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**SUBJECT:** SUMMARY OF FINDINGS FROM IMPACT ASSESSMENT SEMINAR IN ALBANIA  
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### Summary

- 2 day Impact Assessment Course run in Tirana, attended by 15 representatives from the Bank of Albania and member banks of the Albanian Association of Banks. Subsequent discussions with representatives of both organisations on a follow up day.
- Ground covered during the course included Impact Assessment methodology, Market Failure Analysis, Cost Benefit Analysis, examples of IA from the UK FSA and the EU, recent economic research relevant to financial regulation, and lessons learnt.
- Course received well, with good participant engagement especially during case studies, and excellent feedback.
- **The main next step is to formally embed the IA process in official policy making, building on the experience of the SPI Albania-run projects.**
- **Recommend policy processes at the Bank of Albania to formally incorporate IA as part of EU accession preparation – to be conducted by policy makers, thereby altering the thought process to reach policy decisions but not adding time expenditure.**
- Recommend setting up a 3 to 5 strong team of IA advisors to advise on and challenge the analysis of policy makers. Appears natural for the group to be at the Bank of Albania, but can alternatively be set up at the SPI offices if this is resource wise more plausible.
- **Individuals identified as potential “IA champions” during the seminar should ideally be involved in conducting IAs.** Short secondments of such individuals to experienced IA units in other European countries may subsequently be valuable for home organisations in building up IA experience.

### Seminar

I conducted a two day “Impact Assessment in Financial Regulation” Seminar in Tirana over 11<sup>th</sup> and 12<sup>th</sup> January and then had follow up discussions on a third day with representatives from the Bank of Albania and the Albanian Association of Banks. Over the course of the two day seminar we covered:

- The **IA process and methodology** used at the UK FSA and at the European Commission;
- **Market Failure Analysis:** Considering when there is an economic justification for regulatory intervention. Discussing what types of market failures are common in the financial world. And debating if economists' understanding of market failures has changed as a result of the financial crisis (for e.g. information asymmetry now considered a larger problem for wholesale customers than previously thought).
- **Cost Benefit Analysis:** Answering the fundamental question of if proposed regulatory interventions are likely to lead to net benefits. Providing a framework to consider the scope of final impacts. And sharing the practical methods we can use to estimate these impacts.
- **Examples of IAs** from across the spectrum of financial regulation **from the FSA and the Committee of European Banking Supervisors (CEBS)**, focusing mainly on banking, but also including the regulation of capital markets and the insurance sector.
- Group based **case studies** on capital adequacy requirements in banking and short selling restrictions in stock markets.
- Results of **recent economic research** from the FSA which fills previous gaps in our knowledge when trying to connect policy to final market outcomes. For e.g. the effect of higher capital requirements for banks on long term economic growth. And findings from behavioural economics with strong implications for policy formulation when considering the behaviour of retail customers.
- **Lessons learnt** from the experience of conducting IA over several years in the UK and in Europe.

The seminar was well attended. There were 15 participants, most from the Bank of Albania but several from the member banks of the Albanian Association of Banks as well. Several participants had some economics training from the past, but other than a small handful most did not have experience of conducting IAs.

**I thought, overall, the course was received very positively. There was lot of affirmative nodding throughout the two days suggesting buy in to the validity of the IA process. Participants often related the UK and EU examples we discussed with the sort of problems they were trying to solve in the Albanian context. Participant engagement was quite good, particularly during group based case studies where the teams had to conduct IAs.** We ran two such exercises, one on each day. While many were familiar with aspects of one of the case studies (capital adequacy), the second (short selling) was a real challenge. It was good to see the teams being able to use the IA framework to get to many of the impacts we had considered in the UK when in practice conducting our analysis.

In hindsight, I would have changed some of the examples of IA I used during the seminar. For e.g. we discussed briefly a recent IA conducted at the Committee of European Banking Supervisors on retention of interest (skin in the game) in securitisation. With Albanian banks not using such a process the example was not directly relevant. Though I do think several of the impacts considered (e.g. moral hazard on the part of investors as a result of signals sent from the regulator's actions), and the techniques used can be applied across contexts.

