

THE EFFICIENCY OF THE INTERBANK PAYMENTS SYSTEM IN ROMANIA WITHIN THE FRAMEWORK OF THE EUROSISTEM

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Abstract: In this article we aim at drawing up a concise presentation of the electronic payment system in our country combined with assessments of this system aligned to the European Union's from the point of view of functionalities as well as respecting European and international standards and practices in the field. Interbank real time settlement system in Romania is structured in order to be compatible with similar infrastructures in the European Union member states, Single Euro Payments Area. Payments handling will be simplified as all incoming and outgoing payments will use the same format. By providing new payment instruments and common interoperable infrastructures, SEPA will bring about further European integration and market efficiency.

Key words: interbank payments, electronic system, Eurosystem, efficiency

1. Introduction

Since the establishment of the European Economic Community in 1958, the movement towards a more integrated European financial market has been marked by several events, the most visible of which were undoubtedly the launch of the euro in 1999 and the cash changeover in the euro area countries in 2002 in particular. Less visible, but also of great importance, was the establishment of the central banks' large-value payment system, known as TARGET (Trans-European Automated Real-time Gross settlement Express Transfer), on 1 January 1999.

The introduction of the euro as the single currency of the countries of the euro area will be completed only when the Single Euro Payments Area - SEPA - permits to individuals and corporations to make cashless payments throughout the euro area from a single payment account anywhere in the euro area using a single set of payment instruments as easily, efficiently and safely as they can make them today at the national level.

In Romania, the first steps in view of implementing this system were taken starting with the year 2005 by gradual operationalization of its three components: gross basis settlement, net basis settlement and settlement of government securities operations. As a result, implementing an infrastructure of payments and settlements compatible with similar infrastructures in the European Union member states contributes to the Romanian system alignment to the Community requirements in the field.

2. The Single Euro Payments Area

The Single Euro Payments Area - SEPA – implies that customers can make payments throughout the whole euro area as efficiently and safely as in the national context today and, at the end of the process of implementation of it, euro area customers will have the possibility of using one payment account and one set of standardised instruments. SEPA consists of the single currency, a single set of euro payment instruments – credit transfers, direct debits and card payments – an efficient processing infrastructures for euro payments, common technical standards, common business practices, a harmonised legal basis and ongoing development of new customer-oriented services.

On the world level, with 2.3 trillion euros settled every day, the European Union system -TARGET - represents one of the three largest wholesale payment systems, alongside Fedwire in the United States and Continuous Linked Settlement (CLS), the international system for settling foreign exchange transactions.

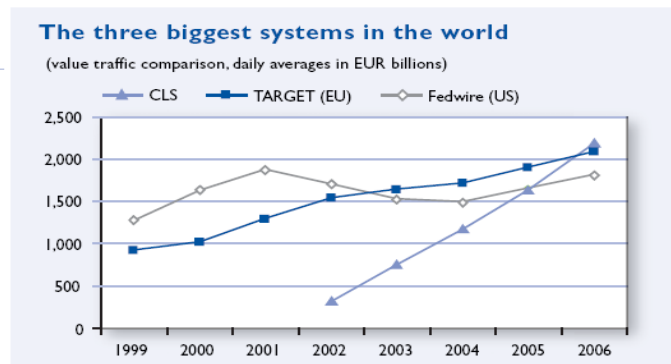


Figure 1. The three biggest systems in the world

Source: European Central Bank, *A Single Currency – An Integrated Market Infrastructure*, pag. 8

For the ending of the year 2007 (November 2007) and beginning of the 2008 (May 2008) it was projected a better variant of TARGET system called TARGET2 which replaces the current decentralised technical infrastructure. Also, it is created the CCBM2 project, which provides a single set of procedures for all eligible collateral used on both a domestic and a cross-border basis (proposed to be launched in March 2007).

Regarding the payment instruments, it has developed two schemes:

- SEPA Credit Transfer – programmed to start in January 2008;
- SEPA Direct Debit – roll-out starts in November 2009;
- SEPA Card Payments – for January 2008, which permits cardholders to be able to pay with one card throughout the euro area and there will no longer be cards for national use only. The point-of-sale terminals will be standardised and merchants will be able to accept a wide range of cards with a single terminal. There are currently more than 350 million cards in circulation in the euro area, which are used to make more than 12 billion payment transactions and 6 billion cash withdrawal transactions per year (ECB, *The Eurosystem’s view of a “SEPA for cards”*, November 2006, p. 1);
- SEPA Clearing and Settlement Infrastructures – also for January 2008.

By the end of 2010, the infrastructures must be able to reach all euro area banks and process euro payments made with the three SEPA payment instruments, respectively credit transfer, direct debit and card payments.

