Commercial Activity or Banking Competition?

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Abstract: The study analyzes the competition on the banking market and proposes an overview of debt collection companies through the economic crisis which has profoundly affected the banking sector. Article scroll through the main features of competition on the banking market as well as the domain weaknesses that negatively influenced the banking system performance. Even if there is not a sufficiently transparent and functional legal framework and debt recovery market is not supervised enough, it is among the few markets that increase from year to year. Increasing competition from adjacent companies that compete with banks, namely, a non-banking entity, it is stimulating the banking system which will thus become more constructive. It is estimated, that in terms of customers, there will be no differentiation between the banking industry and non-banking entities that will reshape the Romanian banking system soon. Also, the study aims to highlight the existence of debt collection companies, implicitly, the specific markets, it is only a consequence of excessive, unnecessary and dangerous borrowing from previous years. Avoiding bad loans from banks, a fair competition from banks and from non-banking institutions, in the long term, it will generate a balance in the market and it will support economic growth of Romania.

Keywords: Portfolio; Banking crisis; Bank lending; Borrowing; Credit

JEL Classification: G110; G210

"The bank is where you borrow money if you prove that you do not need them"
Bob Hope

"Competition brings out the best in products and the worst in people that"
David Sarnoff

1. Introduction

The success of banking institutions, the same as that of any company, is guaranteed when it fails to fulfill its economic role better than the competition. The primary aim of the banks is to attract customers and to achieve this, they need innovation, quality, professionalism, products and services closer to customers' needs, as well as many

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competitive advantages. Banks should focus on people and their needs, not just profit.

2. Conceptual Background

Charles B. Carlson (2010) studied the evolution of the financial markets and wrote a work for us, in order to gain a better perspective of how we can protect ourselves for the future in this context of the competition, in a changing economical world.

Sun Yu (2011) investigates the level of bank competition in the euro area, the U.S. and U.K. before and after the recent financial crisis and revisited the issue whether the introduction of EMU (European Economic and Monetary Union) and the euro have had any impact on bank competition. The results suggest that the level of bank competition converged across euro area countries in the wake of the EMU. The recent global financial crisis led to a fall in competition in several countries and especially where large credit and housing booms had preceded the crisis.

Cezar Mereuță and Bogdan Căpraru (2012) in their work evaluate the competition in the Romanian banking system as regards the distortions in terms of market shares and the origin of capital, for the period 2000-2010, using the methodology of the structural analysis of the markets. Thus, they firstly check the features of structural distributions of the market shares in the case of the Romanian banking system, in the period 2000–2010.

Phil DeMuth and Ben Stein (2013) explain the primary asset protection and tax minimization strategies that work for those in the high-net-worth bracket. Here are investment strategies for the affluent, as well as for those who are approaching affluence and are trying to take that big step forward.

Nicolae Dănilă and collectively (2010), in their book, they wish to initiate an open platform for debate, provide extra relevant information in this field and to capture the connections between banking and macroeconomic balance in a context globalized.

Ali Mirzaei and Sharjah Tomoe Moore (2015) investigate whether the recent financial crisis has had any adverse impact on bank competition for 24 emerging and 25 advanced countries with large and small-size banks over the sample period 2001-2010.

3. Methodology

The study is conducted on the banking market in Romania and it is structured on the basis of systematic investigations on banking competition. Article combines theoretical and descriptive research and qualitative research with secondary quantitative research. Statistical data processing is done with Minitab software[1].

4. Contents

Comparative analysis between the evolution of interest and the situation of commissions for banking services, that cover the largest number of customers, indicating a superior market power to banks in relation to customers and a relatively low level of competition generated by the uniform commissions.

A high competition can improve the economic performance of a country but, also, it can open business opportunities for its citizens and it reduce the cost of goods and services throughout the economy. However, many laws and regulations restrict competition in the market. Many of them go beyond the necessary scope to achieve its policy objectives. Governments can reduce unnecessary restrictions applying "Competition Assessment Toolkit" of the Organisation for Economic Co-operation and Development (OECD). The toolkit provides a general methodology for identifying unnecessary constraints and policy development alternative, less restrictive, which are meant to achieve the objectives of government. One of the main toolbox is a checklist on issues of competition that addressed a series of simple questions to detect potential laws and regulations which restrict competition. This test focuses the limited government resources faction areas where competition assessment is imperative.

