

## GLOBALIZATION AND EUROPEAN INTEGRATION EXIGENCIES – NEW CHALLENGES FOR ROMANIAN BANKS

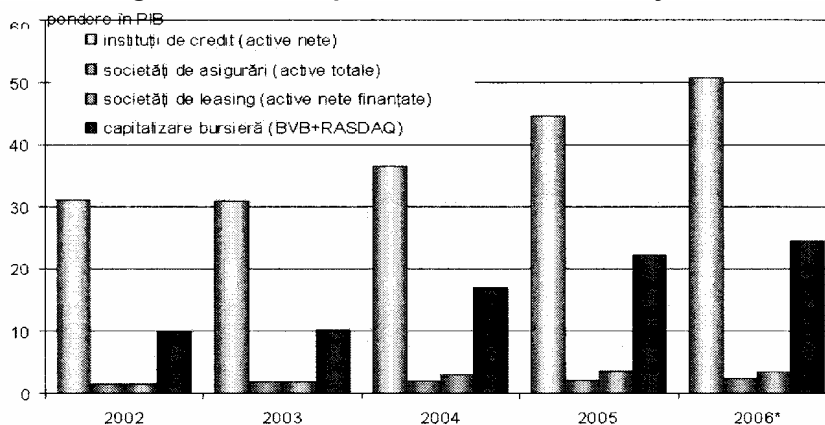
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The Romanian banking system cannot stay isolated of the deep transformations which occur at an international level. In the economy globalization context, the Romanian banking system is dealing with some problems which result especially from the transition character of the period the Romanian economy is skimming through. On the Romanian financial market there are operating: non banking institutions,

as well as mutual assistance funds, pawn-houses, financial leasing companies, loaning companies for natural persons, micro-financing companies, mortgage loan companies, companies which provide factoring operations, companies specialized in commercial transactions financing, and others.

The most important financial market component is the banking field:

**Figure no. 1. Components of the financial system**



Source: BVB, Rasdaq, CSA, ASLR, ALB, BNR, INS

Banking internationalization overlapped in Romania to the financial banking reorganization process and was

For the years to follow, the qualitative side of this phenomenon shall also be reflected by the appearance and development of some new banking products and services for the retail field, as well as for corporations' field, but also by some banks' specialization or setting up some new specialized banks.

mostly reflected, from a quantitative point of view, by the number of foreign bank operators and by the latter's assets.

It is well known that the Romanian banking market has a high development potential generated by the still low financial brokerage degree and the low population gearing level, fact which transforms the Romanian banking market into an attractive target for the great foreign banks.

In our opinion, banking globalization shall redirect great Romanian banks' activity and management because they shall have to deal the competition with the great European financial groups. In what the small banks is concerned it will be necessary for them to merge or to be purchased, being liable to bankrupting if they do not orientate towards a market segment with very specialized customers.

The Romanian banking system was marked by a high concentration degree even from the first years of the banking reform. Thus, even though the banking institutions increased seven times from 1991 until 1998, the autochthonous banking market was still dominated, in December 1998, by the four great banks with estate capital (Bancorex, BCR, BRD and Agricola Bank) and CEC. The four banks owned 62 per cent of the whole banking system actives, and CEC 9, 8%. The top rank of the five ones within the Romanian banking system frame is also shown by the fact that, at the end of the year 1998, the latter owned 56 per cent from the share paid-up capital and 72, 3 per cent from deposits.

The concentration degree decrease tendency, which followed later on (measured by the system's first 5 Banks' share in the aggregate assets, which was 57, 8% in March 2006), together with the increase tendency (from 12% in 1998 to 88, 6% in 2006) of the banks' share in the system can be considered as signs of competition increase. In the conditions of competition

increase, we see as necessary finding solutions so as to consolidate small banks' capital, of which assets do not surpass 1 per cent of the Romanian banking system's assets (19 Romanian commercial banks can be found in this situation at the level of the 4<sup>th</sup> trimester in the year 2006). Moreover, in the context of the European banking system integration, we appreciate that a necessary solution which the Romanian commercial banks' managers should take into consideration is that of concentrating present resources by merging processes and purchasing or increasing banking capitals as a consequence of drawing very strong investors into stock-holder's membership.

