TRENDS OF ROMANIAN BANKING NETWORK DEVELOPMENT

Nicoleta Georgeta PANAIT*

Abstract

Since 2009, two trends occurred in the banking world: downsizing of personnel, on the one hand and the reduction of retail units held, on the other hand. The first trend was most notable in countries with unstable or weak economy. The effects were seen immediately. Reducing of the operating costs and more applied of the territorial structure and staff was a decision that credit institutions in Romania took relatively late. Worldwide banks began a restructuring otherwise dictated by this time not so economic crises new market trends - increasing access to the internet for the population and use of the internet in a growing proportion of internet banking site.

Keywords: *branch network, credit institutions, interbank market, financial stability.*

1. Introduction

According to National Bank of Romania (NBR) banks continue to reduce network of branches, while business volumes maintaining low. In economical view NBR expect a year more stable and ready for a substantial growth.

However, Romania's economic indicators depend very much on the situation in Europe, which is threatened again with the danger of recession.

The professionals from bank industry believe that at this time there are too many banks in Romania compared to the size of the domestic market.

The Romanian banking system dominated by foreign-owned banks, it is a system that needs to respect the requirements of the regulations of our country and especially the requirements of supervisors for parent banks to their subsidiaries in our country. So, accordingly with those options, it will choose in most cases the option of reducing lending or maintaining the same level of exposure.

Romania is exposed to risk in its efforts to ensure its sustainable development and achieve the required convergence of its membership to the EU

The compatibility of Romanian banking system with the market must be seen both at micro and macro.

Financial and banking domestic legislation allows local operation of the following types of institutions: banks (commercial); organizations of credit cooperative; savings and loan banks for housing; mortgage loan; electronic money institutions; payment institutions and non-banking financial institutions.

Each of the entities listed above are applicable to a particular kind of customers in terms of regulations and internal rules.

Commercial banks have an overwhelming part in terms of market share. Some of them or their parent banks holdings into other types of institutions, particularly in the IFNs, which makes them more adapted to market conditions.

Also, we do not find any mortgage bank in the national banking landscape and we have a network of credit unions with a relatively small number of members affiliated.

One of the solutions would be even development and adaptations of the Romanian banking system by setting the holdings by commercial banks for new entities which are better adapted to market, and are focused only on specific market segments[1].

Loan risk is perceived as the main threat to the domestic banking system, at this we could adds the macroeconomic risk and the risk of financial derivatives instruments.

2. Mutation regarding networks of Romanian credit institutions

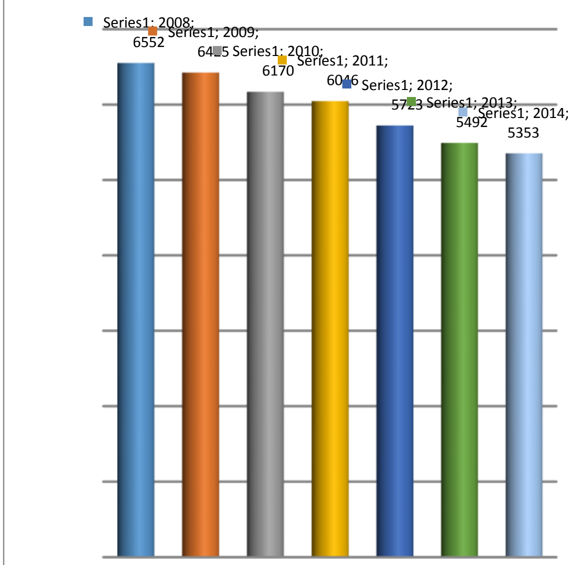
At the beginning of 2015, 14 banks from the 39 credit institutions that operating in Romania had territorial networks that exceeded 100 banking agencies. The situation is not different from that recorded five years ago, with the mention that all banks except Banca Transilvania and OTP Bank have considerably diminished presence in the territory.

It is important to note that the largest 14 banks in Romania by number of agencies dropped to 783 branches in 5782 there were many in December 2009-4999 in December 2014.

The most aggressive banks in the direction of reducing the local network were CEC Bank, BCR and Bancpost (CEC Bank has closed a large number of agents (260) especially in rural areas, Bancpost dropped the most branches, given that the number agencies decreased by almost 80 units, from 286 in 2009 to 207 in 2014, BCR has closed 53 branches in the period 2009 to 2013, but the process was more aggressive in 2012).

* Assist., PhD, Faculty of Economics, "Nicolae Titulescu" University of Bucharest (e-mail: **nico.panait@gmail.com**).

[1] National Bank of Romania (NBR), "Financial Stability Report", 2014.