Government is often involved on markets to regulate the behavior of companies. These interventions may be based on solid economic reasons, such as preventing market crashes that may occur externalities, common oversight of public resources and public goods, limiting the market power and reducing inefficiencies caused by insufficient or asymmetric. In addition to economic regulations, governments regulate the conduct of companies to promote important objectives in the areas of health, safety and environmental quality. (Ghosh, pp. 415-444)

Compliance with competition law has become one of the main aspects that a company should consider when defining its long-term strategy. A competition law issue may occur not only because of the particular conduct of members of company management but, more frequently, due to behavior of intermediate management staff or even ordinary employees. That is why raising awareness and ensuring an efficient compliance with competition law among staff at all levels of a company is a must.

Since its establishment in the Treaty of Rome in 1957, EU competition policy has been a big part of the European Union. The Treaty provides for a "system to prevent distortion of competition within the common market". The objective was to create

[1] Minitab is the leading software used for statistics education at more than 4.000 colleges and universities worldwide. More students learn statistics with Minitab than with any other software.

ample and effective competition rules, to ensure the proper functioning of the European market and to give consumers the advantages of a free market system.

Competition policy involves the application of rules to ensure fair competition among companies. This encourages the development of business initiatives and increase efficiency, enable consumers to benefit from a wider choice and reduce prices and improve quality. These are the reasons why the European Union fight against anti-competitive behavior, evaluates merger and state aid and encourage liberalization.

Regarding competition in the banking market, the European Union has set up organizations to regulate competition and to contribute to safeguarding the stability of the European Union's financial system by ensuring the integrity, transparency, efficiency and orderly functioning of securities markets, as well as enhancing investor protection.

The European system set up for the supervision of the financial sector is made of three supervisory authorities: the European Securities and Markets Authorities (ESMA), the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA). The system also comprises the European Systemic Risk Board (ESRB) as well as the Joint Committee of the European Supervisory Authorities and the national supervisory authorities.

Together with national supervisory authorities which are responsible for the supervision of individual financial institutions, the objective of the European supervisory authorities is to improve the functioning of the internal market by ensuring appropriate, efficient and harmonized European regulation and supervision[1].

In particular, ESMA fosters supervisory convergence both amongst securities regulators and across financial sectors by working closely with the other European Supervisory Authorities competent in the field of banking (EBA), and insurance and occupational pensions (EIOPA)[2].

The European Financial Stability Facility (EFSF) was created as a temporary crisis resolution mechanism by the euro area Member States in June 2010. The EFSF has provided financial assistance to Ireland, Portugal and Greece. The assistance was financed by the EFSF through the issuance of bonds and other debt instruments on capital markets[3].

[1] http://www.eba.europa.eu.
[2] https://www.esma.europa.eu.
[3] http://www.efsf.europa.eu.

5. Competition - is it a Guarantee of the Efficiency of the Banking System?

Banks do not operate in an isolated environment, being under the impact of economic environment, banking regulations and competition. However, the competition is the most aggressive influence for bank performance.

Banking competition takes place both in funds raised and in the area of credit. Competition of deposits is limited on offered interest rate and repayment capacity of deposits at maturity. Competition of credits is more important concern for banks, which must choose customers representing a minimal risk of loss. Current customers and potential ones are important for the bank as well. Banks should take care to maintain as much as possible the present customers. The bank may have cost ten times higher to attract a new customer than to keep an existing one.

Regarding the domestic banking system, attesting to the dominance of a few large banks in the system on most banking services, which undermines the existing level of competition in banking in our country.

Another indicator that may be a measure of market power of players in the banking sector is the difference between interest rates for loans and deposits, interest indicator called spread. The difference between the interest rate for loans and deposits is determined by issues such as the rating of the country, the cost of financing etc., but depends to a large extent on the existing banking competition in that country.

A strong competitive factor is the presence of foreign banks in the market. When a foreign bank enters on the market, it brings financial know-how acquired in its home country, bank management techniques, innovative products and services. Thus, foreign banks are designed to modernize the banking system of the host country, to strengthen competition and increase efficiency of banking activity.

