

**LLP-ERASMUS
Intensive Programme**

**Internet advanced promotional tools application for increasing awareness
of social exclusions movement**

Financial exclusion in Romania

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Introduction

Notion and definition of financial exclusion

According to the document provided by the European Commission in March 2008, “*Financial Services Provision and Prevention of Financial Exclusion*”, **financial exclusion** refers to “*a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong*”.¹ The characteristics of the product, the manner in which they are promoted and sold or the financial situation of the customer may cause these difficulties and therefore, may lead to financial exclusion. In addition, whenever the **mainstream commercial providers** within a society fail to create and supply a variety of products and services that can meet the needs of all sections of society, there is a risk for financial exclusion.

According to the World Bank, the **financial services that are considered essential** in most developed and cashless societies and which all people should have access to are *transaction banking, savings, credit, insurance*. The degree of importance of these services varies from one to the other. **Transaction banking services** are considered to be highly important because, through them, other financial services (such as credits or savings) can be accessed. The lack of access or of use of this financial provision increases the risk of poverty and of stealing, the time consumed on annoying procedures leading to financial exclusion. Among the types of transactions linked to an account, the most important are: receiving electronic payment of funds (wages, pensions); converting cheques/ vouchers into cash; storing / vouchers into cash; storing money safely until it needs to be drawn, paying for goods and services other than in cash; paying bills electronically.²

Credits are also very important because they enable access to goods or expenditure extending over the monthly budget of some people. The lack of access to them may have a negative

¹ General for Employment, Social Affairs and Equal Opportunities, European Commission, 2008: 9.

² Idem, p.11.

impact on the living standards of the person in question, may reduce the level of welfare and self-esteem and, in some cases, may lead to over-indebtedness. **Savings** and **insurance** are considered of lower importance since their absence does not lead to financial exclusion. Their lack is often associated with low income, lack of habit to save money or unwillingness to deal with banks because of negative past experience or prejudice.³

Importance of financial exclusion in Romania

Given the high rate of financial exclusion that Romania is currently facing, i.e. 57%, this is a priority that has to be taken into consideration because it leads to several consequences that negatively affect the life of Romanian citizens. More precisely, financial exclusion can affect the way in which Romanians increase, allocate and use their money; it can have a negative impact on their consumption patterns and it can influence the way in which they participate to economic activities or access social welfare. Moreover, statistics show that financial exclusion affects Romanians' behaviour in terms of purchase decisions, in how they spend their time and on the overall quality of Romanians' lives. These consequences can affect the individuals from a psychological point of view as well: financial exclusion seems to lead to a lower self-esteem, to an increase in the levels of stress, anxiety and, in some cases, even in depression.

There is an increasing tendency towards financial illiteracy, especially among Romanians living in rural environments. In this case, it has been observed that the lack of access to financial products and services (due to low income), the lack of knowledge or the inability to understand how to use banking services have led to (self-) isolation, to abandonment of personal business projects, to a decrease in the interest for personal development and, in some cases, even to deprivation of social connections and social relationships.⁴ Romanians who are totally credit excluded and who cannot gain access to certain types of credit have to depend on informal borrowing, from neighbours or friends, a factor that may lead again to a lower self-esteem and, in cases of delay of payment, to conflicts.⁵ Additionally, a tendency has been observed among Romanians with low revenue and who lack access to a credit, to borrow

³ Ibidem.

⁴ Gloukoviezoff, G, 2004 : 11-38.

⁵ Kempson, E. and Whyley, C., 1999: 68 - 72

money from illegal lenders. The problem stems from borrowers who are unable to pay back the money to the lenders so the latter starts to use violence and intimidation. In the case of Romanians without any savings, the problem is that they cannot cope with financial shocks or with unexpected expenses. On the other hand, when people choose to keep savings in cash in home, they face the risk of theft.⁶

Historical background of financial exclusion in Romania

Five years after Romania joined the EU, in 2012, the statistics related to financial exclusion were quite discouraging. Only 27% of people in Romania had a current bank account (compared to the EU average of 84%) and 43% of the population had or used any kind of financial products or services. The most frequent causes are related to financial illiteracy (the degree of knowledge about financial products has been associated with their degree of usage), low income, need of financial products, education, employment and provenance (rural/urban environment).