The advantages of the concentration are very clear, as it is very well known that, during the transition, small banks are very vulnerable. Thus, a small bank has not available the necessary amount of money to achieve an infrastructure able to offer integrated financial services to properly stimulate the clients, as well as the latter's staff and stock-holder's membership. Also, another important element is represented by the clients' portfolio, small banks, as they cannot accept large credits, are forced to appeal to small and medium enterprises which, in their turn, are exposed to the shocks in the economy. Under these circumstances, the need for banking concentration is vital, regardless of the manner in which this is achieved, by share capital increase or by strategic investor' merging or purchase (see tables 1 and 2):

**Table no. 1. The first 10 commercial banks' assets situation in total, the Romanian banking system for the 4<sup>th</sup> trimester, 2006**

Bank	Assets %	Bank	Assets%
1. BCR	25, 9	6. Bancpost	4,42
2. BRD	16, 10	7. ING	4,15
3. Raiffeisen	7,94	8. Alpha Bank	4,1
4. HVB Tiriac	5,07	9. CEC	4,04
5. Transilvania Bank	4,64	10. ABN Amro	3,02

Source: BNR, Report on financial stability, 2006

**Tabel no. 2. Banks which announced share capital increase at the beginning of 2007**

Bank	Market share for 2006 %	Increased amount for the share capital	Majority stockholder
Mindbank (ATEbank)	0,19	68,17 mil. lei	Agricultural Bank od Greece (ATEbank)
Volsbank Romania	2,67	112 mil. lei	Volsbank International AG
Pireus Bank	1,1	50 mil. Euros	Piraeus Bank Group
Carpatica Bank	0,93	23 mil. lei	-
Leumi Bank	0,33	1,8 mil. lei	Leumi Bank Israel
Transilvania Bank	4,64	217,7 mil lei	-

Source: BNR, Report on financial stability, 2006

We consider that all the banks will have to consider increasing the capital. Unfortunately, many of the institutions in line within the Romanian market do not have a name to make them appealing for possible investors. When confronting with great international banks, they shall peacefully fade away. The year 2006 is considered a reference point for competition intensification in the banking system. For the beginning, we assist to product diversification given to the clients, where foreign banks shall play an important part, and later on, after the integration, the process shall most likely cease by lowering the number of banks. And yet, it is considered that the concentration level shall modify together with the market maturation, small and medium banks adopting new merging and purchasing type strategies so as to increase the capital, without suffering major shocks, an alternative for maintaining their viability being represented by the concentration on specialized products or on segments of clients. There is the possibility that the latter affirm as niche players, focusing on specialized products or on certain segments of clients. It is believed that, in a few years, the number of banks on the Romanian market shall be reduced to half, and three quarters of the market shall be concentrated by the first five players.

In this situation, for small banks the following *alternatives* shall be provided:

- **merging**: one of the survival possibilities for a small bank is to find a powerful partner, be it from the county or abroad. It is a solution that many of the small banks will turn to so as to face the stronger and stronger competition;

- **sell**: on joining, when the loaning institutions in the EU are able to open their branches in Romania only in the basis of a notification, the chances to gain a good price from selling of the stocks owned at the small banks lower.

- **specialization**: focus on a market niche can represent a convenient solution as survival strategy. The tendency already exists, especially in the construction or cars purchase financing field.

- **disappearance**: for small banks, merging or drawing a strategic investor are vital. If they do not succeed with any of these moves, many banks stand every chance to disappear.

Tight competition, the launch on the market of some strong foreign banks oblige small banks and not only, to find the financing sources for supporting some major investing plans in the IT system development branches set-up (insurances, leasing, micro-credit, factoring) but also in order to extend the network.<sup>1</sup>

In Romania, even if in the year 2006 the banking network increased by almost 1.000 branches and agencies

<sup>1</sup> Marin Opritescu, coordinator, quoted work, p. 47

reaching up to 4.346 units (without Creditcoop which holds 803 units) thus being recorded an increase rhythm twice bigger than in the year 2005; and yet, there is a large discrepancy between cities and communes cover.