Competition guarantees the effectiveness of banking. A low level of banking competition allows banks to put on the customers' shoulders the costs of an inefficient business and of an undervaluing impact of certain risks. Under a disloyal behavior towards clients, the bank is likely to lose and this is the worst financial penalty that the banking institution can give itself. Banking competition provides innovation and efficiency and the latter leads to "loyal" customers because in this way they get what they want, what they need and the tariff or the price willing to pay for that service or banking product.

6. Is Competition in the market for distressed - being growing?

In our country, lending is the most important activity of credit institutions. From 2008 until March 2014, the NPL (bad loans) was in a constant growth. Primarily, this is due to economic crisis that made a large volume of loans granted during 2005-2008 to become distressed. This affected both the population and the banking sector, reaching the NPL in March 2014 to 22.23%.

According to representatives of the National Bank of Romania, the largest share of bad loans in total loans in outstanding debts were in September 2014, when NPL in trade was 29.6%, in manufacturing 23.55%, in construction 14.43% , in services 13.95% and in real estate was 12.92%.

The fewer bad loans were in agriculture and energy sectors, which together generated less than 5% of NPLs.

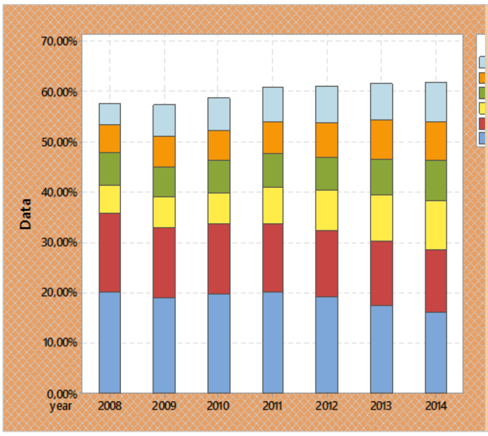

Figure 1 Shifts in market shares of the main banks in Romania in time and structure from 2008-2014

Source: data from the National Bank of Romania

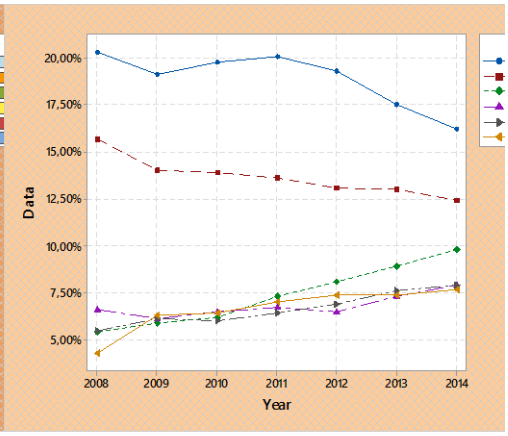

Figure 2. Shifts in market shares of the main banks in Romania in time from 2008-2014

Source: data from the National Bank of Romania

Next, in Figure 3-4, we will analyze the data corresponding to the main two banks, BCR and BRD.