These statistics may cease to look so discouraging if we look into the past 10 years, more precisely before Romania became an EU member. Until 2004, the percentage of financial inclusion was much lower, only 10% of Romania's population had access to or used financial products and services. At the end of 2009, there were 42 credit institutions in Romania, of which 25 Romanian legal entities with foreign private capital, four local private owned 10 branches of foreign banks, one state owned, one owned State and CreditCoop.⁷ The statistics illustrated by the Special Eurobarometer 373 on "Retail Financial Services" reveal that, in the past 5 years, Romania was the country that purchased the most financial products. More exactly, among financially included Romanians, in the last 5 years, 50% of them purchased insurance products (home, health, and car insurance), 37% purchased a current bank account and 26% a credit card. Besides, 86% of the personal loans were purchased in the period 2007-2012.

⁶ Kempson, E., McKay, S. and Collard, S. 2005: 98-102

⁷ Popescu, B. B., Totan, L.S., (2013) *Econometric Modeling of Banking Exclusion*, in Romanian Statistical Review, nr.3, p.1.

Among the main causes identified for this evolution there were the increase and the diversification of financial products and services offered by the old and new banks (that came to Romania after the country joined the EU), the increase in the number of jobs in the Romanian environment and, implicitly, the number of employed persons. Other causes may be related to an increase in the number of programs (offered by specialized institutions such as banks or associations) intended to educate people from a financial point of view, more accessible requirements for loans or credits and more efficient marketing campaigns for the promotion of financial services and products. These statistics lead us to conclude that despite the high level of financial exclusion, there are chances for improvement and for financial inclusion in the near future, within the Romanian Environment.

1. Level and structure of financial exclusion

The level of financial exclusion in Romania

One of the leading problems in conducting research related to the level of financial exclusion in Romania is the availability of data at a national level. The only data that are comparable for the whole regions came from Euro Barometer Surveys. Locally available data and information are scarce and not comparable. According to research of the European Economic Institute, in 2010⁸ Romania was the second country from the EU with the highest rate of financial exclusion, more precisely, 73% of the population was affected by financial exclusion. Since then there has been improvement so that in June 2013, 57% of Romania's active population was engaged in the banking system.

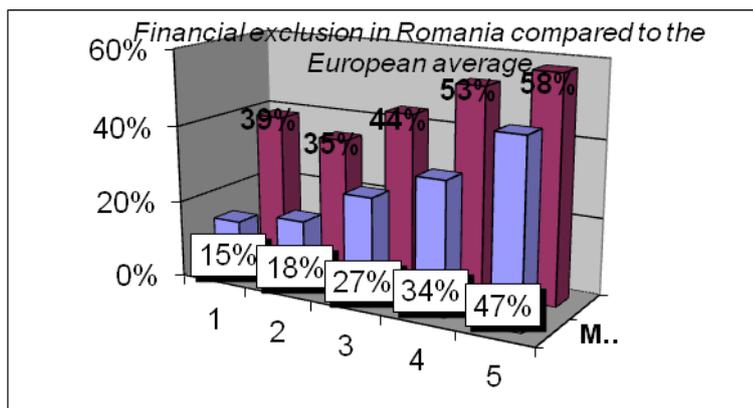
In the Romanian Society, we identified 3 degrees of financial exclusions:

- the **“unbanked” group**: (people with no bank at all) – 39% of the society⁹”
- the **“marginally banked” group**: (people with a deposit account that has no electronic payment facilities or make little or no use of them)”¹⁰. According to several researches carried out by Erste Foundation and Erste Group Bank AG society almost 50% of the adult population of Romania cannot use the full potential of the financial services (receiving regular electronic payment of funds such as wages, pensions or social assistance, storing money safely until it needs to be withdraw, paying for goods and services other than in cash, paying bills electronically, making remittances etc.);
- the **“fully banked” group** (“people with access to a wide range of transaction banking services that are appropriate to their needs and socio-economic status”) – approximatively 11% of Romania's population

⁸ Eurobarometer Survey – 2010.

⁹ European Commission 2008: 60-67

¹⁰ Ibidem.

