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EVOLUTION OF THE BANKING SYSTEM BEFORE AND AFTER THE INTEGRATION IN THE EUROPEAN UNION

Mirela Cătălina VÎNT (TURKES)[1]

Abstract: *The article presents the whole of the regulations voted within 1991-2009 regarding the Romanian banking system reorganization and progress and, implicitly, its alignment to the European Union directives. The research consisted of the presentation of the best banks depending on the market share, profitability, own deposits and capital, but also the financial indicators and banking prudence in system. Based on the analysis of the financial-banking results, I have described the Romanian banking system expansion after the European Union integration and also the problems faced in the framework of the international financial crisis.*

Key words: *banking system, integration, financial indicator.*

1. Introduction

The development of the banking system in Romania has been "spectacular" these latest years, because of the credit quick dynamics maintained by a strong economic growth and the European integration prospect. This has been possible thanks to the Romanian banking sector opening towards the external competition and the substantial capital infusion from the international institutions.

2. Evolution of the Banking System before the Integration in the European Union

Because of the historical evolution and peculiarities engendered by the requirement of the integration in the European Union, the Romanian banking system has its own features and problems which are common to the banking systems from other countries.

Taking into account the model of the European structure of a banking system, a banking system on two levels has been created: the National Bank of Romania, as the central bank, and the commercial banks.

The banking legislation adopted in 1991 stimulated the commercial banks part in economy, which is strongly connected to their quality of main intermediary in the relationship savings-investments, which is decisive for the economic growth.

Considering the role and importance held by banks as regards the good operation of the economic agents and economy as a whole, a modern system has become necessary, which should meet the requirements of all the categories of economic agents in the market economy, as well as of the physical persons–beneficiaries of credits, depositors etc. This need has been perceived since the period when the Romanian banking system started setting new regulations.

[1] PHD Candidate, Marketing, *Transilvania* University of Braşov.

Therefore, many important changes took place in the banking activity in Romania between 1991 and 2009.

Between 1991 and 1996, the banking system was organized through the Law no.33/1991, legislating on the commercial banks activity, Law no.34/1991, legislating on the statute of the National Bank of Romania as the central bank, as well as different governmental decisions, as follows:

- The National Bank of Romania – NBR – was reorganized in order to carry out the tasks of a central bank, having the following functions: money issue, monetary stability assurance, country currency reserves administration, survey of the foreign payments balance execution, banking activity survey. Banca Comerciala Romana SA (The Romanian Commercial Bank) was established in order to carry out the commercial activities of the National Bank of Romania. In order to maintain the money circulation at a proper level, the National Bank of Romania also ensures the connection between the credit dimensions and the in circulation money volume.
- The banks (Romanian Bank of Foreign Trade, Agriculture Bank, Investments Bank) were transformed into commercial banks, with state capital and Romanian private capital, a new organization and operation statute being approved based on a Government Decision.

Between 1996 and 2000, a new laws packet has been issued: Law no.83/1997 regarding the banks privatization, Law no. 58/1998 regarding the commercial banks operation system, Law no.83/1998 regarding the banks liquidation and reorganization and the banking system reform continued, having the following positive consequences:

Romanian and foreign private capital banks have been established, as well as branches of different foreign banks. The established banks were obliged to open correspondent accounts with the National Bank and to make minimum reserves in compliance with the regulations issued by the National Bank of Romania and also other accounts, as well as to refinance from the latter, under established terms;

The National Bank of Romania established, by means if its regulations, the minimum level of cash-deposit, the way of calculation for the cash-deposit rate of a commercial bank and the provisions system;

NBR established the credit norms for physical persons at the beginning of 2000 and this allowed a rapid progress of physical persons crediting, activity almost inexistent until 2000.

A remarkable evolution of the Romanian banking system can be noticed within the period 2000-2004 when the following achievements were registered, through the Law no.200/2002 regarding the credit cooperatives organization and operation, amendments of the Laws 101/1998, 83/1998, 58/1998, the new bank law issued in 2003 and other NBR's regulations: an alignment of the Romanian banking system to the European Union directives by means of a domestic and international transparent reporting system, adoption of the Basel I regulations, increase of NBR's authority as surveying body of the banking activity and a clear definition of the bank adjudging bankrupt.