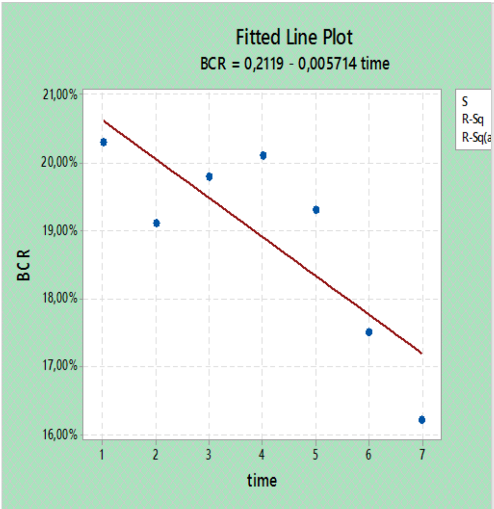

Figure 3. Bad loans trend of BCR from 2008-2014

Source: data from the National Bank of Romania

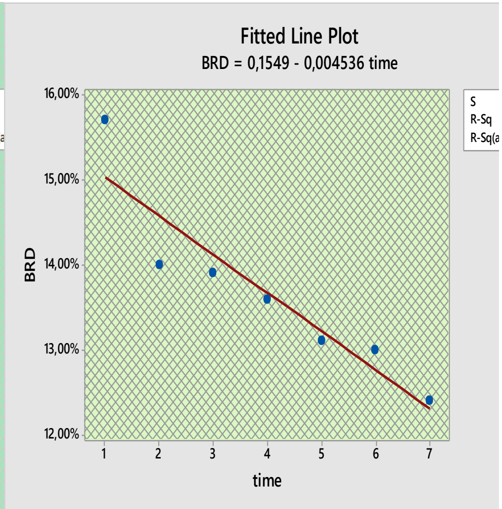

Figure 4. Bad loans trend of BRD from 2008-2014

Source: data from the National Bank of Romania

Regression equation of the market share for BCR is next:
The regression equation is BCR = 0,2119 - 0,005714 time
S = 0,00950489 R-Sq = 66,9% R-Sq(adj) = 60,3%
Analysis of Variance

Source	DF	SS	MS	F	P
Regression	1	0,0009143	0,0009143	10,12	0,025
Error	5	0,0004517	0,0000903		
Total	6	0,0013660			

Regression equation of the market share for BRD is next:
The regression equation is BRD = 0,1549 - 0,004536 time
S = 0,00427534 R-Sq = 86,3% R-Sq(adj) = 83,6%
Analysis of Variance

Source	DF	SS	MS	F	P
Regression	1	0,0005760	0,0005760	31,51	0,002
Error	5	0,0000914	0,0000183		
Total	6	0,0006674			

Regression equations of the market share, in both banks, demonstrate that from year to year, the market share of the two banks is diminishing, as evidenced by the negative coefficient, so 0.005714 and 0.004536.

In numerical terms, this market share is reduced from one year to another with 0.5714% in the case of BCR and 0.4536% in the case of BRD.

In this regression model, the relationship between market share and time, R-Sq, which in the case of BCR is 66.9% and in the case of BRD is 86.3%, is strong.

In terms of variation, regression is acceptable because of p value which is 0.025, respectively 0.002, lower values than the threshold value of 0.05, which represents the critical level corresponding to a probability of 95%.

The conclusion of the analysis carried out in the 2008-2014 period, shows that the market share of the main two banks have a downward trend, while banks which initially had a small market share, and now record increases. In the near future, because of this divergent trend, Transylvania Bank is likely to achieve market shares of BCR or BRD. It can be considered, that this divergence may be a consequence of a functional banking competition.

Lending activity generates both performing loans and non-performing loans, due to faulty risk management.

Non-performing loans occur when there is a delay in repayment of debt of 90, 180, 360 days and the payment of the liabilities assumed are not insured or are partially insured. On analysis, bad loans are those which are impossible to be repaid at deadlines, as a result of damaged activity of the client.

However, bad loans represent an inevitable consequence of lending activity. Each loan involves occurrence of unanticipated events, which sometimes makes impossible the terms of the credit agreement for the customer.

Direct risks of bad loans are on the stability of the banking system, if it materializes in the high costs of the banks and on economic growth too. A low economic growth rate attracts increasing non-performing loans, but, also, there are opposite effect according to which bad loans negatively affect economic growth.

Debt collection market has entered into a mechanism and it is a more professional market, more competitive and has a growing number of collectors. The retail banks have sold largely of balance sheet and therefore they have a cleaning and rehabilitated balance sheet.

Currently, there is a trend of increasing market competition in collecting receivables, stimulated by the fact that the industry has growth potential, especially in the corporate area, which has not developed as much as retail. If two years ago there were about 10 players in this market, now the number is much higher. Besides companies profile, there are many global investors interested in the corporate segment, particular. They come from Asia, especially from Hong Jong, China and

London or the United States, Switzerland etc. This trend makes the collection of receivables market to be very dynamic, a competition for proper portfolios sold by banks increasingly fierce.

Specialists consider that the collection of receivables market in Romania attracts investors because it has been profitable so far but in perspective, it is impossible to estimate whether the money invested will attract necessarily a profit. More competition means higher prices for banks' portfolios and higher costs for industry. On the long term, it is possible that investors who have invested considerable sums of money in this area, will not consider this market as profitable because of the lack of a sustainable business model.