We consider that in the near future the idea of getting closer to the customers' residence is also going to be extended to the areas where the money circulation speed is less intense. A more difficult stage is represented by the commercial banks' access in the rural environment, where half of Romania's population lives and where there are plenty of resources, but less explored: the transfers of the Romanians who seasonally work and the EU funds that are not to be reimbursed. The quantitative development currently assessed especially by the increase of the territorial units' number, the increase

of the income volume, the increase of the staff number, shall be replaced by a development based on quality (a high degree of products sophistication and diversification, preparation of the soft, risk management, etc.).

The aggressive politics of territorial network enlargement, promoted within the last years by Transilvania Bank was materialized by tripling the network in the last two years and therefore holding the fourth rank in the Romanian commercial banks' top. The Romanian Bank for Development, by opening 274 territorial units, has become the leader of the territorial development in the year 2006, which enabled its going up to the second rank, surpassing the Romanian Commercial Bank, on the first place still staying The Savings and Records House (Table no. 3):

**Table no. 3. Top 10 of the Romanian commercial banks according to the number of territorial units in 2006**

Bank	No. of territorial units	%	Bank	No. of territorial units	%
1. CEC	1.388	31,93	6. Carpatica Bank	215	4,94
2. BRD-GSG	600	13,80	7. Bancpost	189	4,34
3. BCR	473	10,88	8. HVB Tiriatic Bank	82	1,88
4. Transilvania	341	7,84	9. Volsbank	80	1,84
5. Raiffeisen Bank	265	6,09	10. Romanian Bank	76	1,74
<b>The first five total</b>	<b>3.067</b>	<b>70.57</b>	<b>The first ten total</b>	<b>3.709</b>	<b>85.34</b>

Source: Processing according to the information provided by the websites of the commercial banks

At the same time, with regard to creating a powerful network of territorial units, the efforts were remarkable. Intensely preoccupied by their presence in the territory, the banks do their best in achieving strategic objectives of extension on a national level. We are not addressing only the players' ambitions already present on the local market, but especially about the new competitors who, once they receive BNR notification focus their efforts in this direction.

We can speak about a new structure of the banking architecture,

divided into the "old" banks and new commeri, context we can consider as a

big challenge for the Romanian banking system coming from the loan institutions in the European Union; the mentioned institutions in a number of 104 at the end of the year 2007 submitted notifications with BNR showing their interest regarding the direct performance of financial operations on the Romanian market.

As for the number of banks that will be functional in Romania over the period 2010-2012, there are opposite opinions in this regard. On one hand, it is

alleged that the number of banks is to be reduced and arguments are provided that, in this regard, half of the currently existing banks in Romania hold less than 10% of the assets. It is obvious that here something must happen, they will either increase their market share, or they will be purchased. It is less sure that, in this manner, the number of banks will be reduced, as it happened in the year 2003, since new bank classes can be founded (banks specialized for dwellings, vehicles purchase). On the other hand, those who consider that the number of banks is to be decreased bring in the argument that the banking degree (the number of inhabitants per one banking unit) is still low. Not even this argument would be enough as the number of banks could decrease, but the territorial network (branches and agencies) could powerfully develop.

As for the number of banks in the Romania of the years 2012-2014 is concerned (when Euro currency is to be adopted), this will represent the result of certain processes in which last but not least an important role will be played both by competition on the banking market and by the politics of the great actors on the market regarding the development of the territorial networks and of the loan-granting profile. In the future, the quality of the services provided by the Romanian banking system will be more important than the number of banks.

The realities in the countries having a functional market economy have shown that the process of banking focussing achieved by merges and purchasing is not only natural, but also necessary, knowing a difficult evolution often being affected by convulsions. In Romania, we believe that this process is only in a starting phase and there are still numerous barriers to overcome.

New ways of actions are necessary and they could favour the reinforcement of the small banks' capital of which assets do not surpass 1 per cent of our banking systems' assets. Similarly to the focusing tendency is the segmenting one, respectively of

restructuring the banking activity on several ranges can also be found in the countries having a functional market economy, a natural tendency accompanying the modernization process. The existence, apart from the commercial banks, of those specialized ones is able to offer the premises of the banking management improvement and eventually of profitability.<sup>2</sup>

Another reality of the Romanian banking system is the segmentation of the banking activity that overlapped the nature of the origin of the banking registered capital. Thus, the banks having state capital or state majority capital were involved especially in financing state economic agents or from the public sector, financing that when the interest was truly negative, turned into implicit granting of the national economy, the banks having private capital financed especially the private sector and the foreign banks often involved in financing the foreign companies preferably having the same origin as the mother bank.

