SWIFT Business Forum Romania – 10th Edition

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Distinguished guests,

Ladies and gentlemen,

I am honoured to speak in front of you today, at this time of celebration. First of all, allow me to congratulate all those who, along the years, have been involved in organising the 'SWIFT Business Forum', an event which today is at its tenth edition. Thanks to these people's tenacity and dedication, the SWIFT Business Forum events have been, year after year, a landmark on the financial industry's agenda when it comes to major debates about developing modern payment systems.

We are all aware that we have been going through a period of European and national transformation and challenges. We are only a couple of days before the 31st of October, date which represents the third deadline to complete Brexit. There is hope that there will be a Brexit deal. But, even today, the way of closing Brexit represents a source of uncertainty and lack of predictability, now after more than 3 years since the British voted at the referendum for the UK leaving the EU.

In the absence of a clear deal committed to by both parties, what is left is only a no-exit deal Brexit. And such a development would involve a situation in which the UK, from the position of Member State, becomes a third party country, without a clear regime as regards the trade with goods and services, including those delivered by the financial and banking sector.

Concerning the potential impact upon the banking industry, the European Banking Federation, an institution in which the Romanian Association of Banks is a member, has identified three possible critical areas in case there will be a no-exit deal Brexit. They mentioned here data management with potential storing and processing problems, cooperation in the field of combating money laundering next to the continuity of contracts for the UK Central Counterparty.

European banks have implemented contingency plans but, in certain cases, there is need for public policy solutions in order to establish a predictable framework.

Despite our domestic challenges, we are careful to grasp the overall European context of the European economies and of the European banking sector. Romania has been taking steps to develop and consolidate its banking market. And I refer mainly to our problems related to size, low complexity and access to capital markets. Just as Europe is strong via its multiculturalism, we have to take care of the entire banking sector by focusing on its particulars because trust is one and the same all across the Banking Union.

An analysis of the priorities of the Romanian banking industry shows that these priorities actually overlap - and significantly for that matter - with the European issues, namely: lending, digitalization and banking education, culture and conduct.

I have to underline the opportunities we have as a European country; the paradox is that, generally speaking, opportunities come from areas where, today, we could say we have problems. I reiterate here only three domains: financial inclusion, the digital agenda (penultimate position in Europe based on DESI) and financial education where we rank last in Europe 28 and where, with little effort, we could gain special traction as regards enhancing sustainably financial intermediation.

Thus, Romania ranks last in the European Union as regards financial intermediation (26.6%) and financial inclusion (merely 58% of Romanian adults have a bank account). The weight of the unbanked population at national level stands at 42% of the total, compared to 5% the EU average. The percentage of 58% is comparable with the percentages of some African states: Zimbabwe - 55%, Uganda - 59%, Botswana - 51%. Another factor that negatively influences financial inclusion besides the low level of financial education is social exclusion. Unfortunately, 1 of 3 Romanians continues to be exposed to poverty risk.

But I have to make a comment here: vulnerable people benefit from facilities /gratuitousness when using payment accounts.

This vulnerability could be addressed, among others, by digitalization.

Artificial intelligence, blockchain and other new technologies could be as revolutionary as the internet used to be.

We are all aware that the wide-scale implementation of digital solutions leads to more satisfied and loyal consumers, an expanded customer base and lower costs for consumers.

We have become more and more digitized and this is a challenge and an opportunity alike. The fast technological development transforms structurally the financial & banking services industry. Consumer behaviour has been changing, traditional business models are being revamped and the providers of financial & banking services have been focusing more and more on customer requirements.

Lately, the European authorities have issued a large number of regulations having as aim to set up an integrated market for financial & banking services at European level. The European banking industry represented by the European Banking Federation and the national industry, represented by us, the Romanian Association of Banks, support the European Commission's plans pertaining to the creation of a single digital market.

But, the market functionality depends on providing a high level of protection for consumers and on consolidating trust among companies, banks, institutions and governments. And I would include here also the need of adopting an adequate regulatory framework for providing a high level of protection against cyber-attacks.

In this context, we have been concerned about accelerating the adopting of digital technologies in financial & banking services. For this to materialise, I am of the opinion that a real modernisation of the legal and regulatory framework is a must, modernisation that should meet the current reality, in line with the European legislation and practice.

If we analyse the "production' area", i.e. lending in our case, we see that there is need for strong will and governance if we are to turn Romania's economy into a competitive entrepreneurial economy. Here also, we have exogenous and endogenous opportunities and challenges alike.

