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INTERVIEW// NBM takes over supervision of non-bank lending. Deputy Governor: lending portfolios should become more qualitative. IPN interview



Starting with the 1 July 2023, the National Bank of Moldova shall be the authority to regulate and supervise the non-bank financial and insurance sectors taken over from the National Commission for Financial Markets. Find out why this transfer of powers was necessary and what society, citizens and the country's economy stand to gain from it in an IPN interview with NBM Deputy Governor, Constantin Schendra.

IPN: First, let's explain why the NBM is taking over the supervision of insurance and non-bank lending from the NCFM?

Constantin Schendra: Because in 2020, a law was adopted which provides for this transfer and should strengthen the financial sector. That law did not come out of the blue. Previously, there had been several recommendations from the International Monetary Fund in this regard, stating the need for this transfer in the recent country report and the Memorandum of Economic and Financial Policies 2021. Therefore, if such a law had been adopted, everyone agreed that things were highly interconnected in the financial market and that a more robust and integrated financial market architecture was needed. Therefore, it was decided that the practice of unifying the regulations and supervision of these two sectors, successfully applied internationally, should also be adopted in the Republic of Moldova.

IPN: The list of entities that the NBM shall supervise as of 1 July is huge: insurers, reinsurers, insurance and reinsurance intermediaries, the national bureau of motor insurers, savings and loan associations, credit history bureaus, non-bank lending organizations... Isn't there a risk that they can't all be contained with demanding supervision?

Constantin Schendra: In recent years, the NBM has succeeded in bringing about significant changes in banking supervision. We have gained and developed experience; therefore, transferring this experience to other areas is now appropriate. We perceive this process as an opportunity to optimise the supervisory process and strengthen the NBM's capabilities. We will focus on developing new skills and organising an efficient supervisory process. Still, we will also consider the profile of each new supervised entity and the risks that will be identified for each one.

IPN: How do you take over the tasks and what will follow? It's undoubtedly a painstaking process. How far have you come so far?

Constantin Schendra: It's a complex process that requires considerable effort. As we strive for efficiency and sustainability, we have developed and approved a joint action plan agreed upon between the NBM and the NCFM. This plan sets out the steps and actions to be taken to efficiently integrate the licensing, regulatory and supervisory functions of the new entities into the NBM's processes and structure.

IPN: What should we expect once the NBM becomes the sole supervisory authority in the lending sector?

Constantin Schendra: The NBM generally takes a proactive approach to the areas it supervises. Similarly, we support the development of supervised entities by ensuring an appropriate regulatory framework and a transparent, proportionate, complex and risk-based supervisory process. This approach will also be applied to entities in the field of non-bank lending. On the one hand, we will focus on sound corporate governance, which is paramount. On the other hand, we will seek to strengthen the internal control functions in each entity to achieve better public accountability.

IPN: What is a non-bank lending organisation (NBCO) and what role does it play in the market?

Constantin Schendra: Non-bank lending organisations offer an alternative, as these loan products are mainly aimed at the retail market segment. At the same time, non-bank lending is an additional option for customers who prefer a faster financing process. Non-bank lending organisations contribute to financial inclusion and support entrepreneurship. Therefore, these organisations have their place in the market, and we will ensure that all macro-potential or responsible lending instruments work properly.

IPN: One issue in the non-bank lending market, from the perspective of the Government and the citizen, has been huge rates - interest rates on non-bank loans of hundreds, even thousands of percent have been claimed. Does this problem still exist? How can this be avoided in the future?

Constantin Schendra: We see that society lacks trust in this sector. The premises of this lack of confidence arise from the substantial interest rates and fees and the inadequate information of consumers about them by the entities in the non-bank financial sector. This practice should stop if we limit the interest rates and fees charged, if we regulate the process of assessing debtors with the aim of not allowing over-indebtedness, if we establish clear criteria regarding the creditworthiness of debtors. Decisions should become more transparent and safer for consumers and loan portfolios - of higher quality. Once the NBM has taken over its supervisory responsibilities, it will strive for effective monitoring of compliance with these rigours by participants in the non-bank credit market.



IPN: What effective annual interest rate can you borrow from a microfinance company today? Can these interest rates be reduced?

Constantin Schendra: The last legislative adjustment did not cap the annual effective interest rate; however, ceilings were set for the annual interest rate and related payments. Thus, according to the new regulations, the maximum annual interest cannot exceed 50% of the loan amount and the ceiling for other payments, including commissions, fees, penalties, late payment interest, etc., is 0.04% of the total loan amount. Thus, these ceilings have implicitly reduced the effective annual interest amount, and the loan's total cost cannot exceed the amount disbursed. Therefore, the effective annual interest applied by the NBCO is to be calculated based on the interest and other payments established by the new regulations.

IPN: What is the difference between a credit from a commercial bank and a credit from a non-bank lending organisation?

