

THE ROMANIAN CARD MARKET

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This paper presents an analysis of the Romanian card market in the last decade, based on the statistic data, against other Eastern European Countries and its perspectives in the next years. The use of cards is important for banks, due to the significant interests and tax gained this way, but Romanian market is still underdeveloped because of the population behavior in the payment area and due to the lack of the card acceptance infrastructure at the merchants for a long period of time. In Romania, there are still many cards with a cash-withdrawals function, but the Romanian card industry has a great potential, because it was underdeveloped. The crisis was an opportunity on the market cards because the credit products have dropped significantly and banks had to develop other banking products, realized the importance of the cards and began to invest in infrastructure.

Keywords: payments cards, Romania, ATMs.

JEL Classification: G20, G35.

1. Introduction

The Romanian card products have adopted many features of similar products offered in Western Europe and North America, but were adapted to the specific Romanian.

The first cards that appeared in Romania were the debit cards. Their role was to accustom the population with the electronic payments and to get rid of the use of the cash. These goals remain valid and will still take several decades before most people will understand this. The main purpose of this paper is to present the development of cards as a payment method in Romania, against other Eastern European countries, if this payment method was largely accepted by the Romanian population and merchants and what commercial banks have succeeded to promote their issued cards. In terms of banks offering debit cards, they are an efficient and inexpensive modality to attract short-term cash in the economy. The card balances, even if in many cases are relatively small, summarized, are a financial resource that can be recovered with a yield higher than interest paid. The success of debit cards was provided by promotion to pay salaries. Payroll cards provide certainty to their regular use by at least one or two feeds with wages and as many withdrawals. Commercial banks often exerted pressure on companies to introduce cards to employees (Dedu and Ganea 2002: 63).

The credit cards have seen a boom in recent years due to diversification of loan products. The success of consumer leads to a greater measure of consideration about the facilities offered by credit cards. Some banks have tried to limit the use of credit cards to withdraw cash withdrawal fees by introducing prohibitive or simply by limiting cash withdrawals to a certain amount (usually a percentage of the amount borrowed).

2. The evolution of the cards market in Romania

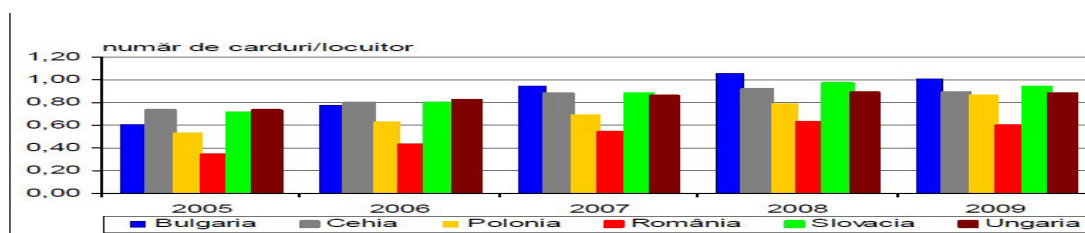
The card market in Romania is booming recording, especially in the recent years, outstanding performances in terms of number of users of this payment instrument, but also on the volume or number of transactions.

Although we are close of what is happening in Europe, the use of a smaller measure of cash, Romania is still far behind the rest of European countries in the number of POS terminals and card acceptance network. The cards market development potential in Romania is very high and this will be beneficial for banks, but also for manufacturers of equipment and technologies specific to the cards (Figure 1).

The card is convenient and profitable for the bank customer to a certain level. This is why in 2010 banks go on various promotions for cards, especially for the credit.

For years the bankers tirelessly promoting the use cards instead of cash, but, paradoxically, does not accept electronic payments from their desks even units where utility bills or taxes are paid only in cash. Several banks have installed their own POS cashiers, but can be used only for cash disbursement (an operation similar to withdrawing cash from ATM, just for when these machines are not functional). Banks can not operate as merchant system, for which the POS installed in their agencies can only make cash withdrawals can not accept payments. Theoretically, the customer may withdraw such cash to make payment of the invoice, but such an operation is commissioned as such by not calling card payments segment, which are free.

Romania will very quickly reach a penetration of credit cards as high as in developed countries, where statistics show that per person are about 2.5 to 3 cards in the wallet. On the local cards market, their penetration is currently very low, only 0.6 cards per person, but the market potential is high. Reported active population, every Romanian has 1.2 cards in his wallet. Currently, between 60% and 80% of cards are standard on the Romanian market, being used as a form of payment and cash withdrawal from ATMs, and the rest are part of the Premium cards, including Gold and Platinum cards (Figure 1 and 2).

