

**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
COMPETITION COMMITTEE****Digital Disruption in Financial Markets – Note by Romania****5 June 2019**

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More documents related to this discussion can be found at

<http://www.oecd.org/daf/competition/digital-disruption-in-financial-markets.htm>

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Romania

1. The Fintech Sector in Romania

1. Fintech is a concept that describes the technology-based innovation in financial services that could lead to the creation of new business models, applications, processes of products and it could also have an associated significant effect on markets and financial institutions and on the way financial services are being provided¹.
2. At EU level, the European Commission focuses on the FinTech sector due to its potential of facilitating the access to financial services. Therefore, in March 2018 the Commission launched an action plan and in April 2019 a forum emerged in relation to innovation (European Forum for Innovation Facilitators – EFIF) that aims at creating a favourable environment for the development of FinTechs in the EU.
3. Meanwhile, in Romania, the appearance of the term “FinTech” is closely linked to PSD2 (the 2nd Payment Services Directive) that aims at opening the payment related markets to newcomers, thus increasing competition, providing more choices and better prices for consumers. The objective of the aforementioned directive (the Directive) is to improve the European norms in relation to electronic payments.
4. From a competition standpoint, PSD2 has the following implications:
 - Reducing entry barriers for third party payment service providers (TPP) and for companies from the FinTech sector; the rapidly changing technology can contribute towards increasing competition in domains such as: online banking services, online payments, peer-to-peer lending and so on;
 - Clients will have the possibility to create their own collection of smaller service providers instead of choosing only one bank in order to address all their financial needs;
 - Stimulating the development of new business models and of new banking services.
5. The Directive creates the premises for the emergence of innovating services that will inform consumers regarding the cheapest available mortgage, it will also start the process of changing the provider on behalf of the consumer (with his/her consent) and it will issue alerts when the consumer spends more than a predetermined sum or when the consumer’s overdraft is about to be accessed. Therefore, the consumer will no longer need to interact with his/her bank.
6. One real problem related to the Directive is that Romania remains the last Member State that hasn’t transposed it in national law and consequently, infringement proceedings may be initiated if Romania fails to transpose the Directive until June this year. Additionally, failure to transpose generates problems in relation to TPP’s access to clients’ data that should become operational in September 2019 (the trial period that started on

¹ Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the regions, FinTech Action plan: For a more competitive and innovative European financial sector - COM(2018)109/F1.

14 March 2019 entailing the purpose of identifying and solving any difficulties in order to remove any problems that may appear from September 2019).

7. Assessments from various reports and studies point out that Romania is not a leader when it comes to adapting to changes generated by technology in the financial area. Thereby, the digital economy and society index² (DESI³) carried out by the Commission shows that in 2016 – 2018 Romania ranked last at EU level.

8. In 2018, the digitalisation level of the economy and the digital competencies of the population in Romania are low and this makes it difficult in terms of progress with reference to most of DESI dimensions.

9. In human capital, Romania ranks well below the EU average in terms of internet users, but there is progress with more and more people getting online and gradually improving their digital skills. Only 61% Romanians are regular internet users compared to the EU average of 81%. When it comes to basic digital skills, Romania does not show significant improvement on last year, and the EU average is almost twice as high (57%).

10. Romania continues to rank last at EU level. Romanians read the news online (69%), listen to music, watch videos and play games (67%) and use the Internet for voice or video calls (53%). While Romanians are keen to engage in social networks and video calls, they are not so keen to use the Internet for online shopping (23% — ranked 28th) and eBanking (11% — ranked 27th) compared to the EU average.

11. Romanians are very reluctant to use electronic banking services. This can be explained by a general lack of trust.

12. In the integration of digital technologies by businesses, Romania remains at the bottom of the ranking and is not progressing. Romania scores 17.8, recording a drop of 4% compared to last year, while the EU average increased by 9% compared to the DESI 2017. The percentage of businesses using technologies such as electronic information sharing (17% - ranked 27th) and RFID (2.4% - ranked 24th), have decreased.

13. In 2017, the spread of online banking in the EU shows that Romania is in second-to-last place at EU level (7%)⁴.

14. As a policy option, banks can cooperate with FinTechs; the former can purchase or create the latter.

15. In 2017, with reference to the strategy of the Romanian banks, the National Bank of Romania (NBR) sent out a questionnaire to 13 banks that represent 90% of the total assets of the Romanian banking sector. The questionnaire was composed of 14 questions and 2 sections that included general assessments and the main risk related to FinTechs⁵. The replies have indicated that approximately 30% of the addressees were already carrying

² <https://ec.europa.eu/digital-single-market/en/scoreboard/romania> - The Digital Economy and Society Index.

³ DESI represents a composite index that summarizes relevant indicators on Europe's digital performance and tracks the evolution of EU member states in digital competitiveness.

⁴ <https://www.statista.com/statistics/222286/online-banking-penetration-in-leading-european-countries/>

⁵ The presentation "Fintech – Changing the financial industry", held by Anca – Mihaela Paraschiv, NBR, October 2017.

out FinTech projects, other 30% were planning to initiate such projects and approximately 40% were not planning to initiate any Fintech projects.

16. The same source shows that the banks were monitoring the risks regarding FinTechs (usually included in the category “operational risks”) that were generally perceived as being of medium importance. Approximately 45% of the surveyed banks that were involved or were planning to get involved in FinTech projects perceived the evolution of this segment as a danger for their business.

