[Populism, the main threat to economy and the banking system | Record consumer-bank claims and negotiations in the first 3 months]

Bucharest, 10 April. While the country's economy heavily relies on the financing the banking system is able to extend, bank representatives say that nothing erodes the trust between consumers and credit institutions like the populism displayed by some politicians and institutions. The effects are worsened by the low financial intermediation (less than a third of the European average), overcharging and the fines applied to banks in order to turn to good electoral account the negative perception of banks.

Here are some of the topics discussed in the **second episode** of ***#PodcasturileCSALB***, featuring ***Florin Dănescu*** and ***Septimiu Stoica***, and moderated by ***Emilia Olescu.***

| ABDRC PODCAST | **https://youtu.be/z1LwnUDxNRE**

This is the 4th season of interviews with senior executives of the banking system management and legal experts. In 2023 and again this year, leading business journalists are invited to debate the hot banking topics in the ***Alternative Banking Dispute Resolution Centre (ABDRC)****. In 2024, we review the news and their impact on the financial and banking market, as well as how consumers related to their credit institutions and personal finances, against a volatile and unpredictable socio-economic background.*

*"**Financial intermediation** remains weak in Romania, and accounts for only 25% of the gross domestic product. This is the share of the loans extended to households and businesses, compared to a 90% European average. This reality is rooted in the level of financial education, our communist inheritance and the lack of capital accumulation in the Romanian society. One example would be the low level of **rural** banking due to the low living standards and depopulation, which slow down the development of the rural infrastructure.*

*And because this is an election year, we need to sound the alarm about what **populism** is really all about. Neither our society, nor the other societies worldwide are ready for populism. Unfortunately, populism is not about a politician wanting to be likeable, as we used to think. Populism is a society-wide drama because people are misinformed and this has dramatic consequences for their future. But how does this phenomenon come about? For instance, an industry such as banking is targeted because it brings ratings. Thus, some people create an electoral advantage by finding an opponent to harass or point the finger at with the aim of creating a negative perception of them, which often has nothing to do with the reality. When this happens, there is a also flip side: mistrust of industries on in the political or legislative act.*

*Banks entered **this election year** with a negative, but deeply unfair, perception, since they were the only industry that unconditionally supported the population and the economy during the pandemic. Then, we used to hear people saying: What's the big deal about banks referring instalment payments? In fact, the banks were no longer collecting the monthly instalments they could have used to extend other loans. In a* *nutshell, banks stopped their production for a year. Was there any another industry willing to make this effort for the Romanian society?*

In response, ***banks are overcharged****. The 2% tax on turnover returns impressive figures since, by their very nature, banks hold the largest assets in Romania and, therefore, report very high turnovers. This tax is also seen in the corporate tax, which no longer 16%, but can reach even 50% for some banks. That's how economic players are taxed half of their profitability in Romania! And it adds to the lowest returns that are reported by the banking industry. The profit/assets ratio gives a return of 1.5%. And the profit/invested capital ratio is 16.5%, while the average across all industries is above 24%. So why this idea that banks earn too much? In fact, these are blows to the confidence that banks are striving to build.*"

"How was the banking system affected by the **fines applied last year** for calculation of the rates charged on retail loans?"

"As you know, all banks have been awarded the court cases pursued about this. The serious problem is that ***people have been created expectations*** *that they might pay less. And when they also found out that someone could be guilty for them not living the life they wanted and that someone could also be punished for this, of course they all wished banks had made a mistake in calculation of their rates. If you are not acquainted with the industry you are controlling, the effects could end up being extremely harmful! At that time, a barrier, a break was introduced to the efforts made in recent years to continuously strengthen the trust between banks and the society as a whole, but also a hindrance to the economic act in Romania. Eventually, thus conflicting approach will come at a big cost, as it drives away the financing parties and the investors. For instance,* ***Romania's foreign direct investment balance is among the lowest in Europe, half that of Bulgaria****. The difference between reality and the claims that we are a very attractive market is striking!*"

"Mr. Septimiu Stoica, you have facilitated 400 negotiations between consumers and banks since the establishment of ABDRC! **What kind of solutions have you proposes in these negotiations**?"

"*Since 2016, since I have been an ABDRC conciliator, I have proposed a wide range of solutions, and more than 90% of them have been accepted by the parties, who eventually came to terms. I made proposals including of periods of grace or interest rate reduction, and saw conversions with principal reduction, and cases that come from court and were settled amicably with our help. I have met people in debt who were facing various life situations, or health, family or professional problems during the term of their loan agreements. I had had cases where banks accepted solutions involving substantial monetary benefits. In some instances, debts of tens of thousands of euros were written off, but I sometimes hesitate to say these things because I don't want to stir exaggerated expectations, bearing in mind that all cases are unique, and there is no template. What I mean is that such* *solutions were accepted by banks not out of a legal obligation, but because they understood people's problems.*

While there is a natural power differential between a bank and a consumer, at least in economic terms, with these solutions we try to balance the positions and offset these differences. This is precisely what the European Union had in mind when it introduces the ADR (Alternative Dispute Resolution) bodies, such as ABDRC: to level the disproportionate playing field between service providers (not just banks, but in general) and regular consumers. The settlement reached by the parties via ABDRC an example of the invisible hand theory: individuals who, in pursuit of their own interests, foster the smooth functioning of the economy. Hence my concern about overregulation and State interventionism in the economic life."

Highest number of applications and negotiations in one single quarter

In the first three months of the year, ABDRC received **934 applications for negotiation** with banks and NBFIs from consumers. This is the highest number of applications/quarter observed since 2016. Compared to the first quarter of 2023, the increase is of 7%. In their applications, consumers claim difficulties in paying their loan instalments and seek solutions to rebalance their contractual obligations with the aid of an ABDRC conciliator.

The **negotiation cases** formed by the end of Q1 (applications accepted by banks) are 18% more than in the first three months of 2023. Of the 241 cases formed, 188 have already been concluded with the parties coming to terms, and the parties did not accept the proposed solution or withdrew from conciliation before the end of the procedure in only 7 negotiation cases.

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About ABDRC: ABDRC is an entity set up under a European Directive, and intermediates, free of charge and in not more than three months, negotiations between consumers and banks or NBFIs, for contracts/agreements in progress. Consumers from any county of the country may file requests with the Alternative Banking Dispute Resolution Centre (ABDRC) filling-in an online form directly on the website www.csalb.ro. Once the bank accepts to enter the conciliation/negotiation procedure, a conciliator is appointed. ABDRC works with 17 conciliators, of the best specialists in law and with relevant experience also in the financial and banking field. Everything is settled amicably, and the understanding between the parties has the power of court judgment. More information about the work of the Centre is available by phone at 021 9414 (charged a normal rate).