Models of Social Responsibility under the Impact of the Global Financial Crisis. Case Study: the Romanian Banking System

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Abstract: The Romanian banking system has begun development on modern bases only after 1990, with the passing from the monobank system to the two-tier system. Other important steps in modernizing the banking system were: privatization of large state banks and the European Union accession. These mutations have also marked the application of the concept of social responsibility in the Romanian banking system that is still in the early stages of development. The dominant presence of foreign banking capital and the European Union accession had a positive impact in the social responsibility area. Some banks in Romania have adopted the practice of non-financial reporting according to international standards in the field. The negative consequences of the global financial crisis determined banks to step up efforts to adopt new business models based on responsible practices and responsible financing. A post-crisis direction of action for improving the relationship between banks and customers and avoid possible problems in the payment of loans was the intensification of implementation by banks of financial education programs. However there are still a number of actions to be undertaken to strengthen the concept of social responsibility in the Romanian banking system.

Keywords: social responsibility; Romanian banking system; business models; responsible financing; financial education.

JEL classification: G21, M00

Introduction

In recent decades, the Romanian banking system has undergone a number of changes under the impact of several factors, among which the political factor has had a decisive role. Currently, the Romanian banking system is dominated by foreign capital. Therefore it
benefits from the expertise of headquarters from home countries in all areas, including in terms of social responsibility.

In Romania, the concept of corporate social responsibility (CSR) is still in early stages of development. However, in the context of increasing competition, responsible business practices can become a marketing tool enabling them individualization in the community.

The concept of CSR in Romania was tackled by several publications. Among them the following works should be mentioned: Guvernul Romaniei, *Strategia Romaniei de promovare a responsabilitatii sociale 2011-2016*; Anca et al. [2011]; CSR Media, Ernest and Young [2015]; Crisan-Mitra, Borza [2015].

According to information provided by the largest banks in the system [for example, Raiffeisen Bank, 2015; BCR, 2011], the main areas covered by social responsibility activities undertaken by banks in Romania are: educational projects, promotion of the arts, volunteering and social solidarity, and environmental protection. Lentner et al. [2015] outline the role of CSR in central banks activity.

In this context, the paper was divided into two parts. The first part performs a synthetic description of the Romanian banking system, highlighting the main stages in the historical evolution. The second part presents the models of social responsibility developed by the major banks in the Romanian banking system. The banks presented were selected according to the market share. The emphasis was put on the impact of the economic and financial crisis on the evolution of responsible business practices in the Romanian banking system.

1. Stages in the Development of the Romanian Banking System

The basics of the Romanian banking system were put in the second half of the nineteenth century, when the first bank that functioned in Romania - The National Bank of Moldova (1856), with majority foreign capital [Kiritescu, 1997] - , and the country's central bank - the National Bank of Romania (1880) - were founded.

Subsequently, the banks number increased and the banking system evolved until after the Second World War when the monobank system was established, which operated until 1990.

Amid political change and establishment of the communist regime in 1948, most commercial banks were abolished and the central bank was nationalized. At that time, both the functions of central bank and functions of commercial banks were cumulated in a single institution - Banca de Stat (State Bank). In addition, there were some specialised banks serving the specific needs of some sectors: agriculture, foreign trade, investments. Casa de Economii si Consemnatiuni was holding the monopoly in terms of household savings. Foreign capital was restricted. Only four banks with foreign capital or mixed capital (Romanian and foreign capital) were operating in Romania.

Since 1990, with the collapse of communism and the transition to the market economy, the Romanian banking system has begun to develop on modern basis, by establishing the two-tier banking system.
A decisive step in the process of modernization was the privatization of large state-owned banks, which allowed foreign banks to conduct large investments in the Romanian banking system.

In 2007, Romania joined the European Union (EU) and banking legislation was adapted to the EU legislation. The global financial and economic crisis affected the Romanian banking system and foreign banks present in Romania were an important vehicle for the transmission of the crisis.

At end-2015, the Romanian banking system was made up of 36 credit institutions, of which 29 credit institutions, Romanian legal entities and 7 credit institutions branches, foreign legal entities. It is important to note that there are only 2 fully or majority state-owned credit institutions and 4 credit institutions with majority domestic capital in the Romanian banking system (Table 1).

