

PAYMENT SYSTEMS AND THE ROLE OF THE CENTRAL BANK OF ROMANIA

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Abstract:

The management of payment and settlement systems is one of the traditional functions of central banks that seeks to ensure financial stability. Similar to the case of other important function, that of lender of last resort, it is wise to ask ourselves whether the central bank is the best institution to manage payment systems. Also, considering the advances in the field, some questions arise: whether or not they contributed to the reduction of systemic risk?, do they bring extra liquidity and stability of the EMU scheme?.

Key words: NBR, payment system, financial stability

1. Conceptual approaches

In the context of globalization and the free movement of capital, payment and settlement systems have gained a particular importance all over the world, especially in recent decades, due to increased volume and value of commercial and financial transactions.

Given the accession of Romania to the European Union and its economic development, there has been a significant increase in the volume of payment transactions and in the interest of operators for the existence of efficient and secure payment systems.

The smooth operation of payment and settlement systems is vital to ensuring strong national currencies, for the successful implementation of monetary policy of the central bank, for an appropriate functioning of financial markets and to maintain the stability of the entire banking system (Albulescu T. C., 2009).

A **payment system** represents a set of instruments, banking procedures and rules that ensure the transfer of funds between participants in the system, based on an agreement between the participants in the system and the system operator, the transfer of funds being achieved through an agreed technical infrastructure (Bank for International Settlements, January 2001).

In Romania there are three payment systems, namely one high value payments in lei (ReGIS), one for small value and large volume payments in lei (SENT) and a system for large-value payments in euro (TARGET2-Romania).

NBR involvement in the management of payment systems is clearly stipulated in the law. Law 312/2004 - Article 22 (1) provides that "the central bank monitors payment systems, including payment instruments to ensure the safety and efficiency and to avoid systemic risk." According to Law no. 58/1998 - Article 89, "NBR regulate, authorize and supervise the payment systems in Romania, including their managers, to ensure the functioning of the systems in accordance with international standards in this area."

NBR has the statutory task of promoting the smooth operation of payment systems as the central bank of Romania and as a member of the European System of Central Banks. Electronic payment systems exempt banks from certain costs, large enough, related to the transfer and handling of cash. The main ways in which it can "pay" its duties as guardian of the Romanian financial system include (National Bank of Romania, April, 2014):

- providing means of settlement for payments and financial instruments; in this respect NBR operates a system for large-value payments in lei (ReGIS), a system for large-value payments in euro (TARGET2-Romania) and a depository and settlement system for financial instruments (SaFIR);
- supervision of payment and settlement of securities transactions by setting standards to ensure the safety and efficiency of systems that process transactions in national currency and assess compliance of these standards;
- cooperation with national authorities, the European System of Central Banks, the European Central Bank, as well as any other relevant international bodies in order to provide a framework for regulation and supervision of payment and settlement of financial instruments aligned with international standards;
- promotion of efficiency in payment systems and adaptation of infrastructure to the demands of a Single Euro Payments Area (SEPA).

2. The Electronic Payment System of the National Bank of Romania

The implementation of Electronic Payment System, in a project that lasted two years, was completed in 2005, through the efforts of the National Bank of Romania, the banking community in Romania, the Treasury and the company TransFonD, as operator of the funds transfer system in Romania. As a consequence, starting with the second quarter of 2005 the payment infrastructure was gradually replaced.

With the implementation of the Electronic Payments System, the processing speed of interbank payments went up significantly. Considering the reception time in EPS, the final settlement can take place within seconds (ReGIS and SaFIR) or hours (SENT). More precisely, the transfer of the relevant funds from the account of the payer's bank into the account of the beneficiary's bank takes place:

1. in real time (as soon as they are received from the initiating participant) for the ReGIS and SaFIR systems;
2. within 2 hours of their reception in SENT (after clearing). Practically, the SENT system allows that a payment order presented by a customer to his/her bank early in the morning be sent the same day for settlement, while the beneficiary bank should be able to make available to its customer the respective amount until the end of the banking day.

The elements of the Romanian electronic Gross Interbank Settlement – ReGIS, SENT (Electronic System of the Payments) and SaFIR (Recording the Financial Instruments Operations System) – are going to be described considering the operational approach and the advantages of the eliminating physical circuit of the payment instruments, by realizing the electronic transfer of the funds.

