

## MODERNIZATION AND RESTRUCTURING IN THE ROMANIAN BANKING SYSTEM UNDER THE IMPACT OF GLOBALIZATION

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### **Abstract**

*The scope of banking activities has widened considerably. New technologies and the increasing complexity and sophistication of techniques and products have contributed to redefining the content of banking activities. They are reoriented from the administrative dimension to the technical and commercial dominance, in order to better respond to the needs of the international customers.*

*Banks are, without a doubt, some of the economic actors most affected by financial globalization. To cope with changes in the economic environment, mainly financial liberalization and new technologies, banks have implemented a number of new strategies and policies. At the same time, in a global world, they are facing increasing risks. If by the 1970' s banks were operating in a relatively stable and secure environment, the collapse of the international monetary system, which led to exchange rate instability and financial liberalization inevitably accompanied by increased financial market instability, exposed banks to new risks.*

*Banks have to deal with risks, such as operational risks, related to organizational dysfunctions and market risks associated with changes in asset prices. Moreover, banks have relied on major innovations (securitization of receivables and derivatives) that have profoundly transformed how to approach risks.*

*The purpose of this article is to analyze the manifestations of economic globalization, in terms of pace and intensity needed to outline the framework for analyzing the impact of globalization in the banking sector, as well as the main aspects of digitalization, the aspects of this phenomenon in the Romanian banking system, as well as the analysis and interpretation of some relevant indicators for this process.*

**Keywords:** globalization, digitalization, banking system, performance, risk

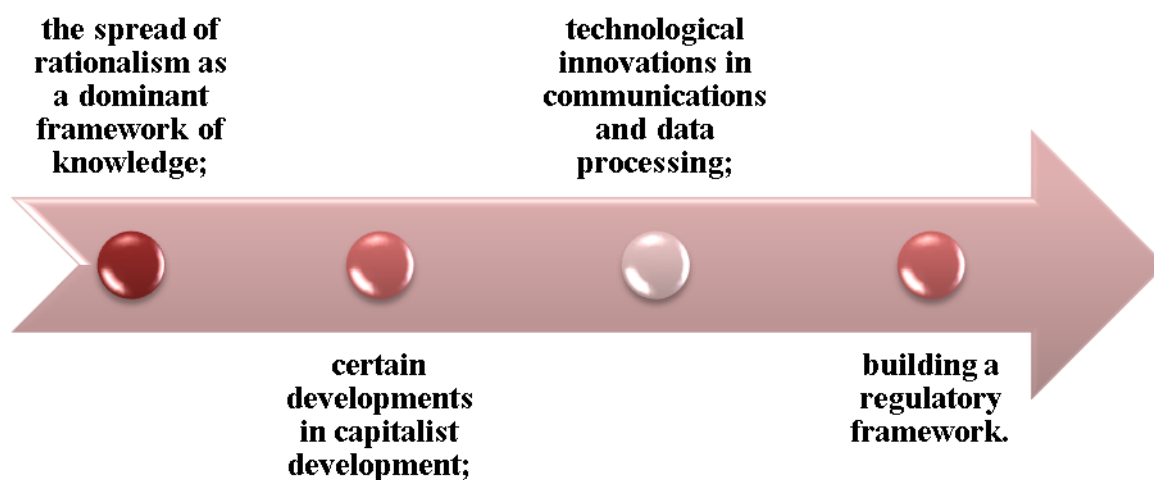
**Classification JEL:** F65, G21

### **1. Introduction**

In the literature, the concept of globalization is given more importance, starting with the 80's of last century.

Later, however, the term spread with unsuspected speed, the frequent use of this new term, from current language to political and journalistic discourse, due to the fact that it designates an important change, which requires new terminology to describe new realities. . The contemporary challenge is to define these terms precisely.

A general understanding of globalization should combine elements from different approaches. Too much simplification and a simplistic understanding can lead to wrong policies. In the case of globalization, social relations involve complex ties that cannot be reduced to a single cause such as the state, technology, capitalism or cultural imperialism. I consider globalization to be caused and driven by a series of phenomena, very different but still interconnected, namely:



At the macroeconomic level, banks began to be involved in the global liberalization movement of financial activities in the mid-1980's, which resulted in a sharp increase in competitive pressure. The financial services sector has progressively globalized and gained a global dimension. Financial globalization corresponds to the establishment of a vast world money market.

The banking system has always been considered an important pillar for the functioning of the economy. In economic systems, banks have a leading role in planning, developing and implementing financial policies. In another view, this banking system is a structural network of institutions that provide financial services in a given environment [7]. Another definition of the banking system includes specialized institutions whose main object of activity is the management, organization and realization of loans, and the ultimate goal is to obtain profit [9].

