



Minutes of the FSUG meeting 10-11 June 2013

Monday 10 June

Welcome address by Mr Alin Iacob (FSUG member)

Mr Iacob welcomed the FSUG members and the representatives of the European Commission at the FSUG external meeting in Bucharest. He said that it was a great honour and opportunity for the financial users in Romania to host the meeting of the group. This will raise the FSUG members' and the Commission's awareness about the problems and challenges faced by financial users in one of the new Member States of the EU.

Mr Iacob explained that consumers in Romania are still experiencing numerous difficulties in the area of financial services, and in addition they are not represented in the boards and advisory bodies of financial regulators unlike the financial industry. However, the situation of Romanian financial consumers has been recently improving slowly with some important legal actions against financial institutions which were resolved positively for consumers.

Mr Iacob gave an example of irresponsible lending practices of banks which has been one of the reasons for growing overindebtedness of a number of Romanian consumers in the last few years. In the opinion of Mr Iacob, the banks, in pursuit of higher profit, have developed risky products and have encouraged people to borrow excessively.

Nevertheless, some public authorities, such as National Consumer Protection Authority and the Data Protection Authority have been successful in defending consumers' interests and managed to better balance the relationship between financial institutions and consumers.

Furthermore, Mr Iacob announced the creation of an association dedicated to support the interests of Romanian financial services' users. The principal task of the association will be to solve some of the key issues for financial users in the country which are currently ignored by the government, such as: personal bankruptcy law, restrictions on abusive practices of debt collectors, a clear framework for collective actions against abusive clauses, introduction of caps on interest rates etc.

Finally, Mr Iacob suggested taking forward by the FSUG of the proposal made in 2012 and to come up with the FSUG Citizens Initiative which would enhance financial users' protection in the EU.

Adoption of the agenda and approval of the minutes of the last meeting (22-23 May 2013)

A member of the FSUG informed about a research study carried out by the European Foundation for Financial Inclusion which demonstrated that the number of cash transactions had been decreasing.

Another member of the group drew the FSUG members' attention to the study conducted by DG Just of the European Commission about the pension gender gap and proposed to invite

a representative of DG Just to the FSUG meeting in September to discuss about the findings of the study.

In the context of the Commission proposal for a Directive on Payment Accounts, an FSUG member informed that the ECON Committee, in charge of the proposal in the European Parliament, has been putting pressure on the Council to start the negotiations of the Directive as soon as possible.

Another member of the group updated the members on the topics recently discussed by the EBA Banking Stakeholder Group: crowdfunding, peer-to-peer lending, mortgage and SMEs lending. He suggested that the FSUG should take a positive position on the new market developments. He also explained the role of the Charter Banking Institute, which, among others, develops self-regulation for the banking industry in the UK, and proposed to invite its CEO to the FSUG meeting in September.

A member of the FSUG informed about a public hearing on financial supervision organised by the European Commission in May where he represented the FSUG. One of the conclusions of the hearing was the need to ensure more resources for improved and more professional consumer representation and protection in financial services, including on technical issues. He added that the European Supervisory Authorities do not pay sufficient attention to enforcement.

Another member informed about a conference held in Austria which presented the findings of the study researching the efficiency of the Key Investment Document in the country.

Another member informed about the meeting of the ESMA stakeholder group in which she had recently participated.

A member of the FSUG presented his concerns with regards to the planned regulation of interchange fees (MIFs) by the Commission. He argued that this may result in the increase of fees for payment cards for consumers. He informed that his organisation had sent a letter to Commissioner Barnier expressing its reservations and asking the Commission to withdraw from the planned initiative. Another member disagreed with this approach and explained that there was no proof that the regulation of interchange fees might lead to higher prices for cards. It was concluded that the FSUG would prepare a position paper concerning the regulation of MIFs which would be shortly addressed to Commissioner Barnier.

Finally, another member of the group informed about a study recently completed by his organisation about collective redress actions in Spain.

Overview of the Romanian financial markets and economy – presentation and discussion with FSUG members

- Mr Ionut Dumitru, chairman of the Fiscal Council and Vice-President of the Financial Banking Analysts' Association in Romania, PhD Professor at the Faculty of Finance and Banking, University of Economics Bucharest, Chief Economist at Raiffeisen Bank

Mr Dumitru made a brief introduction to his presentation. The Fiscal Council of Romania is an independent body whose role is to act as watchdog over the government's fiscal policy choices and to raise awareness among Romanian citizens on fiscal and budgetary issues. The presentation focused on three areas: the pre-crisis growth and imbalances; post-crisis macroeconomic adjustments; and overview of the financial markets.

