

Ardian Fullani: Responsible finance in Albania

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the international conference “Responsible Finance in Albania”, jointly organized by the Bank of Albania, the Kreditanstalt für Wiederaufbau (KfW) Entwicklungsbank and the European Fund for Southeast Europe (EFSE), Tirana, 23 March 2010.

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It is with great pleasure that I open the proceedings of this important forum entitled “Responsible Finance”. This concept is being ever-increasingly mentioned in the discussion topics and macro finance debates, in particular following the 2008 events. Participation in this forum pushed me to find an accurate definition for this concept. “Responsible Finance” can be summarized as practices that are designed to create a fair balance of interests between a finance institution and other stakeholders. In fact, my search made me realize that this concept may perhaps best describe in a single designation the wide-ranging efforts of the Bank of Albania in the last 3–4 years with respect to banking and financial supervision, monetary policy and public education.

Responsible finance is an encompassing topic that affects and should be applied by all financial market players. It implies a phenomenon that goes beyond prudential supervision since it is a necessity to guarantee both the financial and macroeconomic soundness of an economy.

This philosophy cannot be reduced merely to the best business principles and practices but it also summarizes the desire and goal to assist the poor groups of the population and remove poverty by providing more affordable borrowing and prudence that guarantees their economic success. Responsible finance focuses on guaranteeing the system’s customers’ rights, however the requirements and practices of responsible finance are first and foremost a guarantee for the soundness of financial institutions and therefore of the entire financial system.

Responsible finance at the Bank of Albania has focused on three main directions:

- Banking supervision
- Transparency and accountability
- Education

First, responsible finance cannot be understood as a phenomenon and responsibility to be left to the market players’ own initiative. It should be grasped not merely as a right but also as an obligation of all market players.

If you agree to this principle, then you should be an advocate and promoter – indeed, this is the position of the Bank of Albania as far as this is concerned.

From a central bank’s point of view, responsible finance begins with sound supervision of the banking and financial system. It constitutes an obligation for the central bank to provide the savers with the right of having financially strong financial institutions and to ensure that the latter conduct their operations in line with the best business principles. The Bank of Albania has paid particular attention to financial stability by exerting an effective risk-oriented supervision on the institutions it licences and supervises. Moreover, effective supervision also encompasses the importance given to the promotion of competition and protection of customer interests.

And last, but not least, the principle of responsible finance has been applied through prudential banking supervision and preservation of financial stability, harmonizing monetary

and fiscal policy. This principle has been considered as an integral and essential part in the monetary policy decision-making and harmonization with fiscal policy.

Hence, the Bank of Albania guarantees that its monetary policy does not impair the financial soundness of banking and non-banking institutions and that of individuals; by contrast it supports these financial market players by making them part of the decision-making process.

Allow me now to dwell upon the monetary policy decision-making transmission process to the public. This process is crucial to guaranteeing the maintenance of macro finance balances in an economy. In view of this, the Bank of Albania has committed to the economic and financial education of the public, viewing the undertaking of some concrete initiatives for the establishment of financial culture in the Albanian society as a necessity. However, this task cannot be performed alone; guaranteeing the balances requires the co-operation of the financial system, the private sector and the public at large in order for them to respond to the decision-making efficiently and rationally. The last two years' events have pushed many people to discuss the consistency of efficient market theories and the ability of economic agents to be rational. Although it is yet too soon (and more time is needed) to make a full analysis of the causes behind the crisis, I have to bring to your attention some key elements that impaired the individuals' ability and later on the markets' ability to be efficient and rational. This is not to analyse the crisis but to understand the implications for responsible finance.

It holds true that all stakeholders failed in terms of their decision-making and they made wrong, irrational and inefficient choices. But it also holds true that almost all borrowers did not have complete information on the types of credit they were borrowing or the financial instruments they were purchasing, or they were unable to understand the financial implications of their financial and monetary commitments. They were also pushed to believe that the housing prices were going up and that financial risk had ceased to exist. Unfortunately, it cannot be said the same for banks which pushed people to borrow these types of loans. Did they explain to their customers that the interest rates were only extended in time and they were not forgiven, that prices swing and that they do not remain stable? Did they provide all the necessary information? If the answer to a few of these questions is "no", then the agents did not have the entire information available to make rational choices. And when this happens, the entire economy and the financial system along with it are severely hit. Against this backdrop, transparency does not only represent an obligation to the customer's right to know each and every detail of a transaction, but also an obligation to the soundness of the entire financial system.