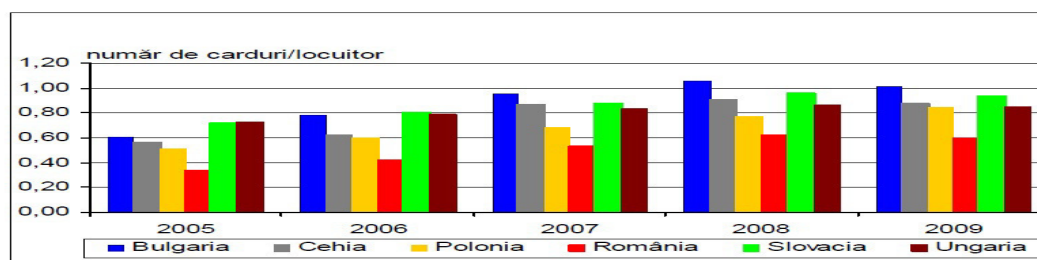


Sursa: BNR, BCE

Figure 1: Evolution of the cards for payments/habita in some Eastern European Countries

Source: www.bnro.ro

All Visa card transactions in Romania increased by 23.2% in number, and 32% in value, while the number of Visa cards increased 5.4% to 6.2 million cards in July 2010 (Figure 3). Also, the Romanians spending at retailers that have a Visa card rose by 43.5%, while the number of transactions of the retailers increased by 42.5%. Percentage of purchases with Visa represented 2.2% of all personal expense this meaning that 1 euro every 45 euros spent in Romania was paid with a Visa card. More than a quarter of Visa transactions were made at retailers in 2010, which is a big step from the previous year, with about a fifth of transactions accounted for card payments in shops.



Sursa: BNR, BCE

Figure 2: Evolution of the cards for cash-withdrawals/habita in some Eastern European Countries

Source: www.bnro.ro

In the report of the year (2009 - 2010), 26% of Visa transactions were made to traders, while the volume of expenditure in the Visa stores was 12%. This means a constant success compared to 2008, when merchant transactions represented 22% of total transactions and 11% of the total. The average value of purchase transactions is 45 euros, and at a similar level to 2008. The solid increased of the Visa Europe in Romania was supported by the development of the merchants that accept Visa payment card, where recorded steady increased, reaching a total of 74,479 locations in the whole country, with 23% more compared to 2008. The number of cards issued by banks in Romania amounts to 24.66 million at the end of 2009, according to figures from the National Bank of Romania, however, of these, 22,680,000 were valid and were only 11.45 million active cards

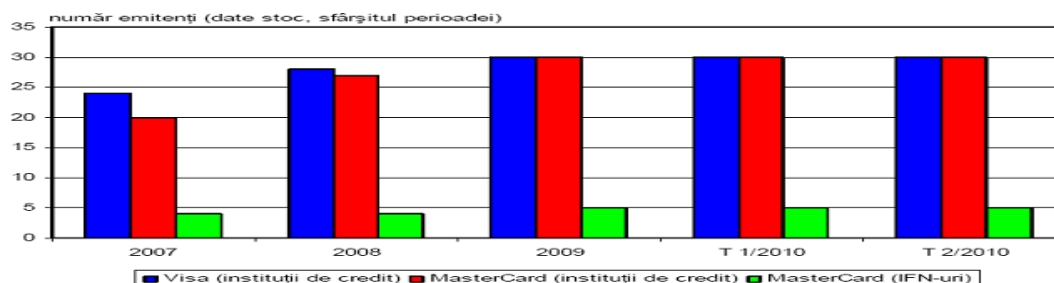
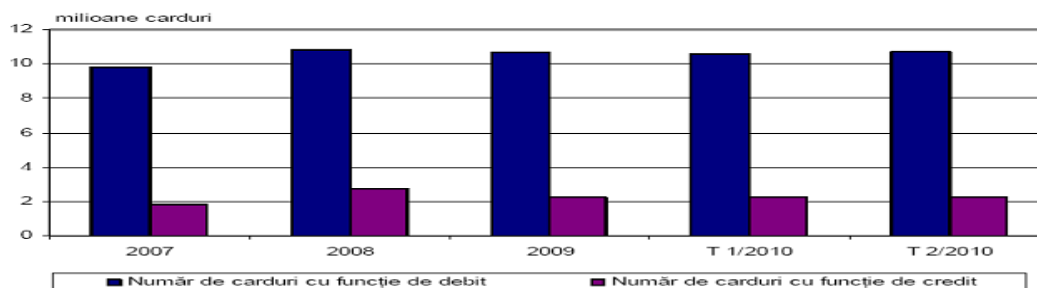


Figure 3. Evolution of the number and types of cards issuers from VISA and Mastercard
Source: www.bnro.ro