Mr Dumitru described a very rapid economic growth prior to the financial crisis reaching an annual average of 6% of GDP in real terms. This growth was mainly driven by rising

domestic demand, mostly consumption of imported goods, which fuelled the increasing current account deficit.

During this period private sector debt rose significantly. Foreign investment, mainly channeled through the banking sector was very significant and attracted high levels of foreign capital. Once the financial crisis set in, Romania was significantly exposed to risk given the high private sector debt levels and roll-over needs and over-dependency on capital flows from abroad, which shrunk, exposing the country to a funding gap.

The correction period was characterized by government action to reverse some of the policies that had been undertaken in the pre-crisis period in order to bring the public deficit under control. During the correction period the budget deficit was brought down from a peak 9% of GDP in 2009 to below 3% in 2012. This was achieved mainly by cutting public expenditure, reducing the number of public civil servants and curtailing pay and benefits, but also hiking VAT from 19% to 24%.

The much lower foreign capital inflows, which had financed most of the pre-growth period, led to a significant reduction in investment and a slump in consumption in 2009-2010. Fiscal consolidation efforts supported by EU-IMF financial assistance programmes were the second most impressive at the European level after Greece. The main aim of the EU-IMF financial assistance programme was to fill in for the finance gap left by the shortage of foreign capital flows into the economy as from 2009. Overall the correction policies have been successful in stabilising Romania's economy.

When addressing the future prospects of the Romanian economy, Mr Dumitru noted that long term prospects are good but a number of short term challenges need to be overcome. Per capita GDP in Romania is the second smallest in the EU. The Competitiveness of Romanian industry needs to improve significantly modernising previously state-owned companies. Growth forecasts indicate levels below 3% over the next few years, which is higher than the EU average. Economic activity is already on an upward trend, but growth is sluggish.

The services sector accounts for approximately 56% of GDP; the industrial sector is about 27%, followed by the construction sector (10%) and agriculture, (7%). The main growth sector is the industrial sector mainly led by exports. The automotive sector has grown significantly driving industrial output, and Romania gradually shifts its export markets from other EU countries to outside the EU. The Labour market is also recording some improvements due to the recent restructuring of public sector wages and benefits. However wages continue to be low, with a gross average wage of approximately €400 per month.

The absorption of EU funds is low and mainly comprises advances for projects that are at initial stages. This is partly due to a low Institutional capacity, where responsibilities are dispersed among many government departments and are not properly coordinated. Corruption has also blocked some financing packages.

The final part of the presentation provided an overview of the financial sector, more specifically the banking sector whose net assets amount to approximately 70% of GDP. Bank penetration in Romania is relatively high in terms of number of banking branches per inhabitant and 80% of the banking sector is foreign owned. The insurance and investment sectors are not particularly developed. The private pensions market is still young, having been established in the 2007-2008 period.

Non-government lending as a percentage of GDP stands at around 40%, which is low compared to other EU states. Private lending is mainly directed to consumer credit (80%) which includes home equity (borrowing backed by mortgages), with the remaining 20% going to mortgage credit. In recent years consumer lending has lost ground in terms of the stock of

lending in the banking sector and lending activity is generally falling. Improvements are observed in loan-to –deposit ratios, as Romanians lower consumption in favour of increasing savings. Remittances for Romanian workers abroad are significant although they have also fallen since the pre-crisis period.

External liabilities of banks (funding from mother companies), have fallen as banks are deleveraging, but fortunately this process was orderly up to date. Capitalisation levels are good and banks are generally stable. However non-performing loans continue to increase, as a result of lax lending practices during the banking boom. However figures relating to non-performing loans need to be analysed carefully when compared to other countries, where loans are written-off more quickly. The banking regulation in Romania does not allow banks to write off loans unless they exhaust all legal means (including insolvency). This means that loans that should be considered dead, continue to appear in statistics as nonperforming unlike in other countries.

European capital markets regulation: impact on private investors and gaps in the implementation and enforcement in Romania – presentation and discussion with FSUG members.

- Mr Dumitru Beze, Chairman of the Romanian Investors Association

The presentation was delivered by Mr Marcel Gheorghe, the lawyer of the Romanian Investors Association. Mr Dumitru Beze, the chairman of the Romanian Investors Association, participated in the discussion.

The Romanian Investors Association is a non-governmental organization which defends the rights of individual investors on the capital market in Romania; it provides assistance to protect the value of investors' investments and actively follows the development of the capital market legislation by monitoring, safeguarding and enforcing investors' rights.