Lack of transparency encumbers the transmission of information and consequently, it does not guarantee the proper conditions for the agents to be rational in their decision-making. Therefore, transparency and responsibility are needed.

In order to enhance banks' transparency to their customers in Albania, the Bank of Albania has approved the Regulations "On the minimum requirements for disclosure of information by banks and branches of foreign banks" and "On the transparency of banking and financial products and services".

I would like to note that the lack of transparency does not only appear in the form of intentional concealing of information or simply as a result of negligence, but also as a result of wrong selection of tools and means of communication. The disclosure of information in the most prompt, the best, the most efficient and the most comprehensible way is a responsibility for all market players, both for the institution to the customer and the customer to the institution. In this regard, it is with pity that I note that microcredit advertisements may be only found on the mileage boards or the amateur graffiti that smudge the national roads' borders – the largest part of this information being the name of the institution.

These institutions should build a clear communication strategy with the public with respect to the products they offer, the lending terms these products are offered, and – what is particularly important – their objectives. Transparency should entail their competitive advantages against universal banks as regards the lending terms and the assistance they

are able to provide considering their loan portfolio well-management. Responsible finance means that the donors should choose the best and most skilful partners to be involved in this activity, and exert their pressure so that the institutions they allocate their funds in guarantee the transparency and information required not only in memos and reports, but in the market, where it is evident and transparent for the target groups.

Efficient market decision-making also needs the central bank's transparency and responsibility, therefore the Bank of Albania has paid a great deal of attention in this respect. However, we are well-aware that transparency in information and decision-making represents a necessary but not a sufficient condition to guarantee an efficient response in economy.

It often occurs – in particular in our economies – that financial illiteracy becomes a significant hindrance to market efficiency, since the economic agents may not be able to accurately interpret the information and communication of the decision-making authorities and may respond to these decisions unpredictably. This situation is similar to giving the people the appropriate tools to carry out a certain job without showing them first their function or how to operate with them.

Consequently, there is no responsible finance without education. Using this reasoning, we perceive education as an obligation of governmental and academic institutions to respond to the public right to educate. Market efficiency and rationality may be guaranteed only if the entire economy (not only the economists) enjoys a minimum level of economic education.

Being educated implies comprehending and interpreting the information and responding to it, however this does not necessarily mean being able to resolve every economic and financial problem by yourself. Being financially educated means knowing when it is necessary to address to the expert (the economist) in order to make better choices, after being convinced of his transparency and responsibility.

This means financial responsibility in the form of an obligation to personal and social right for a long-term economic and financial prosperity. This education should not be only limited to the institutions (universities or financial system) because we do not need only economists. Economic and financial education should be addressed to the entire public in the form of a public good for all the economic agents in all possible ways. As I noted above, we have tried to educate our public through some concrete initiatives such as the publication of educational booklets, the launch of educational programmes for students, training seminars for journalists, high school teachers of Economics and social workers.

In this regard, the Bank of Albania has been always active not only as regards the public education, but also in its search for partners, because when it comes to financial education there is room for everyone, in particular for the academia. It is for this purpose that we have recently established the *Banking Research Institute* as an opportunity for co-operation with the academia.

The Albanian public lacks the weekly economic-related columns in the press, the educational classes, the public lectures, the professional assistance to the public and other similar.

These are normal activities of the academia and the educational institutions in a developed world, since their primary purpose is to create public goods for the society. Social return or the social impact have now become an ever-increasingly important objective for profit-seeking financial institutions, while in our economy education is only limited to the strict and traditional classroom teaching. Analyses and comments almost always approach the criticism, and very rarely – not to say hardly ever – they approach explaining and interpreting a certain economic phenomenon. Against this backdrop, responsible finance goes beyond the financial system's boundaries; it stretches to all the players that can and it is their responsibility to guarantee it in all possible ways.

I invite all the interested players to co-operate in order to guarantee financial responsibility, providing an active contribution according to their role in economy.