The issuing of the new bank law in 2003 concerning the insurance of a unitary regime for all the credit institutions, electronic settlement of the money and the activity concerning the electronic credit, settlement of the funds transfer outside the country and conversely, legalization of NBR's independence as the regulating institution for the banking field, establishment of the overdraft crediting system for commercial banks, carrying out of the accounting reports in the IAS system and establishment of the Credit Office as responsible for risk monitoring and for the physical persons credits reimbursement – are other new regulations which have been adopted in the Romanian banking system in order to develop it.

Within the period 2004 - 2006, through the Law no.312/2004, concerning the adoption of the National Bank of Romania articles of association, law no. 253/2004 regarding the final character of the settling up in the payment systems and in the settlement systems, Law no. 278/2004 and Government Ordinance no.10/2004 concerning the judicial reorganization and bankrupt procedure for the credit institutions, Government Emergency Ordinance no. 98/Dec.6th 2006 concerning the over survey of the financial institutions included in financial conglomerates, the Romanian banking system development went on. By means of the above mentioned regulations, the main responsibilities of NBR were established, the Credit Office became operational in August 2004 and the judicial reorganization and bankruptcy procedure of the credit institutions were established, as well as the over survey of the financial institutions included in financial conglomerates. Other projects carried out during the same period were: implementing the provisions of the New Agreement of Capital – Basel II, whose most important objectives were the assurance of a more flexible framework, in order for the capital needs establishment to coincide with the credit institutions risk profile and premises creation for the financial-banking system stability funding, ReGIS, SaFIR and SENT systems development for the central bank operations, inter banks transfers, payments in LEI, settling up in real time and with an immediate finality, as well as for the deposit and settling up of the public securities and deposit certificates issued by NBR.

3. Evolution of the Banking System after the Integration in the European Union

The process of the Romanian banking system modernization have gone on between 2007 and 2009 and new regulations have been adopted, the most important of them being: Law no.227/2007 and the Emergency Ordinance no.25/2009 regarding the approval, supplement and modification of the Government Emergency Ordinance no.99/2006 concerning the credit institutions and their adequate capital. In January 2007, NBR has published the monthly Gazette of the European Central Bank on a website. As a result of the integration in the European Union, the banking community of Romania is represented in EPC structures by the Romanian Banking Association and takes an active part in the SEPA project implementation and the accounting regulations meet the requirements of the European directives, applicable to all the credit institutions, non-banking institutions and deposit warranty fund inside the banking system. At the same time, the following actions are carried out: classification and provisioning of the credits and investments, certification of the credit institutions, Romanian legal persons and Romanian branches of credit institutions from third countries, transformation of the financial institutions in credit institutions, appraisal of the origin third country surveying framework compliance and checking the equivalence of the survey done by the qualified authorities from third countries with the one governed by the provisions of Government Emergency Ordinance no. 99/2006 concerning the credit institutions, their adequate capital and credit institutions status modification, Romanian legal persons and Romanian branches of credit institutions from third countries.

The first year of integration in the European Union triggered the growth of the economic activity which has consequences for the banking area as well. The bank market registers the highest increase in the Romanian banking history, through the establishment of four new banks within the first three quarters of 2007 only: Millennium Bank, La Caixa, Fortis Bank and Finicredito.

4. Romanian Banking System: Structure and Features

On the whole, 2007 was an excellent year for the banking market, the assets weight in GDP increased by 11.5%, reaching a level of 61.8% The banking concentration was maintained at a high level, the first five banks from the system owning 56.4% from the total of the assets, since the Romanian majority capital owned a market share of 12% from the assets, with 0.6% more than in 2006, in contrast to the foreign banks branches which registered a fall of 5% in the assets weight.

2008 is the year of surprises for the banking area. On the one hand, as a result of the increasing competition, on the other hand, because of the decreasing banking incomes due to the slow down in external financing and to the depreciation of the ratio credits-deposits; consequently, fewer customers were attracted by banks.