## **2. Is digitalization no longer an option, but a necessity for banks?**

The establishment of the modern banking system meant a complicated process, sometimes full of tensions and problems, in order to finally reach the banking system on two levels. There are some countries where banking reforms have had multiple objectives. In addition to avoiding financial crises, these countries have initiated banking and economic reform, recognizing the importance of an efficient and transparent financial-banking system in an economy.

The internationalization of banking systems has meant the globalization of economic activity in general. The process of globalization of the banking sector was carried out both geographically, with the establishment of national, regional, international banks, financial groups including leasing companies, insurance-reinsurance, investment funds, capital market activities, but also with in order to provide integrated financial services. The phenomenon of globalization of the financial-banking field took place with different aspects from one country to another, being very strong in the case of American, Japanese and Western European banks, where the movement of capital is less restrictive.

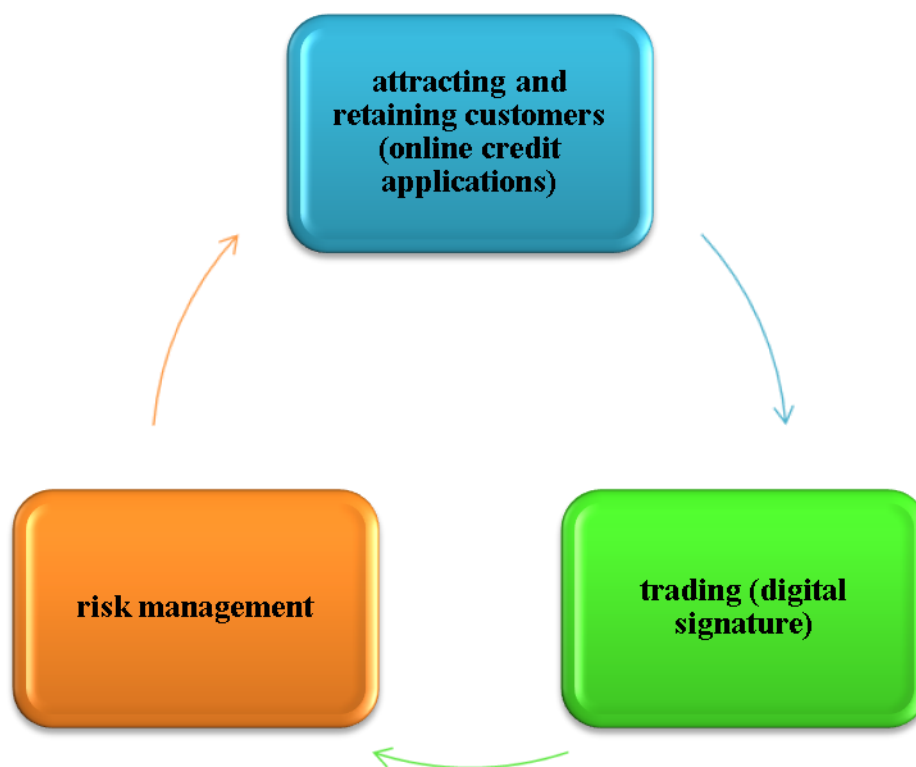
International regulations are transposed at national level on the basis of criteria of sectoral standardization and alignment with the specifics of the respective market. In Romania, the banking infrastructure has undergone transformations and reconfigurations as the banking system has consolidated. At the national level, the analysis of banking prudential indicators has demonstrated

the leading place in the European ranking that the Romanian banking system occupies in this regard.

Banks can successfully manage risk if they implement a sound, prudent management system, and if these requirements are met, there are gains for both the bank and the system as a whole.

The digitization and continuation of the consolidation process will be two important trends that will manifest in the Romanian banking landscape over the coming years. Digitization transforms the banking system in an essential way, bringing to the fore new products, services and business models. Transformation is a long-term process, with banks gradually adopting new technologies to develop a sustainable business strategy.

The main areas that are subject to change:



According to the Financial Stability Report 2019, published by the National Bank of Romania, the restructuring process of the Romanian banking sector continued by adjusting the network, in the context of stimulating digital banking services as an alternative to physical agencies and optimizing operating expenses. The degree of financial intermediation remains low due to the persistence of structural vulnerabilities of the Romanian economy.

The client's trust in the Romanian banking sector is an aspect that must be monitored, in the context of the traditional financing model and the persistence of a low degree of intermediation. Trust is built both on the factors specific to the supply of banking services (individual characteristics of credit institutions and aggregates of the banking sector) and on those related to the demand for banking products and services (customer characteristics, such as financial education, access to other sources of funding, etc.).

