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The Integration in the European Banking System. Tendencies and Challenges for the Romanian Banks

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Summary – 1. Short Evaluation of the European Banking Activities – 2. Tendencies in the Activity of the Romanian Banks – 3. Conclusions

Abstract

The banking history goes through a consolidation process, concretized by activities of acquisitions and fusions, because of the intensification of competition, both on the internal market and also internationally. In order to cope with the competition and to avoid the losses and even bankruptcy, the banking world series the ranks, accentuating the history of the banking systems reorganization can represent the starting point in the integration process of the Romanian banking system in the European banking system and can outline the main challenges for the Romanian banks. The European integration will reorient the activity and the management of the great Romanian banks, because these will have to deal with the competition with the great financial European groups. As far as the small banks are concerned, it will be necessary that they fusion or be acquired, being possible even to bankrupt if they will not be oriented toward a market niche with a very well specialized custom. The diversification of banking products and services both for the corporatist custom and also for the natural persons but also for the state and local communities, the generalization of the use of IT technologies and complex data processing networks, the continual reduction of the credit's price and the development of consumption credit and the mortgage credit represents, in our thought, the main tendencies but also challenges for the Romanian banks found in the integration process in the European banking system.

Keywords: banking systems, concentration, fusions and acquisitions, specialization

1 – Short Evaluation of the European Banking Activities

The banking systems from the Western European countries have continually developed and progressed along the time containing a diverse bank typology, and during the last period have manifested the standardization tendency in the context of the financial globalization process.

Because of the advanced financial integration, the principle of the universal bank, has easily spread, we can quote Germany for the development of the most eloquent example of universal bank model. In Europe, through the banking directives, the banks are given the possibility to have a large activity field, starting from the authorization of the capital market operations, as it is the case for France, Italy, Spain, until the penetration on the insurances market, as in the case of Germany and France.

The main characteristics of the European banking systems can be synthesized as follows:

- *the concentration of the banking activity*, reflected through the power held by the main banks in the total of the banking system and through the diminishing of the number of banks in its total;
- *the high banking degree*, pursuing a high development level of the banking system;
- *the acceleration of the operations of banking reorganization*, including here the fusions and the absorptions, the beyond borders operations (with the foreign countries), the assumptions of the control package by the foreign banks and the crossed operations between banks and insurances. The banking reorganizations have represented for the banks a way of reaching an optimal dimension to remain competitive, the intensification of the competition being one of the main effects;
- *the integration of the banking and insurance activities within the same financial group*, widely spread phenomenon in the European countries;
- *the diversification of the activity*, as a consequence of the involvement on the banking market of some financial and non-financial institutions by offering not long ago exclusively banking services, which lead to the transformation of banks in “universal financial shop” for a certain market sector;
- *the opening toward foreign countries*.

In Germany, the great commercial banks, as Deutsche Bank, Dresdner Bank or Commerzbank, try to occupy the first places in the investment banking activities and develop operations with estate values in order to compete on the global markets for the entire existing services range, realising this objective through acquisitions and/or assumptions and the smaller private banks are more and more involved in corporatist financing activities on new markets. The population interest for the direct banking services lead to the entrance on the market of new players, some of them offering banking services (loans, brokerage, etc) exclusively on the internet. To this challenge, the traditional banks responded through a strategy of promotion o the electronic services, making significant investments. In our fight against virtual banks, the traditional banks are relying on an already existing large base of customers, and also on the safety image offered by the physical existence of the banking units.

In Belgium also as at the level of the entire Occidental Europe, as effect of the unregularization and the opening toward the relations abroad, has considerably increased the number of intermediaries on each market segment, which lead to an accentuation of the competition on the banking market. For instance many foreign banks mainly business banks, are present on the Belgian market, having market quotas which are not negligible.

Because of the strong competition *the commercial French banks* have significantly diversified the activity in new domain: mortgage credit, consumption credit, financial engineering, depository for the collective investment organisms of the estate values, direct or indirect financing of the agriculture. Also, the big universal commercial banks take part to the capital of the great industrial enterprises, part played for quite a while by the business banks. Another tendency is that the banks create within them their own insurance activities, or fusion with them.

The consolidation made *the British banks* more powerful, capable of going more easily through periods of economical recession, but having the possibility to substantially invest in technology, the pressure of the competition determines the continual innovation: telephone, internet and even TV-banking are standard at the industry level. The specialization and the focusing are, also, dominant characteristics of the British banking system. The commercial banks are specialized in attracting deposits, short term crediting, the financing of the external commerce and the administration of the payment media. The high focusing degree is outlined by the weight of the first four British banks (*The Big Four* – Barclays, Midland, National Westminster, Loyd's) which have a network of some thousand banking units and which achieve nearly 70% of the transaction.

