

**Mihaita-Cosmin POPOVICI**  
Alexandru Ioan Cuza University of Iasi  
Doctoral School of Economics and Business Administration

# THE IMPLEMENTATION OF SINGLE EURO PAYMENTS AREA IN ROMANIA AND THE EFFECTS ON EFFICIENCY

Case studies

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## Keywords

SEPA  
Implementation  
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## JEL Classification

F30; F40; F62; F65

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## Abstract

*Adoption of the single currency, euro, on 1 January 2002, in 12 countries, then in other seven states, represents a step towards closer economic and monetary integration in the European Union. The banking market remains fragmented after euro adoption and cross-border transactions in the single currency involves high costs and long periods of settlement and clearing. European Union response to this problem came in the form of the Single Euro Payments Area. The objective of the papers is to analyze the degree of implementation of SEPA in Romania and to investigate the impact on banking efficiency. The results showed low degree of implementation, especially on direct debit, but Romania has more time until October 31, 2016 to make the necessary changes. The consumers will benefit from a quicker settlement and clearing and at lower costs.*

## Introduction

Before the advent of SEPA and the single currency, each of the 28 countries had their own currency. It was difficult to transfer money from one country to another because the transaction involved currency risk and high transaction costs.

Everything changed after the appearance of the single currency, euro, in 1999, first as an accounting currency. From 1 January 2002, European Central Bank introduced euro banknotes and coins in 12 countries with a total population of 308 million (European Central Bank, 2002a). After 2002, other seven states have introduced the euro: Slovenia (2007), Malta (2008), Cyprus (2008), Slovakia (2009), Estonia (2011), Latvia (2014) and Lithuania (2015) (European Central Bank, 2002b).

Euro is legal tender in 19 of the 28 member states of the European Union. Besides the Member States of the Union, Andorra, Monaco, San Marino and Vatican use the single currency through an agreement with the European Community. Two other European countries use the euro, but without an agreement with the European community (European Central Bank, 2014a).

Euro has eliminated currency risk, but transfers from one country to another, even though both have adopted the euro, involve high costs and the banking market is fragmented in 28 national markets. European Union response came in the form of Single Euro Payments Area.

### 1. Single Euro Payments Area (SEPA)

Single Euro Payments Area (SEPA) enables to make and receive payments in euro for more than 500 million people, over 20 million business and European public authorities; as it were national transactions under the same conditions, rights and obligations for all the players, therefore costs will be reduced (European Commission, 2014). SEPA implementation could generate savings between 50 billion euro and 100 billion euro a year (RTE News, 2007). A study conducted by Capgemini (2007) shows a total savings potential of 123 billion euros over a period of 6 years. Another study conducted by PWC (2014) mentioned potential yearly savings to all stakeholders of 21.9 billion euro resulting from improving efficiency and price convergence. SEPA means better banking services for all: transparent prices, transfers are faster and at lower costs, banks assume responsibility for errors arising during transactions.

### 2. Types of payments in SEPA

If the payer initiates the payment, it is called **credit transfer**. The payer sends the payment instruction to the bank or payments service provider that transfers funds to the recipient. 99.4% of total credit transfers were made by SEPA in August 2014.

The payer through the payment service provider may initiate a transfer and it is called **direct debit**. Direct debit is used for recurring payments of different values, such as those for utilities and preauthorization or a mandate is needed from the payer. 99.9% of total direct debit transactions were made by SEPA in August 2014.

**Debit cards** allow the holder to charge transactions directly in his bank account. Unlike debit cards, **credit cards** have a maximum credit limit, within which the holder may carry out transactions. 77.9% of total card transactions were made by SEPA in June 2014 (European Central Bank, 2014b).

Electronic payments have seen an upward trend in the European Union after 2000, of the three methods of payment, direct debit, credit transfers and card payments, the last one experienced the strongest growth, from 32% in 2000 to 85% in 2013 (Table No. 1). We observe customer appetite for electronic payments in the European Union and especially for card payments.

### 3. Benefits of SEPA implementation

Implementation of SEPA has advantage for consumers, SMEs, merchants, corporates, public administrations and banks.

Consumers will no longer be constrained by geographical borders and will be able to make payments from any country using the host country account. Customer safety and security will improve due to a wider acceptance of credit card payment.

Small business will benefit from improved cash flow and reduced costs because of faster settlement and simpler process.