Digitization is changing the face of traditional banking, given that it can also lead to the restructuring of banks' territorial networks, given that as Romanians embrace technology more and more, the need for numerous bank branches on the street corner will disappear. And in the case of the remaining bank branches, digitalization can lead to their modernization.

And competition is putting pressure on bankers to speed up the digitization process. Competition from other banks or, more recently, competition from other non-bank players.

The traditional business model of banks has begun to be challenged by some fintech start-ups and other companies that have entered this sector.

Digitization is no longer just an option for bankers, but has become the newest norm in the financial services industry. What has the international wave of digitalization brought to local banking?

Banking must go the way of digitalization in order to keep pace with customer expectations, changing consumer profiles, changing generation, and the wave of technology that is taking over more and more companies and industries, some of which compete directly with banks at certain levels.

In recent years, digitalisation has gained ground at a faster pace in the global banking sector and, somewhat more slowly, domestically. Banks are increasingly placed on two fronts, pursuing two business models, the traditional model - with branches and physical agencies - and the digitization model.

Credit institutions keep the traditional structure of the territorial network, with physical branches and agencies, and at the same time seek to attract and support customers who will never set foot in an agency, who do not want to approach the headquarters of any banks and who want to do all the banking operations on their own computer or smartphone. Under these conditions, banks need to build both new business models and digital infrastructure to help them do so, in order to attract digital customers as well.

In an increasingly digital world, it was natural for banking to become more accessible than ever. Technological innovation is changing the way banking services reach the public, increasing:

- ✿ speed,
- ✿ availability,
- ✿ simplicity,
- ✿ autonomy.

In recent decades, banking has become a favorite area of high technology use. The complexity of operations, the competitive environment and the growing expectations of customers have made its use indispensable.

The advantages are remarkable, both for banks and customers: increased speed of data processing and operations, remote accessibility, ability to manage complex databases and data processing, cost reduction, etc.

The pace at which technological innovations are falling within the scope of banking has become exponential in recent years. This brings with it new opportunities for business development, but also new challenges.

Of course, digitalisation means lower costs for banks and, indirectly, for customers. These come, in particular, from the reduction in the number of banking units and employees, from economies of scale and scope.

The main challenge for banks is the continuous implementation and updating, which comes with high initial and subsequent costs. It also involves continuous accommodation with new equipment / applications of employees and customers. Thus, competition and the pace of change and innovation in technology put more and more pressure on banks' budgets.

But the digitalization of banking also requires substantial investment. Bankers talk about many millions of euros taking the path of online banking or mobile banking applications, new IT platforms, open banking products and services, resources that are directed towards digitizing processes, payments or data processing.

There are all kinds of applications on phones and tablets that allow remote banking, without the need for customers to go to the bank.

Some banks give customers online loans, there is also the possibility of making online deposits (examples: TBI Bank and Idea Bank have digital platforms to attract deposits from customers), there are banks that use digital signatures (BCR, UniCredit, ING Bank), there is the service contactless payment with mobile phone (BT Pay and ING Pay), a bank gave up the traditional cashiers and decided to replace them with special ATMs (ING Bank), robots are used for interaction with bank customers.

These are some of the new trends in the digitalization of national banking. And the future of banking seems to be shaping up more and more around digital platforms (example: George - BCR; ING Home'Bank).

The use of technology, digitalization, has become in recent years one of the stated goals of national bankers, who are thus trying to get closer to customers.

### 3. Conclusions

A healthy financial system is the starting point for economic growth, while a troubled banking system can have significant negative effects. At the same time, a stable and constantly developing economy is indispensable for an efficient and healthy banking system. However, practical experience has shown us that none of these is the only condition for fulfilling the other.

A troubled banking system can lead to the collapse of the economic system, the obstruction of monetary conditions and policy. At the same time, it adversely affects the external environment, the exchange rate, the degree of debt maintenance and involves significant tax costs.

It is clear that digitalization is radically transforming the Romanian banking industry, bringing to the fore new products, services and business models. This transformation takes time, pushing banks to adopt and embrace new technologies in order to develop a sustainable business strategy.

Although digitalization of the banking system is an irreversible process, tradition, solidity and trust - defining elements for traditional banking - must remain basic elements in the relationship with customers. It is necessary for banks to understand and accept the uniqueness of each customer and to create a real image of a partner in solving the needs of the customer and not of the seller of products.

In the enthusiastic atmosphere of digitalization that gives the impression that technological miracles make all problems disappear, but also the challenges and risks of digitalization. And the human interface will not completely disappear from banking.

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