The banking system included another member – BCR Bank for dwellings (from Erste Greek group), which is present on a weakly niche covered, the one of the banking market for dwellings, and so the number of the institutions present in the NBR register became 37.

Table 1
Type and number of credit institutions

Types of credit institutions	Number
- commercial banks	37
- branches of foreign banks	10
- cooperative credit	3

Source: http://www.banknews.ro/cauta.php?s=15&q=bnr

During 2008, the domestic banking system assets reached a level of 73.4%. The concentration degree of the banking system registered a decreasing trend, the first five banks concentrating more than half of the banking system assets - 54.6%, 3% less of the market share as compared to the second quarter of 2008. The first three banks in the Top (see table 2) own an impressive share of 42.1%, even if an important decrease was registered as compared to the previous period.

In 2008, the Top 10 structure remained the same as in 2007, even during the whole year 2008 the banking system was on a permanent move, the classification registering important modifications from one quarter to another. Since some banks registered a linear growth, others were pleased by short lasting victories, failing to strengthen the position they had reached at a particular moment.

The first three banks in Top 10 in 2008 are BCR, BRD and Volksbank. A good evolution was registered by Volksbank and Alpha Bank, banks, which were on the 8th and 7th positions in Top 10 of 2007; in 2008, they are on the 3rd and 5th positions, registering a rapid progress. Other banks such as: Reiffeisen Bank, Banca Transilvania, Unicredit Tiriac and Bancpost lost one - two positions compared to the previous year.

BCR, holding the first position in Top 10, registered the most abrupt diminishing of its assets in 2008, from 26,2% in 2006 to 20,4% in 2007. Even if BCR was under an in-progress reorganization process, it continued its expansion: through the opening of specialized centres for loans on mortgage granting – *Centrum Imobiliare* – a contract signed with the Agency for Payments and Agriculture in order to finance the farmers, increasing the number of the installed ATMs, diversifying its offer for bank products and services (fixed interest credit), approaching various niches from students to investors, but also launching social responsibility programs (CSR) such as the partnership with the H Foundation.

A very good evolution was registered by BRD Groupe Societe Generale in spite of the reduction by 3.4 p.p. of its market share. The highest profit, a ratio costs/incomes of 39%, an almost unitary ratio between deposits and credits (88%), the most extended territory network after the giant CEC – these are a few of BRD's strengths. The bank maintained its equilibrium in the two business credit lines – retail and corporate and succeeded in covering all the financial services, developing its own brand on the insurance market – *BRD Life Insurance*.

The latest in the top is Volksbank, an outsider in 2007, whose aggressiveness allowed jumps of even four positions. Using a strategy on the retail sector, Volksbank reached a market share of 6.3% in 2008, as compared to 6.1% in 2008.

Sharing the third position for the first time since its holding, Reiffeisen Bank registered a relative defeat, owning a market share of 6.1%, the same as Volksbank. In spite of this situation, the bank had an effervescent activity, directed towards all the business lines and strengthening its position of universal bank. This last period, Reiffeisen brand became more and more visible thanks to the numerous CRS and partnership campaigns with various organizations (such as Bucharest Police institution for the banking frauds prevention).

Alpha Bank, with a market share of 6.0%, is the fifth in Top 10, outstripping Banca Transilvania with 6 p.p. This growth is the result of an aggressive strategy materialized in the addition of 70 new units, by means of which they "attacked" the retail, the result being more than 300 million of consumption credits and loans on mortgage.

Banca Transilvania lost the fifth position as a result of the decrease of its market share to 5.4%, a surprising evolution taking into account the significant investments in different areas, such as the SMEs (Small and Medium Enterprises), liberal professions (they established the division for Physicians) or the cards line.

Unicredit Tiriac continued to lose its position in the top after the disappearance of HVB Tiriac as a result of the merger with Unicredit, so it held the 7th position in 2008 with a market share of 5.2% after having the fourth position in 2006. The bank, guided towards the corporate sector, developed an aggressive strategy for the retail sector in 2008.

Bancpost is on the 8th position in Top 10 with a market share of 5.0%, registering a reduction of 3p.p. as compared with 2007. Over the recent years, this bank has directed its efforts towards drawing funds, having an excellent saving offer.