Merchants will accept debit and credit cards from all SEPA countries and cash handling costs will be reduced.

A unique payment platform will be beneficial for corporates because SEPA will generate major savings.

SEPA will allow the public administrations to provide improved services for citizens both at home and abroad.

The banks will have access to new markets, new customers, they will be able to offer new services and they will have improved efficiency.

Payment service providers can develop new services and products at lower costs and fragmented market will not be an impediment.

### 4. Implementation of Single Euro Payments Area in Romania

The deadline for SEPA credit transfer and SEPA direct debit was 1 February 2014. States were given a grace period of 6 months, which ended on August 1, 2014. Latvia joined the euro area on 1 January 2014 and the deadline for SEPA was January 1, 2015. Lithuania is the last country

that has adopted the euro on 1 January 2015 and has a deadline of January 1, 2016 to migrate to SEPA. The countries that have not adopted the euro, among whom is Romania, have as deadline October 31, 2016 to make the changes necessary to implement SEPA (Romanian National Bank, 2014).

The banking system in Romania comprises 40 credit institutions, of which nine branches of foreign banks in December 2014 (Table No. 2). The bankshadttotalnet assetsworth364billionRON;private-owned institutions held 91% of total assets, foreign-owned institutions held 89% of total assets.

For direct debit, only two banks of 40 in the banking system meet the SEPA requirements (Table No. 3).

In the banking system, 26 of the 40 banks meet SEPA credit transfer requirements (Table No. 4), 65% of banks are SEPA credit transfer compliant. In the second half of 2013, 34.96% of total credit transfers were made in SEPA (Romanian Banking Association, 2014a).

SEPA card payments are the best implemented, 97% of all cards issued by banks in Romania meet EMV standards, and therefore SEPA, 98% of point of sales and all ATM are SEPA compliant (Romanian Banking Association, 2014b).

A feature of the Romanian banking system is the desire to adopt SEPA for RON retail payments. Credit institutions together with Trans Fond, the company that operates the payment infrastructure in the country, make the changes for the adoption of SEPA in RON.

The most visible benefit will be onremittancesofabout threemillion Romaniansemployeesthat totaledEUR 2.2 billioninthe first seven monthsof2014 (The Money Channel, 2014).

The banking system in Romania has to implement the SEPAstandard for a large number of banks, especially the direct debit segment.

## Conclusion

Romania has a deadline of 31 October 2016 for fully implementation of SEPA. Currently the SEPA credit transfer is the most advanced, 26 bank of 40 have implemented it.

The studies have shown that the implementation of SEPA can generate savings for customers, SMEs, merchants, corporate, public administration and banks, but can affect banks' profits by reducing earnings from commissions of cross-border transactions in euro.

The Romania's economy is small compared to other EU countries, but the benefits will be visible especially for remittances of Romanians went to work abroad.

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Appendices

Appendix A

Table No. 1

*Growth in electronic payment instruments per capita per year in the EU*

<b>Period\Unit:</b>	<b>Card payments</b>	<b>Credit transfers</b>	<b>Direct debits</b>
<b>2000</b>	32,695	37,373	31,62
<b>2001</b>	37,284	40,297	32,541
<b>2002</b>	44,78	40,371	32,95
<b>2003</b>	48,851	43,287	37,571
<b>2004</b>	46,177	42,344	36,073
<b>2005</b>	50,132	44,401	37,407
<b>2006</b>	54,214	47,375	39,855
<b>2007</b>	55,361	42,677	39,323
<b>2008</b>	59,516	43,45	40,697
<b>2009</b>	63,113	44,994	42,22
<b>2010</b>	68,103	47,781	43,872
<b>2011</b>	73,826	49,605	44,216
<b>2012</b>	78,98	50,959	45,125
<b>2013</b>	85,832	52,16	47,127

Source: <http://www.ecb.europa.eu/paym/retpaym/undpaym/paymtyp/html/index.en.html>

Appendix B

Table No. 2

*Aggregate Indicators for Credit Institutions (Banks, foreign banks` branches and Creditcoop)*