The grounds that formed the base of specialized loans institutions setting up in many western countries can also be found in our country's case, being especially related to the insufficient funds offer on medium and long term of the commercial banks because the latter focus on short term loans; the need to insure distributions possibilities for the granted loan; the need to offer an alternative in order to overcome the access difficulties on the capital market for numerous economic agents. In the first semester of the year 2004, the Raiffeisen group, together with a specialized bank in Germany (Bausparkasse Schwalbisch Hall) set up the first bank in Romania offering a real estate product which merges the loan granting with saving.

The banking sector is still under the domination of old specialized banks,

<sup>2</sup> Alia-Gabriela Opretescu, *Juridical and Economic Status of interest*, Universitaria Publishing House, Craiova, pg. 116

but in parallel there is a strong tendency of orientation towards fields that are specific to the banking activity and an adaptation of politics that are typical for universal banks. The tendency to accentuate the specialization of units per field shall be attached to the normal universalization. The focusing on specialized products or on certain segments of our clients represents an alternative for the banking system viability maintenance. In the future, the number of bank units specialized in drawing population economies could increase, and their placing in low-risk degree investments such as: the purchase of titles issued by the local administrations or economical entities, low-value consumption loans, loans given to other banks or financial institutions. CEC represents the present Romanian archetype, which currently works as a special-state bank by state deposit-guarantees.

Another direction is represented by the bank units specialized in investments (medium and long term locations). The orientation of these units is towards the purchase and transact on the market long-term titles, as well as economic units' commercial or financial obligations, with an expiration date earlier than five years. Generally, the precarious economic situation determines the banking investment activity to be scarcely run into.

In Romania, considering the current size of the banking market, we believe that there cannot be funded in a short period of time all the existing types of banks specialized in development. Nevertheless, we consider that at least a few of them should work, their aim being that of stimulating a few key-branches of our economy, like agriculture, building construction, particularly external exchange. We trust that, for many years ahead, the economic growth will have its basis in goods and services exports and not the internal consumption, and from here the need for funding a specialized bank in the exterior commerce financing.

We also think that the “hunger” for buildings will continue and will command the creation of an institution to stimulate the economy. In the end, we appreciate that a performing economy must rely, in the European Union context, not on “budget granting”, but on “refundable” banking finance. This is the reason for which the setting up of one or more specific institutions becomes imperative. The above-mentioned statements stand for the specialization on vertical of the commercial banking units. Apart from this specialization, the horizontal specialization, still in a starting phase, will also grow strong. This specialization concerns the respective banks' orientation towards certain sectors or economic branches prevalent in the area they work in.

Another important tendency at an international level is represented by the banking groups set up. During the last years, the number of the financial conglomerates has significantly grown in Romania, the latter showing themselves as banking groups, which mainly include banking agencies, real estates companies, insurances and leasing value companies.

The globalization, the regionalization will be concepts more and more commonly met in the Romanian banking system. The creation of regional markets will determine the creation of regional alliances both in the corporatist and in the banking field. The effect will be the reinforcement of the regional players, who will become extremely strong. The regional markets must be very carefully looked at in the next 3-4 years to come, when we can expect a reconfiguration of financial power poles. For instance there is the loss of influence and of financial power by famous groups in Central and Eastern Europe, especially because a defective risk management. In the same way, we can talk about capital migration, purchasing and merging to introduce in the area even stronger players, with a more powerful financial force and with a financial discipline in harmony with the

European regulations. What can we expect in Romania? It is almost certain that, after the adhering, more and more, the subsidiaries' activity financing of the international corporatist groups could be insured in a centralized manner, and thus, the banks in Romania gradually lose their role as financial mediator in the different sectors of the economy. On the other hand, the main sectors which will continue to be supported by the autochthonous banking system will be especially the IMM-(small and medium enterprises), which will carry a bigger and bigger weight in the economy, as well as the population of which standard of living will continue to increase after the integration.