Among others, in its 4 years of activity the Romanian Investors Association strongly advocated for the RASDAQ (Romanian Association of Securities Dealer Automated Quotation System) trading venue to become a regulated market, for the firm application of rules on the mandatory bids, for the protection of the shareholders' rights holding shares issued by the Property Fund in Romania and for the protection of the minority shareholders' rights.

Mr Marcel Gheorghe pointed out that the capital market in Romania had a very short history since the Bucharest Stock Exchange had been re-established in 1995, and the first modern capital markets legislation had been adopted in 1994. He explained that the principles set out in relevant EU legislative measures had significantly contributed to the creation of the necessary legal framework in Romania. They led to the harmonization of certain rules regarding takeover bids (i.e., the mandatory bid rule, the equitable price, employee information rights or squeeze- and sell-out rights). These provisions, by their implementation in Romania, had generally contributed to an improved protection of the shareholders' rights.

Mr Gheorghe listed several EU legislative measures which had particularly positive impact on the situation of individual investors in Romania, such as: Market Abuse Directive, Transparency Directive, MiFID, Takeover Directive, Shareholders Rights Directive.

For instance, the transposition of MiFID in Romania resulted in more transparency in the market by defining a clear execution policy and by providing new requirements on the provision of information to the client. As a result, market confidence has increased and trading costs as well as the cost of capital for firms have relatively decreased. However, it is still necessary to strengthen the investors' protection *vis a vis* with the investment firms in Romania.

Mr Gheorghe also presented some examples of illegal practices and abuses by companies and public authorities which infringed the rights of individual investors in Romania. A notable issue was that regarding the correct implementation of the EU legislation as some concepts are insufficiently detailed in the Romanian national law.

Finally, he explained that the implementation of the EU legislative measures should be further improved in the country. A special note was made to underline that the Commission should urgently adopt specific provisions to regulate the voting when that is exercised by the attending shareholders through the use of electronic means, a recent practice in Romania. The provisions should ensure that the results of the voting reflect the intentions of the shareholders in all circumstances, and this matter should not be let to the discretion of the Member States.

Main problems of financial services users and consumer protection policy in Romania – presentation and discussion with FSUG members

- Mr Mihail Meiu, Head of the European Harmonisation and Strategies Unit, National Authority for Consumer Protection
- Mr Costel Stanciu, representative of consumer organization – APC Romania (member of BEUC)
- Ms Emilia Datcu, Adviser, Romanian Data Protection Authority

During this session three guest speakers took the floor presenting consumer policy in Romania from three angles, representing: the National Authority of Consumer Protection, the National Association for Consumer Protection (APC Romania) and the Data Protection Authority.

Mr Mihail Meiu, who represented the National Authority for Consumer Protection (the Authority) explained the transition of competences from the National Bank of Romania to the Authority, noting that the latter has acquired a wide range of responsibilities including financial services.

Mr Meiu made reference to Romania's legislation transposing EU regulation, including the consumer credit directive. He then provided an overview of the responsibilities of the Authority, which include sanctions. He also provided some statistics on the sanctions imposed on financial institutions mainly in the area of consumer credit and payment accounts. He referred to low financial literacy and the issues arising from loans in foreign currency.

In the second session, Mr Stanciu from APC Romania, a member of BEUC, focussed on information campaigns. He mentioned that television is the main communication medium in Romania and printed press continues to lose readership.

In terms of APC's agenda, Mr Stanciu referred to difficulties and delays in establishing personal bankruptcy legislation. He also mentioned constraints in dealing with consumer disputes through the courts and the cost that procedures generate. He called for EU legislation on collective redress. Clearly APC is strongly engaged in supporting consumers. However the limited financial resources inhibit its ability to adequately support them.

The third presentation by Ms Datcu, from the Data Protection Authority provided a brief explanation of the Authority's role and powers. The Authority receives and analyses information regarding the processing of personal data, can decide on the suspension or cessation of personal information and receives and resolves complaints. As part of its activities the authority also issues opinions to the benefit of commercial enterprises, for example debt collection companies.

Ms Datcu provided some examples from the banking sector where requests to collect personal data by banks were not justified.