Constantin Schendra: Banks are primarily financed by deposits from individuals and companies and operate under stringent prudential rules because it is the people's money. As for NBCOs, funding comes from founders and loans from other organisations or banks. So, banks lend out of depositors' money, whereas NBCOs lend out of their own. Therefore, the risks are different too. It allows NBCOs to be more flexible and agile. At the same time, the products offered by NBCOs respond to the consumer's immediate needs. In a way, the much higher costs incurred by the consumer compared to a loan taken out at the bank are essentially a payment for this increased flexibility. There are also differences in the amounts granted and the maximum terms for which loans can be taken out. As for products offered by banks, as a rule, both the amounts that can be accessed and the repayment terms are higher, which means they can be used for major investments. At the same time, interest rates on bank loans are reasonable, and the total cost of loans is usually lower than for products offered by NBCOs.

IPN: Is over-indebtedness a problem now, from the NBM's perspective?

Constantin Schendra: Through the Regulation on responsible lending to consumers by banks, the National Bank has introduced, as of July 2022, specific rules on assessing the borrower's creditworthiness and limited the debt service to income ratio. These measures have been taken to prevent people from getting into excessive debt through bank lending. Given that amendments have been made to the law, interests and fees that can be charged have been capped and the regulation on responsible lending has been approved by both the NBM and the NCFM - the risk of over-indebtedness is appropriately limited. However, several uncertain factors and adverse conditions exist, such as the evolution of energy resource prices, the war in Ukraine etc.

IPN: Will there be levers to protect consumers against over-indebtedness in the new NBM regulations?

Constantin Schendra: These levers already exist and are established in the regulation on responsible lending, which introduced limits for the macroprudential instruments I described above. Therefore, we can notice that supervisory activity is an effective lever to make the non-bank lending sector accountable for complying with responsible lending requirements. At the same time, informing the consumer about the responsible assumption of risk-bearing financial obligations is extremely important. In this regard, the NBM has planned a series of financial education activities to increase the population’s financial literacy. We believe it is essential to act in both directions: using the administrative factor to protect the citizens and increasing the level of education.

IPN: How do you see the legislation governing this field? Are the improvements made to the legislation so far sufficient, or is there a need for some more?

Constantin Schendra: The amendments to the framework regulating the activity of non-bank lending organizations undertaken in 2022 contribute to increasing the accountability and transparency of the activity of these companies through responsible lending, the obligation to conduct an external audit, the introduction of additional criteria for the managers of these companies. However, the current regulatory framework does not establish sufficient rules to enhance the quality of corporate governance of non-bank lending organizations.

In this respect, we are considering the opportunity for future adjustments on the regulatory side of these entities’ management and internal control framework. Proper risk management and appropriate risk management translate into fair market conduct and contribute to protecting consumers and limiting systemic risks.



IPN: The NBM has been active in previous years in licensed banks' transparency and health of ownership. Are you following the same process regarding shareholders in insurance companies?

Constantin Schendra: Under the current regulatory and supervisory mandate, the National Bank of Moldova monitors compliance with legal requirements regarding the quality of direct or indirect holders and beneficial owners of holdings in supervised entities. The NBM aims to prevent negative influence on the management and development of these entities. As of July 2023, the NBM will exercise a broader mandate to regulate and supervise the financial sector in the Republic of Moldova, which includes the insurance sector. Respectively, the NBM will apply a similar approach to all supervised entities, including insurance companies.

IPN: What will be the primary purpose of the NBM once it takes over this area?

Constantin Schendra: The main objectives of supervision are to protect the rights and interests of the beneficiaries of financial services and to ensure the stability of the insurance system in the Republic of Moldova. Respectively, the primary goal in the sector of insurance companies' shareholding is to raise the level of transparency and quality of insurance companies to maintain the financial stability of the industry, strengthen public confidence in the insurance sector and increase the degree of financial inclusion regarding the products available on the insurance market. As shareholders play a key role in setting the architecture of sound corporate governance of the insurance or reinsurance entity and assisting it in difficult times, ensuring the transparency of the shareholder structure and quality is crucial to achieving these objectives.

IPN: What message would you send to insurance companies and loan market players regarding the transfer of 1 July?

Constantin Schendra: Adequate risk management, protection of customers' interests, improvement of reputation are three priorities that insurance companies need to be aware of and assume. Sound corporate

governance should be seen as an essential element in ensuring a decision-making process based on risk management. This, in turn, will contribute to the company's financial stability, increase resilience and ensure the viability and sustainability of the business model. Insurance companies and the general public will therefore benefit from improved corporate governance.

As regards non-bank lending, the transfer of tasks to the NBM implies aligning the supervisory process with NBM practices and ensuring that supervisory actions are proportionate to the risks to which these entities are exposed. In this respect, the NBM will focus on fairness in the decision-making process for loans granted so that supervised entities do not allow excessive burden on consumers. We will also be looking at the transparency of the structure and sources of financing of the respective entities. Depending on the results of the supervisory process, the NBM will decide whether additional requirements are needed for the activity of non-bank lending organizations, as well as for the internal control and risk management framework. As regards savings and loan associations, they are of particular importance for rural areas. In the supervision process, especially for savings associations, we will focus on the soundness of these entities, the quality of management and transparency in the business process so that this sector responds qualitatively, but not quantitatively, to the need of funding the rural areas. With regard to credit history bureaux, what matters above all is the quality of the data provided by these entities. Therefore, supervision will include the data exchange between training sources, credit history bureaus and users and the compliance of these data with quality standards.

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