Around 50% of Europe’s banks expect implementing the SEPA Direct Debit scheme to be highly complex, a higher proportion than for implementing SEPA Credit Transfers. In several nations, the SEPA Direct Debit scheme is significantly different from existing national. Banks inside the Euro-zone expect 62% of their investment in Automated Clearing House – ACH - payments and 64% of their cards expenditure to be SEPA-related, whereas banks outside the Euro-zone expect the proportion of their payments spend on SEPA to be 35% for ACH payments and 42% for cards (Accenture, *The European Payments Revolution*, Accenture European Survey 2006, p. 5).

3. Electronic System of Interbank Payments in Romania

The payment system in Romania experienced significant structural changes in 2005 by completing the process of implementing the electronic payment system and gradual operationalization of its three components, that is (NBR, *Annual Report 2006*, Chapter 4, Payment system, p. 67):

- RTGS system, Real Time Gross Settlement system, a real time gross settlement system that entered into force on April 8, 2005;
- ACH, Automated Clearing House, managed by TRANSFOND SA – an automated clearing house that became effective on May 13, 2005;
- GSRS, Government Securities Registration and Settlement system, registration and settlement system of government securities operations that entered into force on October 3, 2005.

3.1. Interbank Discount System on Gross Basis

In Romania, gross basis settlement system – RTGS – is a real time gross settlement system ensuring the exchange of payment instructions between participants and final (definite) settlement of interbank funds transfers on a continuous, transaction by transaction basis, as well as final (definite) settlement of net positions resulted from net basis settlement systems and funds transfers afferent to financial instruments based operations (RTGS system regulations 3rd version of October 10, 2006, NBR, p. 5).

This system represents *the first component of the Romanian electronic payment system*, entered into force on April 8, 2005 (according to Regulation no 1 of February 23, 2005 on payment systems ensuring funds clearing, published in the Official Monitor no 265/March 31, 2005, annulled by Regulation no 9 of September 23, 2005 on modifying and completion of the National Bank of Romania Regulation no 1/2005 on payment systems ensuring funds clearing, published in the Official Monitor no. 881/Sep. 30, 2005), ensuring high-value settlements (over 50.000 RON) and urgent interbank payments by payment order as well as great value and urgent payments between credit institutions and State Treasury initiated by payment orders for the Treasury. At the same time, RTGS system accepts and processes the instructions from NBR authorized clearing houses or from systems ensuring transaction settlement by means of financial instruments for participants' net or gross positions settlement.

In view of fulfilling safety, security and availability conditions used internationally in projecting RTGS system in Romania there have been implemented *Straight Through Processing - STP* – systems in order to ensure efficiency increase through cutting down on operational risks and settlement time.

For the year 2006, the daily average of the number of transactions processed through RTGS increased with 41% comparative with the year 2005, but, in the same time, the daily average of payments amount processed through RTGS decreased with 19% given the results from previous year, mainly because of reduction NBR interventions on the monetary and currency markets, as we can see in Table 1.

Year	No of transactions		Payments Amount (mil. RON)		Average value of transaction (mil. RON)
	Total	Daily average	Total	Daily average	
2005	1,100,668	4,325	2,408,448	9,370	2.19
2006	1,548,371	6,096	1,927,346	7,588	1.24
Variation	+ 41	+ 41	- 20	-19	- 43

Table 1. Evolution of payments through RTGS in Romania

Source: NBR, Annual Report 2006, p. 71

Payment transactions performed by financial institution in the own name, but on the clients accounts (with messages SWIFT MT103) are higher (81.19% of total system number of transactions), but total amount of its was relatively reduced (only 22.47% of all amount payments from the system). At the same time, the number of transactions performed by financial institutions in the own name and account (with messages SWIFT MT202) was relatively low, but these payments had a significant value (Table 2). Regarding payment transactions which involve direct credit or debit transfer, their volume was down, because these correspond some operations with low frequency, as takings by NBR of commissions, direct debit and credit transfer on the transfer participants accounts in relation with the central bank, operations performed by NBR in the name of participants in case of emergency, when participants are in impossibility to connect to, and to do themselves the operations.

Payments	MT103* (%)	MT202** (%)	Transfer direct (%)
Total number	88.19	8.13	3.68
Total Amount	22.47	50.03	18.5

Table 2. The structure of the payments through RTGS in Romania, year 2006

Source: NBR, Annual Report 2006, p. 72

*MT103 represents transactions performed by financial institution in the own name, on the clients accounts

** MT202 represents transactions performed by financial institutions in the own name and account

In the year 2006, the average availability of the RTGS system, respectively the access of participants to using of system without any occurrence on the time of its functioning, was 99.89%, taking part in tolerances established by NBR for the services quality level.

RTGS system was conceived in such a manner so as, along with the European Union accession, to make possible connecting to the platform of high-value payments settlements in the euro zone – TARGET ensuring the process of cross border payments in euro as well as changing the settlement currency from the actual national currency into euro.