Another interesting process in this transition period can be the banks' externalization of some product or activity types. Thus, if in the present there is the tendency to gain strength, at any cost, by crossing an internal consolidation process, after the integration a field specialization will take place.

The banks will be able to choose one of the four strategies, classified according to the product portfolio and the distribution channels used: universal banks, Niche banks (or cost server), banks specialized on certain products (but having an extended distribution network) and banks the product portfolio of which is extended, but the distribution capacity is limited.

Another criterion to be taken into consideration when performing this classification is the value chain, respectively how many of the operations afferent to a product are being achieved by the bank and how many are being ceased to other entities by outsourcing. In this process, the banks who achieved a certain degree of development will want to externalize certain products and/ or activities (IT solutions, externalizations on derived products, ATM network attendance, card processing centres, etc.). the banks which activate on the Romanian market will think if they can offer, further on, a complete range of products to all their clients or if they will

fold on a client category, fact which gives them a competitive advantage to all the other players.

The number of banks that will provide universal services will lower in the following 5-6 years after the adhering, possibly even fewer than 10 great banks. Half of the banks that currently exist in Romania own less than 10% of the Romanian banking system assets. In this area, the things must evolve some way or another. They will either merge, or be purchased, or change their market share by increasing the capital basis.

Regardless of these evolutions, the banking system in Romania will continue to grow as capacity. For the year 2010, the former vice-governor of the National bank of Romania, Mihai Bogza, the total number of assets will surpass 130 billion Euros, compared to the 38 billion Euros in 2005. The total number of loans could reach 61 billion Euros in 2010, comparing to the 16,4 billion Euros in 2005, and the deposits of the population will have an annual growing rhythm of about 20% (23 billion Euros in 2010 comparing to 9,4 billion Euros in 2005). Everything, though, in normal economic conditions.<sup>3</sup>

The competition on the banking market will continue to grow, if on the market in Romania there shall operate both resident and non resident banks. This phenomenon, cumulated with some monetary and currency politics measures, will lead to the decrease of the banks' profits in Romania.

The positive impact that the adhering to the European Union will bring to the banking system in Romania will be on the banking market stability and the increase of the sophistication.

This thing will mainly happen by the intense attention the banks will show to new regulations and prudence, which will be introduced according to the European regulations and standards and by the internal financial market consolidation and the due mechanisms.

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<sup>3</sup> [www.mybank.ro-18.05.2006-www.zf.ro](http://www.mybank.ro-18.05.2006-www.zf.ro)

The strategy of the Romanian commercial banks must take into consideration the major transformations supervened in the world banking sector, as effect of the banking activity globalization. When elaborating a development strategy there will be taken into account the current situation and the future tendencies, conjectural, as well as other factors seen as durable and stable: continuing the development of some mechanisms specific to the market economy; perfecting the law frame adequate to these mechanisms; promoting some financial and structural policies having as target reducing inflation, increasing the annual volume of direct foreign investments, lowering progressively the commercial payments balance deficit, acceleration of the economic integration process in the European structures.

Under these circumstances, we tend to believe that the main courses of action meant to lead to the banking system revitalization and, implicitly, its integration into the European and global community are:

- finishing of the privatization process (CEC);
- adopting prudential regulations which are adequate to the existing economic environment. In this context, the following courses of actions have

priority: reinforcement of the BNR autonomy in capacity of regulating and supervising authority; creating of a sole supervision authority for the whole financial market; the continuing adjustment of the prudential supervision norms to the existing economic environment.

- the banking reinforcement is imposed under the conditions of the competition enhancement and of the need for an adequate number of powerful banks to operate and fore which the high performance will become of priority.

The focus on the existing resources through merges and purchasing or the banking capital increase as consequence of drawing into stock-holder's membership of very powerful investors, involvement of the foreign capital in the Romanian banking system, set up of specialized loan granting institutions, diversification of the banking products and services, use of the IT technologies in the banking operations, costs decrease by loan granting and by the mortgage and consumption loan development represents, in our opinion, trends and as many challenges for the Romanian banks found in the process of integration into the European and world banking system.

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