<table>
<thead>
<tr>
<th>Table 1: The composition of the Romanian banking system by ownership number of banks, end of period</th>
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<tr>
<td>Credit institutions, Romanian legal entities, of which:</td>
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<tr>
<td>Fully or majority state-owned credit institutions</td>
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<td>Majority private capital credit institutions, of which:</td>
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<td>- with majority domestic capital</td>
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<tr>
<td>- with majority foreign capital</td>
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<td>Credit institutions branches, foreign legal entities</td>
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<td>Total credit institutions</td>
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Source: BNR 2015, p. 95.

A feature of the Romanian banking system is the dominant market share held by the credit institutions with majority foreign capital - 90.4% of the aggregate net assets at end - 2015. Regarding the origin of foreign capital, the credit institutions with majority Austrian capital hold the largest share (33.3%), followed by the credit institutions with majority French capital (13.5%) and the credit institutions with majority Greek capital (10.6%) [BNR, 2015].

According to the Annual Report 2015 issued by the central bank [BNR, 2015], at end-2015, the banks holding the largest market share are:

1. Banca Comerciala Romana - 15.8%;
2. BRD - Groupe Société Générale - 13 %;
3. Banca Transilvania - 12.6%;
4. Raiffeisen Bank - 8.4 %;
5. UniCredit Bank - 8.1%.

2. Social Responsibility in the Romanian Banking System

In Romania, the concept of social responsibility is little known in society, being in early stages of development, according to the "National Strategy to Promote Social Responsibility 2011-2016". Unlike small and medium sized enterprises, multinationals and
large Romanian companies know better the concept of CSR. Among the weaknesses highlighted by this strategy in the SWOT analysis on the development of CSR in Romania are highlighted: insufficient knowledge of consumer rights, corruption, and insufficient application of socially responsible investments. However, the advantages that social responsibility implied for organizations or the importance given to CSR at international level are opportunities for CSR development in Romania [Guvernul Romaniei, Strategia României de promovare a responsabilității sociale 2011-2016].

An important step in enhancing the implementation of responsible business practices in Romania started after joining the European Union, the headquarters of multinational companies being leader vectors of this process, by transferring their expertise from headquarters to local offices of Romania. Subsequently, the opportunities for accessing European funds were another factor which contributed to strengthening the implementation of responsible business practices in Romania [Anca et al., 2011].

The global financial and economic crisis has also had negative effects in the Romanian banking system, revealing a number of weaknesses in the credit policy promoted by banks and imposing reconsidering their business models. The aggressive promotion of credit amid the competition, easing conditions for granting credit, economic growth and wage increases in the pre-crisis period was one of the vulnerabilities of credit policy. As a result, currently one of the vulnerabilities of the Romanian banking system is represented by non-performing loans. For example, at end-2013, the non-performing loans ratio was of 21.9 percent [BNR, 2014].

However, it is important to emphasize that there were no "toxic" assets in the Romanian banks’ balance sheets.

In this context, after triggering the crisis, banks have reconsidered their business models and have begun to promote responsible finance, focusing on: raising funds locally and reducing reliance on external financing; reducing exposures to unhedged borrowers.

The actions taken by banks to solve the conversion of some loans in Swiss francs into other currencies could be considered as part of the social responsibility.

However, at the National Authority for Consumer Protection (NACP) there are several customer complaints on the possible unfair terms in credit agreements. See, for example, the press release of the NAPC of November 9, 2015 regarding the winning by the NAPC of the process on possible abusive clauses with Banca Româneasca [ANPC, 2015].

The Romanian banking community has intensified efforts to improve the financial education of the public, considered a prerequisite in avoiding problems of accessing and repayment of debts, as well as in improving the relationship between banks and customers.

Lentner et al. [2015] outline the role of CSR in central banks activity. In this context, the authors consider that the central banks function of maintaining financial stability could be part of CSR. Financial literacy and education are among the most important areas of the central banks CSR.

As part of its CSR activities, the National Bank of Romania (NBR) has developed several educational projects in order to allow the general public a better understanding of banking
and financial concepts. According to the NBR website [http://www.bnr.ro/Educational-Projects-5431.aspx], the most important educational projects promoted by the NBR are:

- the „NBR – Open Doors for Economics Students”, project meant to improve the economics students knowledge on history and functions of central banks;
- the „Let’s Talk about Money and Banks” project that targets high-school and secondary-school students, providing them the basic financial and banking concepts;
- the „Academica” educational project designed in partnership with some Romanian universities, meant to professors.