3.2. Interbank Multilateral Net Settlement System

In Romania, since 1995, there has been the Interbank Clearing House belonging to the National Bank of Romania. This entity allowed passing over from an intermediary settlement system (on a bilateral net basis) of interbank payments to a settlement system through multilateral clearing after a cessation of more than 50 years. Starting with the year 2001, multilateral clearing of interbank payments has been taken over by another operator - TransFonD – a trade company created by the banking community that carries out its activity as a BNR authorized agent.

The net settlement Electronic System managed by TransFonD Ltd – ACH system – represents the second component of the electronic payment system in Romania that entered into force on May 13, 2005 (BNR Regulation no. 1 of February 3, 2005 on payment systems ensuring funds clearing and Regulation no3/23.02.2005 on direct debiting made through automated clearing house, Official Monitor no. 265/31.03.2005). ACH is an electronic system of multilateral payments clearing ensuring the exchange of payment instructions between participants, calculates participants' net positions through multilateral clearing and initiates, in RTGS system, a settlement of a net settlement instruction (ACH system regulations, version 5 TransFonD, July 7, 2005, pg. 7).

The administrator and operator of ACH system is TransFonD too, ensuring clearing small value payments (respectively transfer-credit type and direct debit under 50.000 RON) between credit institutions (except for institutions issuing electronic currency) and between these and State Treasury, respectively calculating participants' multilateral net positions in the system and transmitting these positions to final settlement in RTGS system.

Payment instructions of transfer-credit type are initiated by participants to ACH system under packages form (folders) representing groups of payments instructions of the same type, with a single initiator participant, a single addressee participant and a single settlement date sent and processed within ACH system framework. Just like the RTGS system, ACH settlement system implies *a single national circuit* at the level of bank units' headquarters participating at the settlement through TransFonD headquarters.

Within the electronic system of interbank payments in Romania, in order to prevent net settlement risk, it is implemented a unilateral guarantee procedure with blocked funds in the system reserve and with guarantee eligible assets, in principle, interbank deposits and government securities, that is compulsory for all credit institutions participating.

4. Conclusion

The efficiency of interbank real time settlement system is appreciated through operational performances and facilities that it offers by liquidity supplying in a definite time (a bank day), the mechanism of waiting at queue as well as real time monitoring its own liquidities during the day.

In Romania, RTGS system can process and deduct a number of at least 30,000 day payment instructions and may ensure processing without interrupting payment instructions during the peak hours of a working day of at least 40% of the daily volume during an hour interval (RTGS system rules, ver. 3 of October 1, 2006, NBR, pg. 73). ACH system has certain specific characteristics such as great volume of processed instructions – between 150,000 and 300,000 instructions per day (TransFonD Annual Report 2005, p. 14) – but of small value, as well as the fact that there are many clearing sessions on the same day, each session being followed by obligations settlement between participating members in the RTGS system. Thus, just like the RTGS system, ACH system may ensure normal processing during peak hours of at least 40% of the daily operations volume in an hour interval.

Another criterion in assessing the system efficiency consists of the commissioning policy set out by NBR in its quality of system manager that may apply commissions' deduction on each type of instruction

according to the volume of instructions processed and deducted in RTGS. Likewise, along with the system that is in operation, the commissions level was reduced by 25% compared to the one practiced until that moment in the system of great value payments on paper support.

The main *advantages that credit institutions clients benefit from as a result of implementing the electronic payment system* are the improvement of payment services quality by reducing the period from the moment of issuing the payment invoice and receiving funds of the payment beneficiary, the increase of funds circulating flow, efficiency increase, their safe transmission as well as cut down in costs afferent to payment operations. Moreover, perspectives foresee also implementing a model that would ensure electronic processing of small value payments afferent to instruments of written debit payment (checks, bills of exchange, promissory notes). This represents the last component of the classic payment system in operation. Thus, starting with May 13, 2005, the clearing system managed by NBR ensures only processing and clearing debit payment instruments on paper.

Interbank real time settlement system in Romania is structured in order to be compatible with similar infrastructures in the European Union member states, Single Euro Payments Area. Payments handling will be simplified as all incoming and outgoing payments will use the same format. By providing new payment instruments and common interoperable infrastructures, SEPA will bring about further European integration and market efficiency. This consolidation of infrastructures will spur competition and banks can then negotiate better clearing prices.

The research performed confirms that the SEPA programme will result in enormous change both for banks and the wider European payments industry. On the negative side, banks initially anticipate the main impact to be the high cost of compliance. Many banks also predict that the collateral damage from SEPA implementation will include a substantial reduction in ACH and card revenues (Accenture, “The European Payments Revolution”, Accenture European Survey 2006, p. 36). However, on the positive side, banks will have access to an increased supply of competitive payment processors (both card and ACH), which will enable some to defer part of the cost of compliance. The larger, pan-European banks will also have access to open markets and the ability to introduce new products which would not have been possible under the current restrictive domestic scheme regimes.

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