Banking network

source: NATIONAL BANK OF ROMANIA

If in the situation of CEC Bank generally we can talk about resizing imposed by the disproportionate number of banking agencies still inherited from the communist period, the BCR and Bancpost had to implement extensive restructuring processes considering the need to reduce costs.

The two credit institutions, which we mentioned above, dropped each to approximately 100 units in recent years.

In contrast, we can find Banca Trasilvania, OTP Bank, Garanti Bank financial institutions that reported a positive evolution of the number of agencies at the end of 2014 comparing with 2009.

In the case of OTP Bank, the bigger number of agencies in its portfolio is given by the acquisition of Millennium Bank last summer; otherwise the Hungarian bank has maintained the same number of units during those 5 years.

Regarding Banca Transilvania the chapter regarding territorial expansion shows the appetite of the financial institution for development. Banca Transilvania is the only operator in the local banking market from the 14 analyzed so far that relied on organic growth in the number of units.

The financial institution originated from Cluj Napoca opened 34 branches in the period 2009 to 2014, increasing its territorial network from 516 to 550 units.

Banca Transilvania has signed a commitment to take over Volksbank, all of the ranches Volksbank (135) will enter in the Cluj – Napoca's bank portfolio

In this way, Banca Transilvania will have a territorial network of about 700 agencies.

In a statement Omer Tetik the General Director of the financial institution, said that Banca Transilvania will decide how many of the 135 units will be kept active Volksbank, but it is expected that many of them are maintained.

In 2014, Garanti Bank opened six new agencies - four in Bucharest, one in Cluj Napoca and one in Timisoara, reaching 84 nationwide, and expanded the network of smart ATMs, with is now over 300 units Bancosmart across the country. Moreover, last year, the financial institution issued corporate bonds of 300 million, the Bucharest Stock Exchange, with a maturity of five years.

BRD, the financial institution which had the most aggressive territorial development in the economical boom (2006 - 2008), in the last 5 years has decreased network with 60 agencies, resizing being established especially in the last two years.

Other banks that have dropped a considerable number of units are the Carpathian Commercial Bank (- 63), Piraeus Bank (- 57), Alpha Bank (- 51), UniCredit Tiriac Bank (- 51) and Volksbank (- 50).

A unique point of view was, the evolution recorded by UniCredit Tiriac Bank, credit institution which started in December 2009 with a number of 235 agencies and between 2009 and 2011 relied on territorial development, inaugurating in two years another 10 units adding a total of 245 branches. But after 2012, UniCredit Tiriac Bank changed its strategy, adopting a comprehensive restructuring process by reducing network to 184 agencies.

Raiffeisen Bank and Banca Romaneasca have reduced territorial networks each with 31 branches in the period 2009 - 2014 ING Bank maintained in this range the same number of branches and 220 units.

TOP BANKS – Territorial Network

Place	Bank	Agencies no. 2009	Employees no. 2014
1.	CEC BANK	1351	1091
2.	BRD	930	870
3.	BCR	661	560
4.	Banca Transilvania	516	550
5.	Raiffeisen Bank	559	528
6.	Ing bank	220	220
7.	Bancpost	286	187
8.	UniCredit Tiriac Bank	235	184
9.	OTP Bank	106	150
10.	Alpha Bank	200	149

11.	Banca Comerciala Carpatica	200	137
12.	Volksbank	185	135
13.	Pireaeus Bank	187	130
14.	Banca Românească	146	115

3. Trends in the evolution of European-wide banking network

Worldwide it is estimated that the "digitalization" will lead to the closure of about 40% of bank branches in Europe between 2013 and 2020.

This means that in 2020, in the EU will be 65,000 fewer bank branches, according to the European Central Bank at the end of 2013 there were approximately 220,000 bank branches in the EU.

Most bank branches were closed in Spain, where many banks are trying to recover from the crisis housing market and debt crisis. Bankia, a institution formed from the merger of seven regional banks Spanish, closed 37% of its network of bank branches and 1,100 in 2013.

Other four major Spanish banks in the top 30 European institutions, Santander, CaixaBank, BBVA and Banco Popular Espanol, closed together approximately 1,774 branches.

Some of these branches were abroad, but most of them were banking offices in Spain.

Italy, Cyprus and Germany are also mentioned as having an over-sized banking network. But banks from these three states have closed branches in lower rate than the average 6% in the case of the 26 European banks.

Italian financial institution UniCredit, who gave up to a large number of employees in the past two years (approximately 8,500) stated in the financial report that most of the staff reduction is due to the outsourcing of IT operations.

KBC from Belgium also cited as a reason for restructuring decrease with 22% in the number of employees Credit institution has sold operations from Russia and Serbia.