Challenges for SMEs in Romania – presentation and discussion with FSUG members

- Ms Ana Bontea, Director of the Department for Legal Affairs and Social Dialogue, National Council of Small and Medium-sized Enterprises in Romania – CNIPMMR (member of UEAPME), member of the European Economic and Social Committee

Ms Bontea presented the National Council of Small and Medium Sized Private Enterprises in Romania (CNIPMMR). It is an employers' confederation for SMEs, operating at national level which is independent, non-profit, non-governmental and apolitical. It was originally established in 1871 and then re-established after communism in 1991. In addition, the CNIPMMR represents the Romanian SMEs at international level.

CNIPMMR's objective is to create an appropriate legal and political environment for SMEs by promoting and defending their interest *vis a vis* public administration and other stakeholders. In addition, the organisation assists small businesses by providing information and knowledge with the objective to enhance their growth and competitiveness.

In particular, the CNIPMMR provides SMEs with the information on:

- financing sources and alternatives;
- preparation steps in order to be eligible for financial help;
- training and consultancy programmes;
- consultancy and SMEs supporting centres and bodies from all over the country;
- business opportunities in Romania and abroad;
- fairs and exhibitions at national and international level;
- steps to be taken to obtain quality international certificates;
- SMEs related legislation and EU legislation;
- ways to access research results and financing possibilities for innovative activities.

CNIPMMR is a member of various international bodies, e.g. the European SMEs organisation UENAPME, and organizes a number of events and seminars for its members in Romania every year.

Furthermore, the organization regularly makes a research of the problems of Romanian SMEs, and in 2012 the top four problems indicated by the enterprises were: decrease in internal demand for products and services, excessive taxation and bureaucracy and delayed payments.

The great majority of Romanian small businesses rely on self-financing and only some 30% used bank credits in 2012 which was a decrease by 10% compared to 2010. In fact, Romanian SMEs reported considerable difficulties in obtaining credits from financial institutions as well as very high interest rates. In general, with regards to banks, SMEs mentioned the following problems:

- lack of transparency on specific criteria to obtain credit;
- lack of information on the total cost of credit;
- lack of appropriate and constructive justification for the rejection of loan;
- excessive bureaucracy;
- lack of publication on the banks' websites of complete information on the conditions of lending;
- inability to compare credit costs available at various banks.

In order to tackle identified problems of small businesses, the CNIPMMR has proposed a series of measures, such as:

- increased transparency and competition in the banking sector, by ensuring publication of key indicators on banks' websites;
- simplification of administrative burden;
- access to advice tailored to the specific needs of SMEs;
- development of a comparative tool for bank offers;
- inclusion of SMEs within the scope of the Directive on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features.

Single Market Month initiative – information point by Mr Maciej Berestecki (DG MARKT/H3) and Mr Christopher Gauci (DG SANCO/B4)

Mr Berestecki presented the Commission's Single Market Month Initiative. This initiative is intended to raise awareness on the Union's activities in the Single Market so far and feed policy making with ideas from a broad range of stakeholders. The online discussions will last for one month and cover four areas, of which banking is one. The collection of ideas and the online debates will take place in September 2013. The topic, 'Europe, banks and you' will cover the main range of banking topics comprising supervision, safety, public aid, insurance, mortgage and retail banking.

Mr Berestecki encouraged the group to participate in the initiative by promoting it and participating in the online discussions.

Tuesday 11 June

Financial markets supervision – presentation and discussion with FSUG members

- Ms Lucretia Paunescu, Head of Inspection Division 2, Supervision Department, National Bank of Romania
- Mr Mihai Crisan, Head of Information and Investors' Protection Department, Capital Markets Sector, Authority for Financial Supervision
- Mr Dan Zavoianu, Public Relations and International Affairs Manager, Private Pensions Sector, Authority for Financial Supervision

During this session a number of guest speakers from different organisations made presentations on a range of issues. The organisations represented were the National Bank of Romania and the Authority of Financial Supervision. The areas covered ranged from bank supervision and complaints handling to capital markets and the private pensions system.

Mrs Paunescu from the National Bank of Romania (NBR) gave an overview of the main powers and responsibilities of the NBR, which apart from maintaining price stability include licencing, regulation and prudential supervision of credit institutions. She detailed the types of supervisory measures taken by the NBR including on-site inspections and corresponding corrective action.

She went on to explain the sanctions the NBR was empowered to apply as well as the supervisory measures at its disposal. Mrs Paunescu also provided an overview of the features of the banking system, which has 39 licenced credit institutions, one credit co-operative organisation and 52 non-banking financial institutions. The banking sector grew significantly until 2008 through growth in their loan books. Loans represent the major part of bank assets, while funding comes to a large extent from deposit taking. Romanian banking system has a comfortable level of capital adequacy ratio as well as tier 1 capital ratio.

