

## THE NECESSITY OF IMPLEMENTING THE INNOVATIVE SERVICE “INSTANT PAYMENTS” INTO ROMANIAN BANKING SYSTEM

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**Abstract:** *The sustainable development of new technologies having considerate advantages, such as fast, simple and movable communication and socialization, puts an increasing amount of pressure on the banking system to adapt to its customers’ needs, but also to respond to the competition created by non-financial payments or loans providers. By introducing instant payments, we will be to perform and benefit from RON transfer operations in a matter of seconds, simply by using the personal bank account. These instant payments will certainly improve the e-commerce and will help companies or institutions simplifying their operations and moving towards digital means. This result was already proved by countries such as Denmark and United Kingdom, which are already using this type of payments.*

**Keywords:** *Instant payments, competitiveness, electronic commerce, european standards.*

**JEL Classification:** *E52, E58.*

### 1. Introduction

The very long period of time to make payments or banking transfers has led to the development of some modern technologies which are faster, simpler and more responsive to clients’ needs, but also respond to the competition created by non-banking financial service providers.

Thus, one may spot a European or international trend, namely retail payments being processed in real time, 7 days a week, 24 hours a day, 365 days a year (7/24/365). For payments made in Europe in European currency (euro), SEPA (Single Euro Payments Ace) allows payments being made without any cash to any person in Europe, by credit transfer, direct debiting or debit card, at an identical rate as in transferee’s own country. Instant payments in Europe will be based on SEPA, meaning a harmonized instant payment method in the entire Europe.

In Romania, TRANSFOND already started the ‘Instant Payments’ project which will be finalized in 2018, so that the banking community can benefit from a payment system in real time.

### 2. The Role of ‘Instant Payment’ Service

At present time, an interbank payment requires some time in order for the respective sum to reach its consignee. Furthermore, if a payment is made during the weekends, the sum will only reach its consignee on Monday. With the help of instant payments, credit transfer payments will be successfully made in a matter of seconds, at any time, by using the personal bank account, either to a bank, or other similar service providers.

Instant payments will also improve the e-commerce, will support companies in simplifying their payment process and move to digital ways of payment. In many situations, these payments will also be an excellent alternative for cash payments. Statistics from countries which already introduced instant payments, such as Denmark or United Kingdom, prove that the use of instant payments is spreading rapidly.

On European level, the European Central Bank (ECB) owns a very important role as respects to instant payments because it is responsible with the security and efficiency of

non-cash payments in euro. As European institution, ECB attempts to make sure that there are no obstacles or extra costs for payments in euro anywhere in Europe.

To promote payment innovations, ECB collaborates with the national banking systems from EU Member States to settle on common standards and eliminate any border obstacles. Therefore, ECB chairs The Council as far as that goes to low-value euro payments. The Council is a group which reunites payment users or service providers and instant payments are one of the group's targets. This Council will work for the European instant payments system and will supervise and support the development and implementation of this system.

In Romania, the main role belongs to TRANSFOND, an institution founded in 2000 by all banks from Romania together with Romania's National Bank, as part of the adherence process to the European Union, with its main purpose of improving the payment infrastructure in Romania. TRANSFOND is the technical operator of the Electronic Interbank Payment System, the elements of this system representing the central part of interbank payments in Romania. In addition, it must be mentioned that these systems only process payments made by payment order, direct debit, checks, bills or promissory notes, cards being excluded. TRANSFOND also solely manages SENT (Automatic Compensation Institution) which process low-value interbank payments (up to 50.000 RONs/payment). Additionally, TRANSFOND operates ReGIS, a system designed for high-value or urgent payments (over 50.000 RONs), ReGIS finding itself under the administration of Romania's National Bank.

Since its foundation, TRANSFOND has constantly fought for the maintenance of the highest standards of interbank payments and adapting these payments to European or international standards. In order to offer performing services, TRANSFOND initiated the 'Instant Payments' project, which operates in Romania since 2018, thus contributing to the enrichment of fast and secure payment services. This service is innovative and available 7/24/365. This system represents an important piece of the infrastructure which will form the base for future development of alternative-channels payments and will provide a serious reason for maintaining a high competition between the banking system and unconventional payments providers, which are often poorly supervised.

### **3. The Importance of Implementing the New Service**

In the past few years, in Romania, interbank electronic payments have registered a continuous growth, to the detriment of cash payments. However, if we take into consideration the number of inhabitants, there is still a significant gap between the number electronic payments and the market's potential. According to the latest statistics of ECB, in Romania, the average of electronic transactions (with promissory notes and direct debit) per inhabitant is 10 times smaller than the EU Member States' average (11 transactions as opposed to 105 in EU) and almost 5 times smaller than the average of EU Member States from Eastern or Central Europe (approximately 60 transactions per inhabitant).