In Italy, the country with the oldest tradition in the banking activity from all the European countries, the evolution of the banking system proves a transformation tendency of the great banks into financial conglomerates, similar to the British ones but less into universal banks, as in the case of the German banks, the specialization being a well defined tendency even if the universal bank model remains a viable one for the Italian banks. The banking restructuring manifested through fusions and acquisitions, over borders operations, the assumption of the control package by the foreign banks and the crossed banks-insurances operations presented an essential characteristic of the latest Italian banking system. Through this process, the functioning costs, the large scale amortization of investments in the new technologies and the widening of the range of products offered to the customers, in order to stay competitive.

The dominant characteristic *of the banking systems from the Central and Eastern Europe countries* become members of the European Union is the domination of the foreign banks. Considered as the most advanced countries in the region Poland, Czech Republic and Hungary were characterised even from 2002 by a market weight of the foreign banks of 66%, 78% and

62%, while at the level of the same year Romania was situated on the antepenultimate place in the region, with 39%. Today Romania is one of the countries with the biggest domination of the foreign banks in the banking system (88% of the assets, after the privatization of BCR, and if the privatization CEC would have been finalized the banking assets controlled by the foreigners would have surpassed 92%). The financial consolidation process in Central and Eastern Europe was supported, mainly by the organic increase of foreign capital or mostly foreign capital banks, opposed to the situation from the developed countries, where the dominant part was occupied by the fusions and the acquisitions.

2 – Tendencies in the Activity of the Romanian Banks

It is unanimously recognized the fact that the banking market in Romania has a high development potential generated by the degree of the yet low financial intermediation and the population's running into debt reduced level which makes the Romanian banking market a very attractive target for the great foreign banks.

In our opinion, the European integration will reorient the activity and the management of the great Romanian banks, because they should cope with the competition with the great European financial groups. As far as the small banks are concerned, it will be necessary that they fuse or be acquisitioned, being possible that they even bankrupt in case they will orient towards a market niche with very specialized customers.

Consequence of the increase of competition, it is thus necessary to find a solution for the consolidation of the small banks' capital, whose assets do not pass over 1% of the Romanian banking system's assets¹. It is appreciated that, at a total level of the banking assets at the level of the IVth trimester of 2006 appreciatively 51.467,8 million euro², the number of banks from the Romanian banking system is too big, in some authors' opinion the optimal being between 20 and 30. Still, from our point of view, the solution is not to decrease the number of banks, but to increase the volume of their assets.

We appreciate that the solution the managers of the Romanian commercial banks must adopt, in the context of the integration in the European banking system, is represented by the concentration of the existing resources through fusions or acquisitions processes, or the increase of the banking capitals, as a consequence of the attraction in stocks holdings of some very powerful investors. The advantages of the concentration are very clear, because it is well known the fact that, in the transition periods, the small banks are very vulnerable.

¹ 19 Romanian commercial banks are found in this situation at the level of the 4th trimester of 2006.

² Processing after the information furnished by the Financial Paper no. 2060 from 29.01.2007.

Table 1 - The situation of assets of the first 10 commercial banks in the total Romanian banking system for the 4th trimester, 2006

Bank	Assets	Bank	Assets
1. BCR	25,90	6. Bancpost	4,42
2. BRD	16,10	7. ING	4,15
3. Raiffeisen	7,94	8. Alpha Bank	4,10
4. HVB Tiriac	5,07	9. CEC	4,04
5. Transilvania Bank	4,64	10. ABN Amro	3,02
Total first five	59,2	Total first 10	78,93

Source: Processing after the information furnished by the Financial Paper no. 2060 from 29.01.2007

Thus, a small bank doesn't hold the necessary money to achieve an infrastructure that would allow it to offer integrated financial services to properly stimulate the customers, but also their personnel and the stock holders. In this context, the necessity of the banking concentration is vital, no matter the manner in which it is made, by increasing the social capital or by the fusion or acquisition by the strategic investors. Accepting this idea is proved also by the propositions made by some banks' of Romania managers of regarding the increase of the social capital, synthesized in the following Table 2.

Table 2 - Banks which have announced the social capital increase at the beginning of 2007

Bank	Market quota in 2006	The amount by which the social capital is increased	The majority stock holder
Mindbank(ATEbank)	0,19	68,17 mil. lei	Agricultural Bank of Greece (ATE bank)
Volksbank Romania	2,67	112 mil. lei	Volksbank International AG
Pireus Bank	1,10	50 mil. lei	Piraeus bank Group
Carpatica Bank	0,93	23,08 mil. lei	-
Bank Leumi	0,33	1,8 mil. lei	Bank Leumi Israel
Transilvania Bank	4,64	217,7 mil. lei	-

Source: Processing after the information furnished by the Financial Paper during January-April 2007

The acerb competition and the entrance on the market of some foreign powerful banks force the small banks an not only them to find the financial sources for the supporting of some major investments plans for the development of IT systems, the creation of subsidiaries (insurances, leasing, microcredit, factoring) but also for the extension of the network. In Romania, even though in 2006 the banking network increased by almost 1.000 branches and agencies up to

4.346 units³, registering a twice as big increase rhythm than in 2005, there is still a great discrepancy between the covering of towns and that of communes. We consider that in the near future the idea of getting closer the customer's residence will extend and the areas where the money circulation speed is lower.

