Information and training costs arising from knowing and understanding the new regulatory requirement (including time) |                             | Information and training costs arising from knowing and understanding the new regulatory requirement, (including time) |                             |
| <i>On-going costs</i>        |   |                             | Publication costs  |                             |
|                              | Maintenance of equipment of the new unit and revise the policy decided.   |                             |  |                             |
|                              | Staff costs: salaries   |                             | Staff costs: salaries  |                             |
|                              |   |                             |  |                             |
|                              |   |                             |  |                             |

**Question a):** Do you agree with the cost categories we have identified above?  
*Please identify other costs you consider important in implementing the regulations described above.*

**Question b):** With regard to question a), please provide an estimate of the costs previously qualified (if you can not give numbers please evaluate qualitatively: high, medium, low).

**Table 3**

|   | Regulated firms Benefits           |   |                                    |
|---|------------------------------------|---|------------------------------------|
|   | <i>Qualitative summary results</i> | <b>Minimum requirements for disclosure of information by banks.</b>                   |                                    |
| <b>On the transparency of the banking operation and services.</b>   | <i>Qualitative summary results</i> | <b>Minimum requirements for disclosure of information by banks.</b>                   | <i>Qualitative summary results</i> |
| Decreased information asymmetry (between the bank and the consumer).  |                                    | Decreased information asymmetry (more information available in the financial market). |                                    |
| Increased product quality; (Better understanding of the consumers' needs. Better management for products offered to clients). |                                    | Increased market confidence.  |                                    |
| Increased consumer confidence.  |                                    | Enhanced financial stability.   |                                    |
| Reduction of nonperforming loans.   |                                    | Reduced cost of capital (if listed in a stock exchange).                              |                                    |
| Better risk management.   |                                    |   |                                    |
| Increase the soundness of the financial system.   |                                    | Increased efficiency in competition.  |                                    |
| Increased efficiency in competition.  |                                    |   |                                    |
|   |                                    |   |                                    |

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**Question c):** Do you agree with the benefits identified above? Add other benefits which may be important. Please provide an estimate of the benefits previously qualified (if you can not give numbers please evaluate qualitatively: high, medium, low).