ReGIS (*Romanian electronic Gross Interbank Settlement*) represents the national RTGS system (*Real Time Gross Settlement*) for payments in lei offered by NBR and came into operation on 8 April 2005. The system is used for the settlement of central bank operations, interbank transfers and payments in lei of high value (over 50,000 lei), or emergencies. The system provides real-time processing and settlement in central bank money with immediate finality.

A real time gross settlement system (RTGS) is a payment system in which processing and settlement take place continuously (in real time), not using packet instructions. Thus, transactions may be settled with immediate finality. Gross settlement means that each transfer is settled individually and not on a net basis.

The central bank manages and controls the operation of the system, authorizing participation in the system, establishing and amending system rules to monitor compliance by the participants and sanctions for their violation.

The following categories of institutions are eligible to participate in ReGIS system (National Bank of Romania, April, 2014):

- credit institutions in the European Economic Area, including those who act through a branch established in the European Economic Area;
- credit institutions outside the European Economic Area, provided that they act through a branch established in the European Economic Area;
- National Bank of Romania;
- State Treasury;
- organizations from the European Economic Area providing clearing or settlement services, supervised by a competent authority.

In order to participate in ReGIS an applicant institution must:

- meet the eligibility requirements;
- prove that they have adequate operational capacity;
- in the case of credit institutions governed by foreign law, to provide a legal opinion on its capacity;
- credit institutions outside the European Economic Area, but acting through a branch established in the European Economic Area, must provide a legal advice on land.

Currently, the ReGIS system has registered as participants 39 credit institutions, the Treasury department, the NBR and six auxiliary systems.

ReGIS is processing credit transfers in lei nationwide, including:

- ✓ payments for central bank operations (monetary policy operations, foreign exchange market and lending, cash operations, etc.).
- ✓ settlement operations of net positions in the auxiliary systems that process payments in lei (SENT RoClear, VISA, MasterCard, DSClear);
- ✓ interbank and customer important value or urgent payments (over 50,000 lei);
- ✓ payments for settlement of funds related to financial instruments;
- ✓ direct debit of charges for participating in the three components of the electronic payment system (ReGIS, SaFIR and SENT).

SENT is an electronic system of multilateral clearing of low value and high volume interbank payments in lei, exchanged between participants over several daily sessions.

The system came into operation in 2005 and it processes both low value interbank credit transfers and direct debits and debt instruments such as checks, bills of exchange, promissory notes, providing:

- an exchange of payment instructions between participants, held continuously during the clearing session;
- a multilateral netting of payment instructions by participants, held continuously during the clearing session;
- an automatic initiation of final settlement of net positions in ReGIS system at the end of each compensation session;
- an automatic management of collateral for settlement.

SaFIR, a component of the electronic payment system, is designed to store and settle transactions in government securities. All securities issued by the Ministry of Finance in dematerialized form are entered in the accounts at the central bank central depository on behalf of participants in SaFIR. Property rights of the secondary market intermediaries and credit institutions participating in SaFIR other than intermediaries, are acquired by registration in their account opened in his own name in the records of the central depository. Property rights of other holders of government securities are acquired by registration in accounts opened with the secondary market intermediaries subject highlighting cumulative customer securities account opened in the name of the intermediary NBR records. The specific functions of this component include the record of securities, settlement of securities operations and some additional functions, such as: daily assessment of issues, collateral management, management of payment queues, applying a release mechanism for the settlement, monitoring the system's operation, data archiving, automatic fee calculation, reports submitted to the competent 11

TARGET2 (*Trans-European Automated Real-time Gross settlement Express Transfer*), operational since November 19, 2007, replacing the TARGET system, is a gross settlement system in real time (Real-Time Gross Settlement - RTGS) for payments in euro, provided by the Eurosystem.

This system is used for the settlement of central bank operations, high value interbank transfers in euro, as well as other euro payments. Also, fund transfers related to auxiliary systems are settled.

The system provides real-time processing and settlement of payments on accounts with central banks with immediate finality.

3. Conclusions

In conclusion, the implementation of the electronic payment system has led to a increased security and efficiency of transactions, lower costs, as well as to better control risks in order to avoid a systemic risk.

Both from the financial stability and importance to the economy points of view, ReGIS, SENT and SaFIR were considered from the time of their design with a systemic, extremely important given the standards and requirements of the Eurosystem for such systems as well as the best practices in the world.

The great importance of ReGIS and SaFIR in default payments and settlements insurance and maintaining financial stability, imposed their keeping in ownership and management of the National Bank of Romania of these systems, while SENT is owned and managed by TRANSFOND.

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