Mr Mitroi and Mrs Popescu focussed on the insurance sector. The presentations focussed on complaint handling. Mr Mitroi explained the role the Authority for Financial Supervision (AFS) takes in dealing with complaints. He noted that the Authority's initial policy to decentralise complaint handling to regional offices was later reversed when it was found to be unsuccessful.

He described a young insurance market where non-life products are more common than life-insurance products; motor insurance being the most widespread.

In terms of the EU regulatory environment he mentioned his participation in Solvency II discussions. Romania has proactively amended insurance regulation to align it the EU regulation, even prior to adhesion in the Union. This has led to regulatory certainty.

Mrs Popescu presented statistics relating to complaints handling in 2012. A total number of 7405 complaints were registered in 2012. This number represents a significant increase over previous years. There are a number of reasons for this increase. These include a growth in the number of insurance policies of approximately 6% over the previous year as well as more efficient means of lodging complaints through newly established electronic complaints systems and a dedicated telephone line. The figure for the number of complaints also includes a number of outstanding complaints since the previous year.

An analysis of complaints registers indicates that 98,91% of complaints related to non-life products and 65,89% of these related to motor insurance.

Mr Mihai Crisan from the Investors' Information and Protection (capital markets) of the Authority for Financial Supervision made a detailed presentation of the regulatory environment and supervisory powers of the Authority. He went through the range of regulated entities, providing information about the number of licenced operators and the relevant regulation. He also provided a detailed overview of control areas for each sector.

Mr Dan Zavoianu from the private pensions sector of the Authority for Financial Supervision gave an overview of the private pensions system in Romania. He stressed that the private pensions system is still in infancy, pension contribution assets are relatively low and pension pay outs have not yet started to take place. However a mandatory second pillar scheme for persons in employment over 35 years of age has seen a growing number of contributors over the past years. Legislation for the pay-out phase has still to be established.

Both pillars II and III schemes are defined contribution schemes. While occupational pensions amount to 2.5Bn € in assets under management and approximately 3,5 million members who are active contributors, the personal voluntary private pension is smaller, accounting for approximately 300k members (150m € in net assets).

In the mandatory 2nd pillar scheme, 96% of members are allocated to a pension fund by a lottery system. This means that very few employees proactively select a scheme. There is no strategy for financial education although there are on-going efforts to raise awareness among workers. Mr Zavoianu also mentioned a number of information campaigns that were run by the Authority.

He described the mechanics for enrolment into the mandatory system. There is a large number of marketing agents, whose role has shifted from attracting members into the system to facilitating transfers between funds for existing contributors.

He also described some of the supervisory and reporting measures and information requirements for consumers. The authority adopts a system of daily reporting and publishes the net asset values of funds on a daily basis. Other reports are made public through information collected from operators.

Update on the negotiations / adoption process for the initiatives of interest for the FSUG – by Mr Christopher Gauci (DG SANCO/B4) and Mr Maciej Berestecki (DG MARKT/H3)

- Commission Proposal for a Directive on Payment Accounts

The Commission informed the FSUG that the European Parliament had already started the negotiations of the Directive in the ECON Committee and that it is planning to discuss its report at the beginning on July. On the other hand, the Council has not commenced yet working on the Directive and it is expected that it would start its proceedings under the Lithuanian presidency after summer.

- Revision of the Payment Services Directive

The Commission updated the group on the state of play of the adoption of the revised Payment Services Directive and of the Regulation of MIFs. Both texts are being finalized by the Commission and are expected to be adopted before summer break.

Discussion on the first drafts of the terms of reference for the research studies to be contracted in 2013 – by Mr Christopher Gauci (DG SANCO/B4) and Mr Maciej Berestecki (DG MARKT/H3)

It was agreed that the FSUG members will provide the two members leading the work on the 2013 studies with their comments on the Terms of Reference by 19 June. Based on the comments, the two documents will be reviewed and completed, and sent to the Commission by 25 June in order to launch the necessary tender procedure in July at the latest.

Discussion on the FSUG draft responses to on-going consultations:

- Implementation of the Commission Recommendation on the scope and effects of legal tender of euro banknotes and coins (deadline 21/06)
- Green paper on the long-term financing of the European economy (25/06)
- Structural Reform of the Banking Sector (03/07)

The deadlines for the responses to the above-listed consultations were reminded. It was agreed that the FSUG members in charge of each of the consultations would circulate draft responses to the rest of the members for their input. Based on this, the responses will be finalized and submitted on behalf of the FSUG.