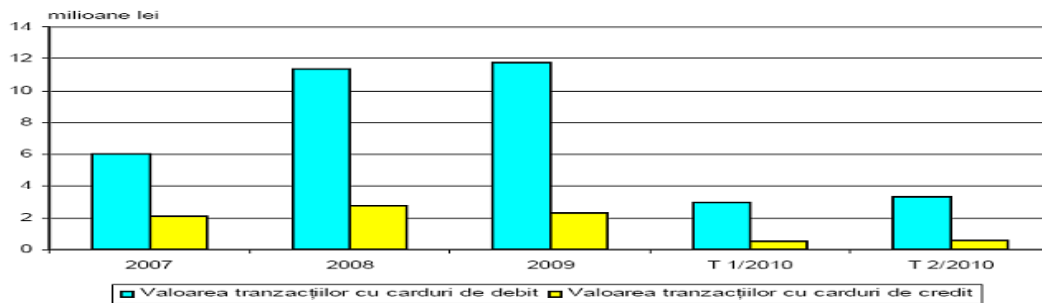
According to BNR (Figure 3), the number of issuers MasterCard (IFNs) in 2007 was less than 5, keeping the same number for 2008 and in 2009 and early 2010 this figure increased to 5. Regarding Visa (credit institutions) the number of issuers has increased significantly from 24 in 2007 to 27 in 2008, reaching 30 in 2009 and early 2010. MasterCard (credit institutions) had the following evolution: the 20 issuers in 2007, 26 issuers in 2008 and in 2009 and early 2010 a total of 30 issuers. After 13 years of the launching of the first card, in Romania were circulated 21.8 million cards. Regarding the evolution of the number of debit and credit cards, is clearly observed that the flow function has a much higher total number of cards than credit function. Also, debit cards are used in transactions more than credit cards (Figures 4 and 5).



4 - Evolution of the credit and debit cards in Romania

Source: www.bnro.ro

Figure



Figure

5 – Evolution of the value of transactions with credit and debit cards

Source: www.bnro.ro

Although BCR ended 2009 with a portfolio of cards below the one of 2008, even fewer signed contracts with merchants to accept, BCR has still ranked first in two indicators (counted seven), being the only issuer that bring this about.

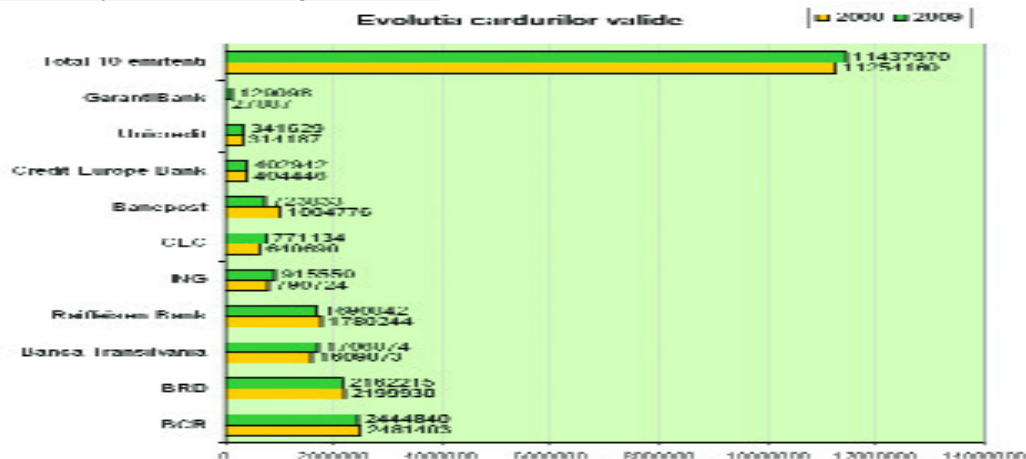


Figure 6. Valid cards evolution in the last decade in Romania (2009 against 2008)

Source: www.bnro.ro

Therefore, regarding the number of ATMs installed and the number of products launched on the market, BCR held first position. Several other banks were market leaders, but only at one criteria: CEC for the number of new cards in circulation – 130.000, Garanti Bank for the number of the POS (2600), UniCredit Tiriac Bank for the number of contracts signed with retailers (over 6400), Transilvania Bank for the number of the open card accounts (117600) and ING for the use of cards, an increase of 6.7 million transactions from the previous year. The crisis did not mean, necessarily, reducing or postponing investment projects but, rather, increase efficiency by reducing unnecessary costs. So it was massive portfolio adjustments by removing those accounts/cards that were inactive and not generating than maintenance costs for banks and traders who did not realize transactions. Figure 6 shows that half of the top 10 issuers - which hold over 80% of the market - signed in 2009 under the 2008 level in the portfolios of valid cards in circulation.