	<b>Dec. 2013</b>	<b>Dec. 2014</b>
<i>Number of credit institutions</i>	40	40
<i>of which foreign banks` branches</i>	9	9
<i>Total net assets (billion lei)</i>	362,3	364,4
<i>Assets of private-owned institutions (% in total assets)</i>	91,5	91,2
<i>Assets of foreign-owned institutions (% in total assets)</i>	90,0	89,9
<i>Capital Adequacy Ratio ( 8%) (%)</i>	15,46	17,28
<i>Leverage Ratio (%)</i>	7,96	7,26
<i>Impaired loans (% in total loans)</i>	11,64	8,99
<i>Impaired loans (% in total assets)</i>	6,50	4,89
<i>Impaired loans (% in total debt)</i>	7,25	5,42
<i>ROA (%)</i>	0,01	-1,23
<i>ROE (%)</i>	0,13	-11,59
<i>Operating income/operating expenses (%)</i>	176,85	180,68
<i>Loans to Deposit Ratio (%)</i>	104,59	91,37

Source: <http://bnr.ro/Indicatori-agregati-privind-institutiile-de-credit-3368.aspx>

Appendix C  
Table No. 3

*Banks that have joined SEPA direct debit*

<b>No</b>	<b>Bank Name</b>	<b>Date</b>
<b>1</b>	<i>RBS Bank</i>	<i>1.11.2010</i>
<b>2</b>	<i>UniCredit Tiriatic Bank</i>	<i>1.11.2010</i>

Source: <http://www.arb.ro/institutii-de-credit-din-romania-care-au-aderat-la-schemele-sepa/>

Appendix D  
Table No. 4.

*Banks that have joined SEPA credit transfer*

<b>No</b>	<b>Bank Name</b>	<b>Date</b>
<b>1</b>	<i>Alpha Bank Romania</i>	<i>28.01.2008</i>
<b>2</b>	<i>Banc Post S.A.</i>	<i>28.01.2008</i>
<b>3</b>	<i>Banca Comerciala Carpatica S.A.</i>	<i>03.02.2014</i>
<b>4</b>	<i>Banca Comerciala Feroviara S.A.</i>	<i>03.02.2014</i>
<b>5</b>	<i>Banca Comerciala Intesa Sanpaolo Romania S.A.</i>	<i>03.03.2008</i>
<b>6</b>	<i>Banca Comerciala Romana</i>	<i>28.01.2008</i>
<b>7</b>	<i>Banca de export-import a Romaniei EXIMBANK</i>	<i>28.01.2008</i>
<b>8</b>	<i>Banca Romaneasca</i>	<i>28.01.2008</i>
<b>9</b>	<i>Banca Transilvania</i>	<i>28.01.2008</i>
<b>10</b>	<i>Bank Leumi Romania</i>	<i>02.06.2008</i>
<b>11</b>	<i>BRD – Groupe Societe Generale</i>	<i>03.03.2008</i>
<b>12</b>	<i>CEC Bank</i>	<i>08.03.2010</i>
<b>13</b>	<i>Citibank Romania</i>	<i>28.01.2008</i>
<b>14</b>	<i>Marfin Bank (EGNATIA Bank Romania)</i>	<i>28.01.2008</i>
<b>15</b>	<i>Credit Agricole Bank (EMPORIKI Bank) Romania</i>	<i>28.01.2008</i>
<b>16</b>	<i>NexteBank (MKB Romexterra Bank)</i>	<i>28.01.2008</i>
<b>17</b>	<i>OTP Bank Romania</i>	<i>28.01.2008</i>
<b>18</b>	<i>Payments Institutions Smith and Smith SRL</i>	<i>03.02.2014</i>
<b>19</b>	<i>Piraeus Bank Romania</i>	<i>03.03.2008</i>
<b>20</b>	<i>Porsche Bank Romania</i>	<i>03.02.2014</i>
<b>21</b>	<i>Procredit Bank</i>	<i>07.07.2008</i>
<b>22</b>	<i>Raiffeisen Bank</i>	<i>28.01.2008</i>
<b>23</b>	<i>RBS Bank Romania</i>	<i>28.01.2008</i>
<b>24</b>	<i>Romanian International Bank</i>	<i>03.11.2014</i>
<b>25</b>	<i>Unicredit Tiriatic Bank</i>	<i>28.01.2008</i>
<b>26</b>	<i>Volksbank Romania</i>	<i>06.02.2012</i>

Source: <http://www.arb.ro/institutii-de-credit-din-romania-care-au-aderat-la-schemele-sepa/>