If the retail loans market seem to be completed, in the next two years corporate portfolios will be sold for 5 - 6 billion as indicate by sources of debt collection companies. Some examples of Romanian banking activity are very conclusive in this regard, as follows:

General Manager of Kredyt Inkaso[1], Andrei Mocanu, said that the company represented by him has sufficient funds to invest in these portfolios. Being a strong company, listed on stock exchange, with business both in market activity from Romania, but also from our neighbors, it has the ability to purchase receivables of this type of loans. Currently, the company is involved in several transactions, with large oscillating portfolios while classical portfolios sold regularly and they have the same dynamic[2].

Victor Angelescu, general manager of Asset Portfolio Servicing (APS)[3] Romania specifies that the company he leads has a portfolio of performing and non-performing loans of 2.2 billion and his team recover in 95% more than investing.

"In 2014 APS had approximately 200 employees and it had recovered 600 million. I bought packages from 180 days to 3.000 days. Everyone knows what to do for retail loans. Volksbank transaction craving large investment funds on Romanian market", added Angelescu. He believes that if Deutsche Bank, the biggest German bank, came here and it invested in portfolios of bad loans, it drew attention to other potential investors.

Industry representatives argue that if banks should be more open and easier to outsource non-performing loans, then the recovery would be greater, considers

[1] Kredyt INKASO is a market leader in receivables management services in Poland. Since 2001 works with the base institutions (e.g. banks, insurance companies) and, also with companies which are offering telecommunications services.
[2] www.zf.ro/banci-si-asigurari/creste-concurenta-pe-piata-de-neperformante-14427584.
[3] Asset Portfolio Servicing is a recognized financial group that provides servicing, underwriting and asset management services across Central and South Eastern Europe.

Andrei Cionca, CEO of CITR Group[1]. Cionca claims that outsourcing platforms, such as debt recovery companies, is a better dialogue partner for them. The main problem is liquidity Romanian market and this could be solved if the bank non-performing loans by specialized firms outsource debt collection.[2]

In this field, competitors of banks are represented by the bank institutions engaged in similar activities. These may be crediting financial institutions, non-banking institutions, international financial organizations. Competitive relations are customized, on the one hand, due to the rigid nature of the offer banking services which excludes "exactly approximation" of the products and, on the other hand, because the means used in the struggle competition.

Because the level of competition in the banking sector can influence the level of risk incurred by players portrayed in this market, competition policy in this area must include a macroeconomic component. As noted in the survey on lending published in 2014, credit standards were more restrictive in the second quarter of 2013. This is proven by the decrease of LTV58 indicator (loan to value) for new loans by 12%, its new value being 65%.

The entire Romanian banking system can overcome this stage of syncope and it can reorganize by changing customer behavior regarding lending system, by removing non-performing loans and non-bank competition. These elements can help to restore a situation of balance that will attract and sustain economic growth of Romania.

7. Conclusions

Looking ahead, increasing concentration is a cause for concern for some markets, increasing this indicator is a direct consequence of the crisis that has removed some banks from the market. The financial crisis has seriously affected the activity of banks, both revenue and profit rates is significantly reduced. The crisis has affected the evolution of financial return on equity (ROE) that the values of 15-20% which is considered reasonable in the banking sector in normal market conditions dropped to zero and even turned negative in some periods. Large banks have suffered less significant changes of these indicators as opposed to small banks whose profitability has been much affected, taking even negative.

Although banks have developed negatively in the period 2008-2015 in terms of revenues, the situation of the banking sector indicate a favorable trend in terms of competition in the Romanian banking sector. In recent years, there is a tendency to reduce the differential between the interest rate on loans and deposits. Also, the

[1] With an experience of over 14 years in the insolvency practitioner activity, CITR is the Romanian market leader in this domain, a true opinion shaper, a motivation engine in this type of business.

[2] www.zf.ro/banci-si-asigurari/creste-concurenta-pe-piata-de-neperformante-14427584.

concentration indices show a high concentration in small to medium sector which indicates a relatively high degree of competition.

Despite all the difficulties currently facing the banking system in Romania, because of the crisis and because of wrong decisions taken in the past by clients and banks as well, banks competitive mechanism seems to work.

Increasing lending conditions are not a concern regarding competition in the banking sector, but corroborating its high level of indebtedness of clients leads to the reduction of customer mobility. As it is known, an increased level of customer mobility is the effect of a normal competitive environment and the purpose of competition law, precision in art. 1 of the Competition Law, it is precisely maintain and stimulate competition and a normal competitive environment, in order to promote consumer interests.

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