Table 3 - Top 10 Romanian commercial banks on the number of territorial units in 2006

Bank	No. of territorial units	%	Bank	No. of territorial units	%
1. CEC	1.388	31,93	6. Commercial Bank Carpatica	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 Bank	341	7,84	9. Volksbank	80	1,84
5. Raiffesien Bank	265	6,09	10. Romanian Bank	76	1,74
Total first 5	3.067	70,57	Total first 10	3.709	85,34

The source: processing of the information furnished by the banks web-sites

We notice the position of the Bank Transilvania which in the last years has promoted an aggressive politic of expansion of the territorial network by tripling the network in the last two years and coming on the forth place in the top of the Romanian commercial banks. The Romanian Bank for Development- Groupe Société Générale was the leader of the territorial development in 2006 opening 274 territorial units fact which allowed it to climb up on the 2nd place, passing in front of the Romanian Commercial Bank but being after the House of Economies and Consignations which in 2006 was one of the few banks which close territorial units.

The expansion of the banking network is supported, in our opinion, by the fact that the banks in Romania have rapidly oriented when they noticed mutations in the ordinary customer's behaviour and his transformation in a sophisticated customer (we could say European). Today the customers migrate in great number from the traditional financial institutions, towards those banks which assure banking services where the retail comes first. Not little time ago the customers always chose the bank without being interested in the products they offer. In the last years they have learned to select the products, the services and their quality. Nowadays, the customers are those who have something to say. In the consolidation of the relations with the bank, are more important for them now the positioning, the presentation, the perspective, the quality of the assured services, the improvement of the distribution manner, the opportunity and even the possibility to try them, than the institutions or the mark.

³ Without Creditcoop which holds 803 units

Another challenge for the Romanian banking system comes from the credit institutions registered in the European Union and which can directly offer financial services on the Romanian market. Among 41 such institution which at the beginning of April notified the National Bank of Romania in order to directly furnish service we find European and American banks with activity all over the world among which we mention: Citybank International⁴, J.P. Morgan International Bank Limited⁵, The Royal Bank of Scotland⁶ Merrill Lynch International Bank Limited, VISA-Services Kreditkarten AG, etc. Many of these institutions offer specialized investment banking or private banking services. We consider that since most of the commercial banks from Romania which hold market quotas under 1% do not succeed to capitalize, to find strategic investors or to fuse with powerful banks, for these banks are very present the reasons which were at the basis of the apparition of credit institutions specialized in many developed countries, these reasons being connected, mainly to the insufficient funds offer from the commercial banks sector for certain operations; the necessity of assuring a distribution channel for the subsidized credit; the need to offer an alternative way to overcome the difficulties of access to the capital market for many economic agents.

More than that, the importance of this sector in the Romanian banking system is extremely reduced, the specialized banks Porsche Bank, HVB the Bank for Dwellings and Raiffeisen Bank for Dwellings holding together under 1% of the assets of the banking system. The importance of this market segment is outlined also by the intention of the Romanian Commercial Bank to create a bank for dwellings with S Bausparkasse- the Bank for saving-crediting for dwellings of Erste Bank with orientation towards the area of the customers with average and small incomes, pursuing the segmentation of the customers in accordance to the incomes.

3 – Conclusions

As in the case of many of the European banking systems in Romania also we witness a process of continual reduction of the interest reserves due to the banking competition. The foreign banks entered in the Romanian banking system after the processes of acquisitions promote aggressive strategies of increasing the market quotas launching modern technologies such as the bank at the residence with services by phone or internet banking. The other banks are forced to enter this competition making considerable financial efforts trying to keep its market quota with the most profitable.

⁴ Citigroup member- the biggest company in the world on the cumulated value of the incomes, the profit, the assets and the market value according to the classification made by the Forbes magazine for the year 2006.

⁵ 5th position according to the same classification

⁶ 13th position in the classification of the biggest companies in the world.

The development of the bank at the distance concept (internet banking) will be, in our opinion, one of the tendencies with the greatest impact on the evolution of the private banking system, opinion supported by the evolutions registered a few years ago in most of the European Union countries and especially in Great Britain and Ireland.

The increase of the demand for credit in the terms of a favouring evolution of the interest rates will also influence the increasing of the competition. We consider that, during this time for Romania, this competition is supported in many cases by aggressive prices promoted by new comers in the fight against the market quota, can be dangerous in terms of a management of the deficient risk. The similar evolutions at the European level lead to the creation of a European agency of surveillance of the manner in which the credit standards are respected, in order to assure a good functioning of the European banking system.

The diversification of the products and banking systems both for the corporatist customers and also for natural persons but also for the state and local communities, the generalization of the use in the banking transactions of the IT technologies and of the complex data processing networks, the later on reduction of the credit's price and the development of the consumption credit and of the mortgage represents, in our opinion, the main tendencies but also challenges for the Romanian banks found in the process of integration in the European banking system.

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