17. At the moment, there is a general tendency of cooperation between FinTechs and banks, for example: the collaboration between a bank and a market leader in cognitive banking applications that integrates artificial intelligence; the launching of a start-up programme by a bank that will allow start-ups to develop ideas and innovate in the banking sector and that will create the opportunity to work alongside banking experts.

18. In spite of the low current level of development of the FinTech sector in Romania, one can observe that there is, however, an appetite for Fintech services on the part of the Romanian consumers (especially among young consumers). This is illustrated by the significant increase of these companies in a short timeframe. One relevant example is represented by Revolut. This start-up has opened an office in Bucharest in May 2018 when Revolut was having over 25.000 users in Romania, without investing in marketing activities. At the end of November 2018, it reached over 100.000 users. Consequently, Romania occupies the 4th place after the UK, France and Poland in Revolut’s top markets with the fastest growth. Romanians mainly use Revolut for card payments, online payments and payments at trader, but also for bank transfers⁶.

19. This particular FinTech allows users to open a current account from its application in a few minutes, to perform free of charge domestic and international transfers, to hold and change 25 currencies from the application by using the real exchange rate (the interbank exchange rate) and to spend money worldwide, in over 150 currencies by using a contactless Visa or MarsterCard card.

20. In Romania, the most significant challenge for FinTechs will be related to winning clients’ trust. This finding resulted from a survey that the Romanian Competition Council commissioned in 2018.

21. Therefore, if new companies that are authorised and supervised by NBR were to perform payments at the request of the respondent, similar to the approach adopted now by the banks, Visa or MasterCard, 37% of the natural persons respondents will consider them to be quite or very trustworthy. On the other hand, 45% would consider these new companies less trustworthy and 14% would not trust them at all. Significantly more 60 year old and over respondents - 27% have declared that they would not trust these companies, in contrast with the rest of the age groups (varying between 8% and 16%). Among those that have stated that they would consider these new companies to be quite trustworthy, respondents aged 18 – 29 are significantly more – 35% that those from the rest of the age groups (varying between 21% and 25%).

22. With reference to EU law, although it provides the necessity of opening clients’ databases for FinTechs, PSD2 does not impose a particular approach in terms of common

⁶ <https://www.nocash.info.ro/banking-4-0-revolut-anunta-ca-a-ajuns-la-100-000-de-clienti-in-romania/>

or individual API. This choice is reserved to regulatory national authorities that have the liberty to adopt the most appropriate approach for the regulated market.

23. At the present moment, each bank is entitled to make its services available by applying its own API. This leads to a more burdensome integration and communication between TPP with the banking institutions. In order to access the services provided by the banks, TPP would be required to implement a different interface for each bank their clients work with. In broader terms, this would benefit the banks with high market shares and it would put small banks at a disadvantage. The imbalance results from the fact that each collaboration between a TPP and a bank will imply a specific implementation. The development, the implementation and the management of a large number of interfaces are inefficient for TPP. Therefore, the latter will try to connect with the banks that have a large number of clients.

24. In the preliminary conclusions proceedings of the sector inquiry regarding the retail banking market, the Romanian Competition Council has recommended the adoption of a common API for the Romanian banking system (unlike the implementation of individual APIs by each bank that would significantly hinder the access of TPP, such as FinTechs, to the consumers' financial information⁷). By taking into account the characteristics of the Romanian market (a large number of finance and banking institutions and a relative high fragmentation degree of the market - a great dispersion of clients), the proposition of a common API is preferable in comparison with individual solutions developed by the banks.

25. A common API would create equal opportunities to all financial services providers and it would allow smaller banks to keep their level of competitiveness. Moreover, the integration with banking or non-banking institutions from other EU countries can be streamlined by using a well-known and already adopted standard (e.g.: Open Banking in UK, Berlin Group).

26. Although most banks have agreed that the idea of a common API is appropriate, the main concerns were related to the possible financial disadvantages (since the adaptation of the bank's software architecture to the common interface implies the allocation of additional resources for additional developments in core banking in order to allow its adaptation to the common API) and the lengthy period for its completion. One must bear in mind that the deadline for providing access to the API sandboxes by the banks to the TPPs (FinTechs) was 14.03.2019; this access was meant to allow TPP to test the software and the relevant applications.

27. If a common API were to be implemented for the entire market, one must find answers to the following questions:

- What entity from the local market will coordinate the implementation of a common API according to PSD2?
- What entity will bear the cost for this implementation?

28. The analysis on the information provided by the banks showed that the vast majority of them have already adopted the European API standard – Berlin Group and that they have prepared for the launching of the API sandboxes on 14.03.2019. The competition authority is continuously monitoring the market in order to ensure that the access of TPP

⁷ Provided that the consumer has expressed his/her consent and that the security measures mentioned by the security standards (RTS) are met.

to clients' data will be carried out on non-discriminatory bases and that competition law will not be infringed.

2. Conclusions

29. In conclusion, the premises for ensuring that innovation and the FinTech sector will transform the financial industry are created at EU level. It is expected that these changes will benefit both the competition and the consumers.

30. Although it ranks behind by comparison to other Member States from this point of view, in order to fill the gap, firstly, Romania needs legal clarity and the immediate transposition in national law of the Directive PSD2. Secondly, it needs an increase in the financial education of the general population and a better understanding of the opportunities related to digitalisation.