In the main my perception is the seminar went down excellently and was a helpful exercise for those who attended. I skimmed through a few of the evaluation forms which appeared to bear this out. The feedback circulated subsequently by SPI Albania confirms this.

## Recommendations

This brings us to the crucial question of next steps. **How might the participant organisations embed IA in their policy making processes going forward?** A question for principally the Bank of Albania who formed the bulk of attendees, but also for the AAB from whose member constituents there were several participants.

I spent the last session of the seminar discussing how IA works at the FSA – sharing the mistakes we have made and the lessons we have learnt from these in organisational, resourcing, scope, technical, integration and communication contexts. The end point of all of this is the aim to ensure an analytically rigorous IA process contributes to better decisions about policy and hence improved market outcomes. **I think some of the Bank of Albania managers present found this particularly useful.**

I did not have a firm grasp of how the organisations planned to take IA forward post the seminar. As you suggested I had meetings on the third day with both the Bank of Albania and the Albanian Association of Banks to discuss potential next steps, and also to provide any advice I could from past experience of conducting such analysis in the UK and in Europe.

**My impression from meeting the Bank of Albania's Regulation Department management is that they absolutely buy into the IA process as a valid method of reaching better policy outcomes. But they indicate that resource constraints bind them. They suggest pressure to deal with other pressing issues, for e.g. implications of the crisis mean lobbying to get resources for IA is a difficult task.**

To my mind these resource constraints can be quite easily overcome. In the UK FSA there are hundreds of policy makers but only a team of about 25 IA advisors (the Economics of Financial Regulation Department - EFR). IA is carried out by the policy teams. **The IA advisors' role is restricted to advice and effectively challenge. Only if an area presents a really complicated economics problem do IA advisors actually conduct the IA themselves.** Policy makers are already active in making policy at the Bank of Albania. Conducting IA does not imply expending considerably greater resource. **What is required is that the policy process that policy makers follow to reach decisions changes so that the IA framework is incorporated in this process.** Replacing in part the current method of arriving at policy decisions it substitutes current time rather than adding an additional process.

At the FSA, policy makers are given a two day IA training seminar, similar in content to the course I presented in Albania. They are then expected to conduct IAs – with EFR advising. **A small team of IA advisors at the Bank of Albania, perhaps 2 to 3 strong, should be able to act in the advice and challenge role similar to what EFR offers at the UK FSA.** This does not appear to me to be a considerable resourcing hurdle.

While it appears natural for this core team of IA advisors to sit within the Bank of Albania, if resources are more readily available for setting up such a group under the SPI Albania public-private auspices, I would think the process can still be built up to work efficiently. The SPI Albania experience appears to bear this out. The main advantage of the distance between policy makers and IA advisors in such a scenario would be the more robust independent challenge the latter might be able to provide. The main disadvantage of such a set up might arise from the

institutional separatedness between policy making and IA advice. Control mechanisms would need to be thought of to ensure such problems did not arise such as, for instance, compulsory participation by Bank of Albania policy officers in SPI Albania-based IA work (as is presently the case).

An additional thought on the resource concern: To my mind, **the MFA step in the IA by acting as a preliminary filter to decide whether or not intervention is likely to bring economic benefits (and therefore whether or not further work in the stream is justified) can also help save resources otherwise wasted on ineffective policy.**

I should mention **there were some participants at the seminar who were particularly impressive in demonstrating their grasp of the concepts of the IA process, from the initial step of problem consideration to final market outcomes.** I certainly think it would be valuable for the participant organisations to involve these individuals in conducting IAs. I think building in-house centres of expertise involving such individuals conducting IAs is likely to be more beneficial in the long run, than outsourcing all such exercises.

One further recommendation I have in building up the knowledge of individuals identified as “IA champions” post this seminar, is short term secondments to good IA units in EU countries. While such further seminars might not add much value for these specific individuals, the practical experience gained working over a few weeks/months with IA experts can be valuable for their home organisations when they come back. Meanwhile seminars like this can continue to add value for individuals who have not attended such courses and who might not have extensive experience of conducting IAs.