As compared to the previous year, CEC kept its position in Top 10, registering a weak growth of the market share up to 4.4% in 2008. The bank is in an increasing progress, focus being put on the credit activity, especially the credit towards the SMEs (Small and Medium Enterprises).

The Dutch bank ING is on the 10th position as a result of the great distance existing between it and the next one at the end of the last year. Even if these latest years it developed a strategy based on retail products (the advantageous savings account Cont'ROL), ING remains a bank recognized for its important incomes obtained from treasury activities.

Rankings of banks based on market share Table 2

Nr crt	Banks	Market share of banks %							
		Year 2007				Year 2008			
		March	Jun.	Sept.	Dec.	March	Jun.	Sept.	Dec.
1	BCR	26,0	26,4	26,0	23,8	23	21,7	20,8	20,4
2	BRD	16,0	16,2	15,9	15,5	15,7	15,5	15,0	14,9
3	Volksbank	3,3	2,9	4,3	5,1	5,7	5,9	6,3	6,1
4	Raiffeisen Bank	7,9	6,5	8,0	6,3	5,8	6,0	6,3	6,1
5	Alpha Bank	4,6	4,9	5,8	5,1	5,0	5,4	6,2	6,0
6	Banca Transilvania	5,0	5,2	5,3	5,5	5,7	5,7	5,6	5,4
7	Unicredit Tiriac	na	6,0	5,3	5,1	5,2	5,4	5,4	5,2
8	Bancpost	4,4	4,9	4,9	5,3	4,9	5,1	5,1	5,0
9	CEC Bank	4,2	4,2	4,1	4,2	4,4	4,4	4,4	4,4
10	ING Bank	na	na	na	3,2	na	na	na	3,1

Source: The Financial Market no.11/ November 2007, December 2008

Banks in Top 5 percent in the total system (%) Table 3

Nr crt	Indicators	Banks in Top 5 percent in total system %							
		Year 2007				Year 2008			
		March	Jun.	March	Jun.	March	Jun.	March	Jun.
1	Active	60,1	59,1	58,0	56,4	55,9	54,7	54,6	53,9
2	Credits	62	61,2	59,1	57,1	55,1	53,8	53,4	52,1
3	Deposits	59,5	59,8	61,9	60,0	54,1	53,2	53,7	52,5
4	Equity	53,2	54,1	48,6	50,1	51,4	49,6	47,9	45,7

Source: The Financial Market nr. 5/May 2008

Indicators of prudent financial and banking system (%) Table 4

Nr crt	Indicators	Indicators of prudent financial and banking system (%)							
		Year 2007				Year 2008			
		March	Jun.	March	Jun.	March	Jun.	March	Jun.
1	Report solvency	16,16	14,90	14,03	13,78	12,94	12,72	11,79	12,34
2	The rate of equity	8,44	8,18	7,91	7,32	7,02	6,92	6,51	6,23
3	ROA	1,46	1,51	1,9	1,02	1,74	1,65	1,81	1,78
4	ROE	11,63	12,62	10,3	9,40	12,45	16,9	19.71	18,67

Source: The Financial Market no.11/ November 2007, December 2008

The second group, the one of the banks with a market share over 1% outside Top 10, includes 7 banks. The most noticeable evolution, not only in this group, but also in the whole system, was registered by Agila Piraeus Bank which occupies the 11th position, registering an increasing of its market share to 3.0% in 2008, 0.6 p.p. more than the previous year. The bank froze the loan interests in 2008, when most of the interests were fluctuating, and changed its strategy from the credit aggressiveness to the savings.

Banca Romaneasca, whose perseverance brought it to 3.0% as a result of the slight increases during the latest quarters, could mention among its strengths the large network of more than 120 units and the good balance between the drawn and the invested resources.

Credit Europe Bank registered a slow, but constant increase up to a market share of 2.0%, being noticed through its business model, which approached the SMEs sector.

OTP Bank registered a weak reduction of its total assets weight in system, of 0.3 p.p. reaching a market share of 1.% at the and of 2008 and enjoying a reasonable ratio between credits and deposits as a result of an aggressive strategy.