Other bank such as BBVA, the decline of all posts was justified by restructuring the activities and asset sales.

The most dramatic downsizing programs were for Spanish bank Bankia, who gave up 23% of employees to meet the terms of a financial aid package from the Eurozone.

The pace of reducing staff slowed to by almost half last year, and most banks are approaching the end of the agreed restructuring programs for financial aid received during crisis[2].

Closing branches means: less personal, reducing lease costs and other costs, and can also quickly generate cash from the sale of land and buildings.

4. Reducing the personnel in Romanian banking sector

The evolution of the human resources in the banking sector in last three years showed significant losses compared to pre-crisis period.

Human resources endowed with a limited number of skills, no matter how high they may be, are a marginal cost too much for any employer.

The graph shows that the profitability of the main business grew rapidly in 2011, despite the increase in provisioning costs.

This means that there was a decrease in revenue and / or a decrease in operating expenses (including staff).

In 2011, the number of employees in the banking sector decreased by 5% compared to the end of 2010, and by 12% compared of the peak reached in 2008.

The latest reports of Central European Bank shall specify the dismissal in 2012 of an alarmingly high number of employees in the banking sector in Romania that is over 4,000 and the closure of 323 banking units, placing our country in 2nd place after Ireland.

Negative phenomenon of massive layoffs continued in 2013 reaching the end of the first 6 months to over 2,000 unemployed persons sent concurrently with the closing of over 200 agencies.

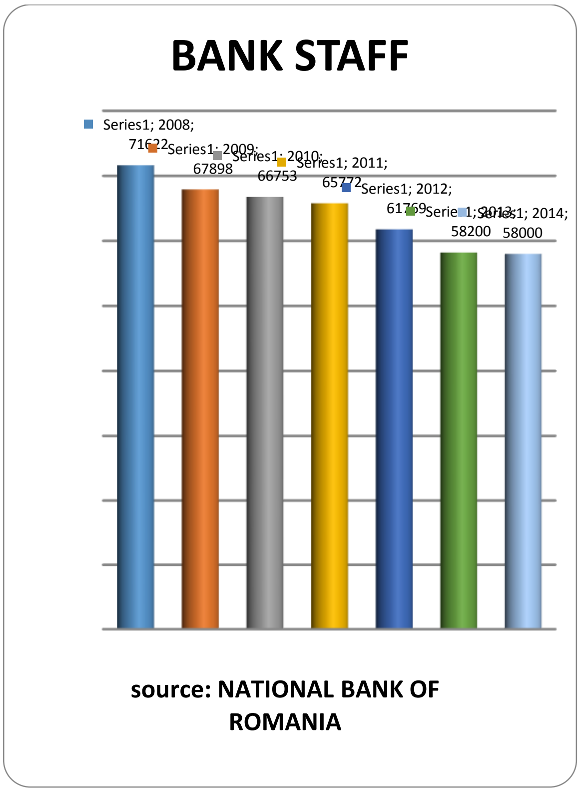
Ziarul Financiar estimated that since the crisis began more than 12,000 employees were forced to leave the banking system. At the same time, the number of bank employees decreased by 200 people in 2014 to a total of 58,009 employees.

2 years before, in June 2013, there were 59,823 employees, which means that 1,814 people left the banking system over the last year, most in the second half of last year.

At the beginning of the financial crises, in the end of 2008, there were 71,622 employees in the banking system, which means that the volume of restructuring amounted to 13,613 employees date of banks.

---

[2] Moinescu, B., Codirlașu, A., Strategies and bank risk management tools, Publisher ASE, Bucharest, 2009.



Higher profitability of the banking sector attracts through higher wages, labor most qualified; on the other hand, a personal with best preparation is a source of increasing productivity and ultimately to a higher profitability.

In terms of human resources in the Romanian banking system, now the trend is to lose the professionals and professional skills in this area.

5. Conclusions

Last year, only 13 banks succeeded to have a profit after they drew the line, while the remaining 27 had accumulated losses. In the year that just ended, they amounted to almost 1 billion Euros, according to provisional data.

We appreciate that 2014 wasn't a very good year for Romanian banking system.

However, there is some good news if we are looking to indicators that prove the health and stability of the system.

That's mean solvency and liquidity are maintained at great odds.

If we are looking to not performing loans (NPL), they were at the end of the year nearly 14 % calculated on the method IMF and 13% EBA version.

And even better news is that coverage is good, 70 %. But in the first half of 2015 will come some provisions, in particular on account of loans granted by banks to customers who are insolvent.