As you know, the European Union and Romania are very dependent on funding via bank loans, i.e. 75-80% of funding compared to the USA where this percentage belongs to funding via the capital market.

The implementation of the Basel IV Capital Accord will give birth to certain pressure upon the European and domestic banking industry.

The new reforms in the Basel IV Accord set forth, next to other elements, major changes in banks' capital requirements with a potentially major impact upon bank lending, profitability, as well as upon economic growth in the EU states.

The coming into force of the Basel IV Accord is planned to take place in stages, during 2022 - 2027. In conformity with the report of the European Banking Authority on the impact of the revised Basel Accord across the European banking sector, they estimate a drop in the weight of CET1 (common equity tier 1) by 0.6%. The surveys on banking markets drawn up by the Big4 show a drop by up to 3% - 4% of the solvency ratios, generated by the full enforcement of the Basel IV package provisions.

As for the Romanian banking sector, we expect the banks using the internal ratings-based approach to suffer from a more severe impact than the banks using the standardised approach when assessing credit risk.

Nevertheless, on the Romanian market, the impact could come mainly from the new Loan-To-Value criterion, used for calculating risk-weighted assets when passing from the standardised approach to the more advanced approach of assessing operational risk. Moreover, this impact is generated also by the amending of the risk weight for the exposures subject to credit risk. The amplitude of the impact depends upon the way financial institutions will adapt to these changes when preparing for the implementation deadline.

For the Romanian banking industry, the European challenges add to the local ones. At the beginning of this year, the third voice of the economy of Romania - made up this time of tens of economists and academia - underlined the fact that, without a developed and efficient financial & banking sector, we cannot have sustainable economic growth: "We cannot talk about resistance before a recession or a crisis. We are not in the presence of smart or inclusive economic growth. Any measure which harms seriously this sector puts to danger the macroeconomic stability of a nation and its future on long-term". These experts referred of course to the predictable effects of the G.E.O. no. 114/2018, respectively to the tax on banks' assets it sets forth.

The initial provisions' wording was amended but the financial burden put on the banking sector continues to be a significant one. Romania has imposed one of the highest taxes on financial assets across the entire European Union, i.e. 0.4% for the banks with a market share (function of assets) higher than 1%. And this happens contemplating the fact that, in the last decade, ROE stood at merely 0.51%.

But, taxing the banking sector's assets was only the visible side of the iceberg; as regards the potential impact upon the stability of the banking sector, the most important regulatory actions with negative impact in recent years were by far the more than 50 legal initiatives having as target - during four years only - to affect almost every component of banking.

Despite these artificial barriers for the development of the Romanian banking sector, it is nonetheless a sound system which has continued to bring its contribution to supporting the advance of the economy and to the Romanians' financial welfare.

The Romanian banking sector has some of the highest capitalization (19.60%) and quick liquidity (37%) ratios among the European states.

The assets of the Romanian banking sector went up by 80% since Romania joined the European Union.

We continue to badly need reforms. But, if we put additional pressure on certain points, in our case EU states, we will obtain what is termed "the waterbed effect". This is why, for instance, financial intermediation shrank in Romania by one third compared to its pre-crisis level.

The Romanian banking sector should be able to carry out its mandate related to financial intermediation; that is, allocate capital in a low-risk environment between those who save and those who need capital in order to develop, enter new markets or increase their living standard and education via consumption or via personal investments. The desideratum is to enhance financial intermediation from 26.6% toward the average of the European Union standing at 83%.

Financial education is a priority where we all meet.

Albert Einstein said that those who have the privilege to know have also the duty to act.

We have to turn financial education into one of the priorities of the European authorities. The absence of the population's financial education represents a barrier for a lending boom and, equally, for economic growth. A solution for better financial integration is, as I have mentioned many times before, monitoring and fostering a European programme to enhance the level of financial education. As such, the cornerstone of this harmonization should be the introduction of financial education in the school curricula as a mandatory discipline for all European Union citizens. Levelling the playing field when it comes to financial literacy is a must, so as to have a minimal and balanced foundation to start from if we want to reach genuine European financial integration.

As a conclusion, I have to say that implementing common standards across the EU could play a pivotal role in harmonising regulations and in mitigating the negative effects brought about by market fragmentation.

Thank you for your attention and allow me to wish you insightful discussions during this Forum!