At this moment, in the European Union, the process of instant payments is considered to become the new standard of processing low-value payments (also known as 'retail payments'), some compensation institutions within the EU already implementing this type of payments in real time (payments from natural persons, micro-enterprises, SMEs or large corporations). At the same time, other compensation institutions say that this initiative will represent a priority for their immediate development.

**Table no. 1. Number of low-value payment transactions in Romania**

Type of transaction	2013	2014	2015	2016	2017 (9 months)
	SENT	SENT	SENT	SENT	SENT
Credit Transfer RON	56.797.596	63.600.716	71.955.112	77.791.585	63.628.387
Direct Debit	315.783	331.475	349.018	232.248	156.054
Checks	1.460.719	1.312.530	1.212.818	1.085.630	709.133
Bills	1.124	859	693	439	187
Promissory Notes	3.434.810	3.290.203	3.190.891	2.988.092	2.031.550
<b>Total</b>	<b>62.010.032</b>	<b>68.551.678</b>	<b>76.708.532</b>	<b>82.097.994</b>	<b>66.525.311</b>

Source: Transfond, 2018. *Rapoarte anuale*. [online] Available at: <<https://www.transfond.ro/comunicare/rapoarte>> [Accessed 12 March 2018].

**Table no. 2. Total Value of low-value payments in Romania (mil. RON)**

Type of transaction	2013	2014	2015	2016	2017 (9 months)
	SENT	SENT	SENT	SENT	SENT
Credit Transfer RON	205.776,73	223.487,61	249.603,10	268.019,91	213.549,00
Direct Debit	2.289,05	2.684,51	3.079,35	3.297,09	3.359,32
Checks	17.809,16	16.214,31	14.831,39	13.135,38	9.103,24
Bills	11,80	9,55	5,95	1,12	0,4995
Promissory Notes	36.839,68	35.932,10	37.362,78	33.450,15	23.714,36
<b>Total</b>	<b>262.726,43</b>	<b>278.523,87</b>	<b>304.882,57</b>	<b>317.903,64</b>	<b>249.776,42</b>

Source: Transfond, 2018. *Rapoarte anuale*. [online] Available at: <<https://www.transfond.ro/comunicare/rapoarte>> [Accessed 12 March 2018].

According to previously presented data, one may draw the conclusion that TRANSFOND's processed operations through SENT have positively evolved. Thus, the general growth within SENT – the RON component, of the total operations grew with 11.92% and their value with 14.71% in 2015 as opposed to 2014 and with 7% and 4.27% in 2016 as opposed to 2015, respectively, can be explained by an economical improvement and by the entry into force of some regulations with regard to cash payments. The payment orders that were processed through SENT – the EURO component, registered significant growths: total number of operations grew with 66.39% and their value with 94.45% in 2015, as opposed to the previous year and a growth of over 330%, and 500% in 2016 as opposed to 2015, respectively.

**Table no. 3. Total Number of Transactions in EURO Through SENT**

Type of transaction	2013	2014	2015	2016	2017 (9 months)
	SENT	SENT	SENT	SENT	SENT
EURO Credit Transfer	353	15.895	26.446	116.048	379.270

Source: Transfond, 2018. *Rapoarte anuale*. [online] Available at: <<https://www.transfond.ro/comunicare/rapoarte>> [Accessed 12 March 2018].

**Table no. 4. Total Value of EURO Transactions Through SENT**

Type of transaction	2013	2014	2015	2016	2017 (9 months)
	SENT	SENT	SENT	SENT	SENT
EURO Credit Transfer	731.079,08	44.509.381,42	86.547.087,18	531.435.568,11	1.816.601.127,76

Source: Transfond, 2018. *Rapoarte anuale*. [online] Available at: <<https://www.transfond.ro/comunicare/rapoarte>> [Accessed 12 March 2018].

The positive growth of the total number of electronic transactions and their value in different periods fits in the general trend of growth and overlaps the dynamic of the economic growth. On the other hand, the numbers show an increasing embrace of electronic transactions by economic operators (companies or consumers).

TRANSFOND's strategy for development considers the replacement of SEPA payment orders with instant payment orders. This objective is set on the European general trend which can also be spotted from the analysis that Vocalink from UK released to the press. Based on official information (ECB, national banks or the European private sector of economy) one may conclude that instant payments will overrule EURO retail payments, estimations reaching between 19 and 44 billion transactions in 2027, within the European Union.

#### 4. Conclusion

For TRANSFOND, as well as for other banks in Romania, moving to instant payments means an increase for the service's availability, a higher performance level, faster settlements and money circulation, as well as an increase of payments by decreasing the number of cash payments or card payments. The reasoning is that the system will offer its customers a significant advantage: the initiation and execution of real-time payments. Moreover, this will also represent the response of the banking system to the competition created by non-banking financial service providers, which will be more and more active on the retail market, with instant payments included in their services.

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