As a business policy, found that banks relied on credit cards have greatly increased acceptance network. The best example is Garanti Bank, an institution that has made the fastest growing credit card portfolio in absolute terms (over 65,000 cards), while tripling the network of traders. We'll see if taking this risk, to credit on card of a population marked by unemployment and pay cuts, will prove a winning card. Regarding utilization, it appears that all issuers have improved performance in 2008. The exception is only Bancpost. Perhaps, after aggregation with

registered credit cards, the result could be comparable to 2008 - which anyway is a great performance, since the card portfolio of Bancpost decreased by almost 300,000 in 2009.

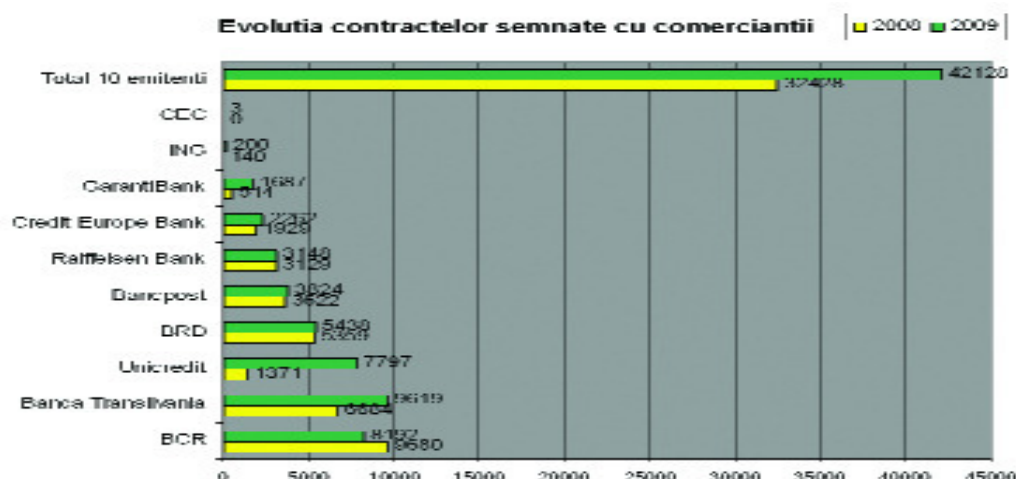


Figure 7. The evolution of the contract signed with the commerciantii

Source: www.bnro.ro

From the annual increases related key market indicators cards, it appears that banks expect a change in behavior of the users who ultimately will increasingly exploit the fact that payment to the merchant is not commissioned. Reducing costs is a burning issue for both banks and any family budget. The figures for 2009 show clearly that most investments were made in the development of merchant acceptance, where there is a growth rate of 30%. Basically, the same number of cards, we have the third most merchants where you can make an extremely wide range of shopping (Figure 7).

3. Conclusions

The Romanian cards market has seen growth in the recent years as one of the most active region in all its elements: issuance, dynamic installation of new POS and ATM terminals, volumes of payment transactions or cash withdrawals. Although the first cards were issued to us about 16 years ago, cardholders behavior was still a nascent market, that just 12.5% of transactions are made at merchants (Dedu, Enciu and Ghencea 2008: 45).

The card industry has great potential in the private sector, especially in crisis situations, especially for the survival of SMEs and to finance products on the market. At the population level, there is willingness to replace the payment with cash by electronic payment instruments, especially if there are benefits in use of them (no fees are charged, are offered loyalty programs). In sum, cash payment remains the most commonly used payment method and payment card in stores is becoming more and more appeal to those who resort to this method of payment. However, the benefits of cards are less known by the population, no fees to pay by card in store. The payment of the utilities directly to the ATM is also an interesting option for the customers, and increase from the point of view of the use and the relevance for the customers. Online payments and Internet Banking service are paying less visible ways, and intention to use them in future is lower. Generally, they are perceived as effective and attractive methods, but difficult to use, which inspires little confidence and are less accessible (Radulescu 2007: 137). The crisis was an opportunity on the market cards because, before this moment, the use of these banking products for transactions was at a fairly low level. Banks were not giving much attention to promoting cards and holders were using them only to withdraw money from ATMs. In addition,

the acceptance of these merchant banking products was quite low. However, with the crisis, banks have realized the importance of the cards and begin to invest in infrastructure. Increasingly, many institutions have begun to focus on customer loyalty programs to promote the increased use of cards. Overall, 2009 was a good year for specialized market: the number of jobs increased, the number of cards and transactions increased. This trend was maintained, in some measure, also in 2010. As a general conclusion, continuous monitoring and adaptation of the market will become necessary. Existing customer is more demanding, more educated and less tolerant in relation to suppliers of all kinds and especially those of financial services.

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