As the largest bank in terms of assets, no significant changes: most big league players have gained market share before 31 December 2013: Banca Transilvania, UniCredit Tiriac Bank, Raiffeisen Bank, CEC Bank, even ING Bank.

However it continues the decreasing in of heavyweights: BCR and BRD Societe Generale.

If we are looking at the average category of financial institutions, the winners are Alpha Bank, Citibank, Garanti Bank, OTP Bank. In contrast, in the same category, the biggest losses were recorded Volksbank, NBG, Credit Europe Bank and Intesa Sanpaolo.

Banks in Romania have overcome the cost of the event and the risks they have assumed in terms of maturity and currency structure of their assets and liabilities.

We must look differently to the behavior of banks from losses incurred by those from economic downturn to their customers as a result of the recession. It should be noted that the reductions of losses in the banking sector cannot be done through bankruptcy of the clients.

A banker has two solutions to recover a loan from a client whose income is reduced. Whether is considering short-term solution and its repayment on time demanding client bankrupt. This behavior generalized to the entire banking sector can only create systemic risk, because both unpaid chain propagates between businesses and between businesses and banks, and finally between banks.

The second option requires a long-term perspective banker; the key is the relationship with the customer and not profitability moment.

This involves the assumption of profit margins much lower in the short term, but the consolidation of a long-term profitable relationship with the customer. Of course not all cases can be treated as borrowers, because such an attitude could lead to generalized systemic risk. The analysis must be done on a case by case basis, but it requires a change of business model.

Decrease in bank units can become a macro prudential risk if are affected the chances of having access to the resources of balancing the structure of liabilities.

Decreasing the number of agencies in the territory was done most probably without prior consideration of future development banks in two ways:

− territorial profile of future network units must be thought in terms of resources of saving that exist and must be drawn from urban and rural areas respectively.

At the same time, urban areas contain many types of development because Romania has very large cities with high population density, major cities, but low-density and low-density towns.

− profile of products and services offered in banking branch network must be designed considering the clients profile now and in the future.

Such an approach should be accompanied by a multidisciplinary analysis study, leading to understanding and knowledge central element of banking sector activity - and educates the client regarding the functioning of financial markets and the use of specific products.

The closure of bank branches reflects an online revolution that transforms people's lives, from buying holidays and to borrow books.

In addition, the closing of banks offices it is a way in which financial institutions reducing their costs and strengthen their capital. However decrease networks can be dangerous because it may result in a decrease in the number of customers.

The reform of the regulation and the supervision of the European financial system is an essential part of the EU strategy on the road of recovery of smart, sustainable and inclusive growth, generating jobs and competitiveness strengthened. However these principles are important for:

- the need to strengthen the institutional framework of Economic and Monetary Union to regain confidence and stability in the Euro area
- the need to strengthen the financial services of the EU Market by applying a single set of rules in the field leading to healthy competition and good functioning of financial intermediation

Union Banking is one of the fundamental pillars of the new economic governance framework at EU level.

This construction is a pillar itself to the creation of fiscal union, and a unique surveillance solution mechanism will contribute to the development of a European banking sector safe, responsible and generator of economic progress.

References

- Berk J., DeMarzo P., Harford, Fundamentals of Corporate Finance, Ed.Pearson, 2010;
- Capraru Bogdan, International banking, Ed., CH Beck, 2011;
- Cristi Spulbăr, Mihai Nitoi, Banking systems compared. Hardcover ed. Ed. Sitech, 2012;
- Dănilă, N., Retail banking. Retail Banking products and services, Publisher Economică, Bucharest, 2012;
- Ernst & Young „European Banking Barometer – Growing optimism despite a weak economic outlook", Spring/ Summer, 2013;
- Hurduc N., Structural processes in contemporary banking world, Ed. Expert, 2005;
- Iosof, S., Gavri, T., Risk management, Publisher Universitară, Bucharest, 2013;
- Lupulescu, G., Internal management profitability of commercial banks, Ed. Economică, Bucharest, 2011;
- Moinescu, B., Codirlașu, A., Strategies and bank risk management tools, Publisher ASE Bucharest, 2009;
- National Bank of Romania „Financial Stability Report", 2008 – 2014;
- National Institute of Statistics (NIS), "Statistical Yearbook", 2013;
- Petre Brezeanu, Personal Finance in Romania, Ed. CH Beck, ISBN: 9789731159362, 2012;
- Roman, A., Monetary, Banking and Financial Issues in Central and Eastern EU Member Countries: How Can Central and Eastern EU Members Overcome the Current Economic Crisis? (Vol.III), Ed. Universitatea Al. I. Cuza Iasi, ISBN: 978-606-714-033-0, 2014;
- www.bnr.ro;
- www.europa.eu.