Other channel contributing to increase the financial education in Romania is the Romanian Banking Association (RBA). Amid the need of restoring confidence in the banking system, the main issues addressed by the RBA website dedicated to financial education [http://www.educatiefinanciara.info/] are:

- how to access credit;
- categories of loans provided by banks in Romania;
- the risks of lending;
- restructuring of loans;
- types of savings and bank deposits;
- bank cards;
- personal budget management;
- Internet banking payments and mobile phone payments.

In 2011, the Banca Comerciala Romana (BCR) has published its first corporate social responsibility report, which was prepared according to the guidelines of the international standard in this field Global Reporting Initiative (GRI). According to this report [BCR, 2011], the involvement of bank in the community has followed several directions:

- development of financial education programs;
- support access to education for children from disadvantaged families;
- implementing of entrepreneurship education projects;
- encouraging social entrepreneurship;
- social solidarity.

The BRD- Groupe Société Générale website dedicated to informing on the bank’s corporate responsibility policy highlights the bank’s activities developed in this area. Among them, the following activities should be mentioned [https://www.brd.ro/despre-brd/responsabilitate-corporativa]:

- supporting contemporary art and music by: private collections of contemporary art in its possession, exhibitions they organize, events and musical talents they promote;
realization of responsible financings, which include "green financings" and financing of some activities such as renewable energy;

concerning the environmental policy, the bank also launched a program to reduce carbon emissions related to the activities they carry out;

other dimensions of the social responsibility policy promoted by the bank are the programs on investments in community, among which we can mention: actions to increase access to education and social solidarity actions;

supporting sport in Romania;

voluntary actions undertaken by the bank employees.

According to some news posted by Banca Transilvania on the bank's website https://www.bancatransilvania.ro/bt-social-media-newsroom/stiri/?cat/3, the following actions are among the bank's projects in terms of responsibility and social involvement:

- the development of financial education programs;
- green volunteering projects;
- supporting of some cultural events;
- events dedicated to supporting tourism development in Romania;
- conducting of some campaigns to promote road safety.


- supporting Romanian art and culture;
- promoting financial education;
- responsibility toward environment;
- promoting a better lifestyle through sport;
- promoting social assistance.

For example, in 2015, Raiffeisen Bank has been partner of the international festival of classical music George Enescu.

The UniCredit Bank website https://www.unicredit.ro/ro/institutional.html#CSR, dedicated to social responsibility presents the bank's main lines of action in this area:

- supporting projects in the field of music, literature and contemporary art;
- involvement in projects to support education;
- promoting volunteerism;
- supporting projects for environmental protection.

As mentioned above, some major banks in Romania have adopted the practice of non-financial reporting according to international standards in the field: the London Benchmarking Group (LBG) methodology and the Global Reporting Initiative (GRI) methodology. The transposing into the national legislation of the provisions of the Directive 2014/95/EU on non-financial reporting obligation by large companies could have an important impact on strengthening implementation of the concept of social responsibility in the Romanian banking system.

**Conclusions**

In Romania, the concept of social responsibility is still in the initial stage of development. Gradually, companies are becoming aware that the implementation of responsible business practices may be opportunities for differentiation from competitors and attracting of customers.

We believe that transposing into the national legislation of the provisions of the Directive 2014/95/EU on non-financial reporting obligation by large companies will have an important impact on strengthening implementation of the concept of social responsibility in the Romanian banking system.

With the privatization of large state banks, the foreign capital entered the territory of Romania, foreign banks owning overwhelmingly the Romanian banking system currently. In addition to capital injections, one of the advantages of the foreign capital penetration in the Romanian banking system was the import of expertise and best practices from the parent bank. This import of expertise was also realized in the field of social responsibility.

The economic and financial crisis has led banks to adopt new business models based on responsible financing. In the same context of responsible business practices, banks have intensified efforts to fundraise locally and reduce dependence on external funding from parent banks. Another dimension of social responsibility is the conversion of loans in Swiss francs in other currency. However, at the National Authority for Consumer Protection (NACP) there are several customer complaints on the possible unfair terms in credit agreements.

Starting from the premises that an educated clientele in financial terms can prevent some problems in the relationship between bank and customers, after the triggering of the global financial and economic crisis, banks have stepped up efforts to increase the financial education of the general public.

Despite the progress realised, there are still a number of actions to be undertaken to strengthen the concept of social responsibility in the Romanian banking system.
References


[18] https://www.unicredit.ro/ro/institutional.html#CSR