Citibank and the recently rebranded Royal Bank of Scotland (the former ABN Amro) had also over 1% market share, both of them belonging to some foreign groups which do not have a very comfortable status at present.

There are numerous banks with a market share under 1%, among them Banca Italo-Romena, MVB Romexterra and Garanti Bank which are noticed because of their visible increase, attractive portfolio of products and a continuous innovation.

For the banking system, the first year of integration in the European Union was one of expansion of the territorial units, as well as of the banks personnel number. To the 58,090 banks employees registered at the end of 2006 for 4,401 bank units, 7,565 employees were added for the 1,080 units opened within 2007. Even if the effects of the financial crisis at the end of 2008 were felt on the Romanian market, the banking institutions continued to open other 927 bank units, employing other 6,264 employees who have not had their activity object these latest months.

The bank assets weight in GDP rose from 50.3% in 2006 to 61.8% in 2007 and diminished to 39.6% at the end of 2008. The banking system shareholders were rewarded for their invested capitals with a return slowly reduced by 2 p.p. as compared to 2006, to 10.21% in 2007, level ensured by the 757.8 million euro in the banks net profit accounts. In 2008, although the bank capital shareholders returns slightly diminished to 14.92%, it was clearly higher as compared to the results of 2007.

The severe competition on the market and a structure of the assets found under the major influence of the retail credit can explain not only the important reduction of the solvency ratio up to 13.7% in 2007, 2.34% in 2008, but also the marginal growth of the volume of remaining and not sure credits volume reported per the bank assets. The costs of the excessive speed of brokerage increase triggered the increase in the provisions by 300 million Euros in 2007 to 462 million euro in 2008, which represented the highest nominal increase in the costs structure at the banking system level. As a matter of fact, in the banking costs structure, the provisions costs weight increased from 19.8% to 23% in 2008, dynamics which started questioning the future level of profitability. On the first place as regards the speed of the banking costs increase there are the administrative and investment costs with 89.9%, the banks having spent around 325 million Euros in 2008 for strengthening their market position. As a result of the banking expansion strategy practiced at the system level, the ratio costs/incomes deteriorated from 72.9% in 2006 and 75% in 2007 up to 78% in 2008.

From the point of view of the system profitability, the banks structure in Top 10 is unchanged, the first places being occupied by BCR and BRD with a quota of 33.6% and 28.2%.

As a conclusion, the accomplishment of this system of banks' organization triggered an important increase in the banking activity and in the development potential, not only for the area of juridical persons customers, but also for the area of physical persons on the medium and long term.

The development of the specific operations, services and instruments will allow, in time, the diversification of the banking activity. This will result in the competition increase, the former sectors being replaced by a real banking specialization which will depend on the nature and volume of the operations carried out, the category of customers to which each bank will address and, not least, the quality of the services offered. The new banks have the possibility to carry out a modern banking activity from the beginning, by using computer systems; they can also attract the most efficient new companies as customers.

The main goal of the banking market will remain to offer additional advantages to the banks customers, advantages which will result from two important grounds:

1. The customer will benefit from the increase in the freedom of choice by redirecting the activity towards institutions which offer, for smaller prices, products and services which better meet the customer needs or some services which were not available previously.
2. The prices (tariffs, interests, commissions) for most of the financial products and services have to diminish as a result of a bigger domestic market. The competition will be the main factor in price reductions.

At the same time, banks must embrace new models of business which should include features such as: a trustworthy brand, steady distribution partnerships, a diversified and continuously renewed products portfolio and efficient operational structure regarding the costs. More flexible models of business and of organization as regards the financial-banking institutions will allow them to adapt to the market changes more easily and to renew their products rapidly, the banks having as an advantage the dimension, products portfolio diversification and various financing sources. Due to the lack of external financing, which has been strongly felt because of the financial crisis, the banks should pay more attention to the selling activity. The specialized entities belonging to the banking groups can be concentrated on the marketing and risk management and can help banks diversify their portfolio and also refinance their activity.

The banks present on the market must mainly rely on flexibility and innovation and, at the same time, ensure financing sources at reduced costs taking advantage of the opportunity to strengthen their position on a market where the majority of the competitors are in abeyance.

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