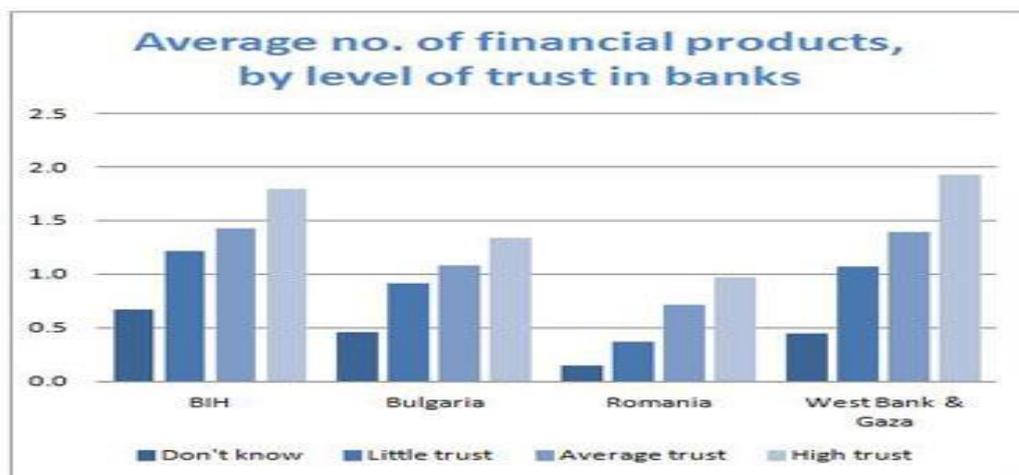


By analyzing the results of the Euro barometer Survey above, we can conclude that in 2010, over 39% of Romania’s population had no bank account, 35% had no debit card, 44% had no credit card, 53% had no consumer credit and an average of 68% of the people living in households were affected by outstanding loans, including mortgages. Two years later, in 2012, the situation ameliorated a bit so that 4 out of 10 Romanians had a card (39% possessing debit cards and 4.5 credit cards).

There are sometimes questions whether we are talking about financial exclusion or an economic problem – do Romanians have difficulties in accessing basic financial products or is there more a lack of need for these financial products because people do not have the necessary financial resources to make use of financial services so, they do not need them. One thing we know for sure is that the high level of lack of savings is due to people’s low level of income in the Romanian Society. It would be more appropriate to talk about financial exclusion when we refer to mortgages which have a very high value in Romania and, in many cases, affects people’s decisions and restrain their options.

Another cause for financial exclusion in Romania is induced by the low trust that Romanians have in the banking institutions. Only 17 Romanians out of 100 trusted banks at the beginning of this year.¹¹ As we can also see in the graph below, the average trust of the population in the banking services in Romania is much lower than in other countries, something that also explains the high level of financial exclusion in our country.

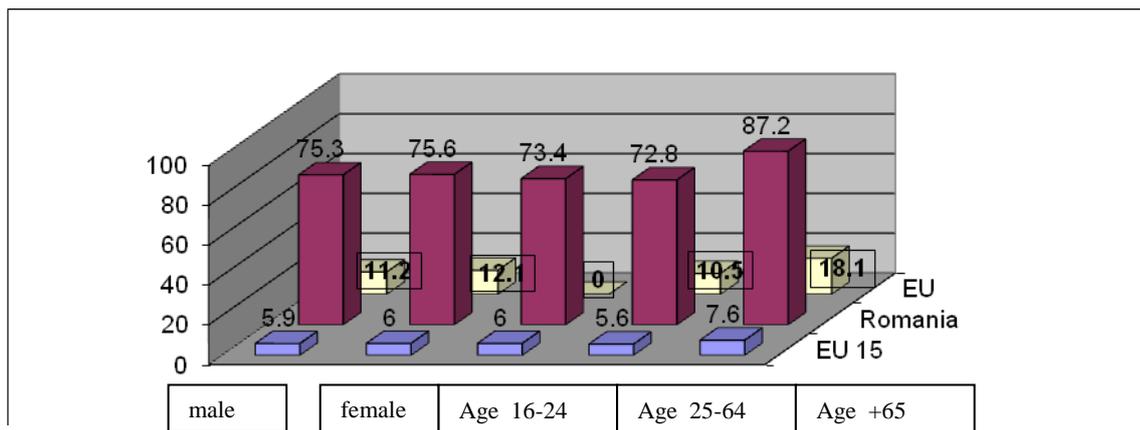
¹¹ Paul, C. *Romanii n-au incredere in banci si partid. Iata institutiile care a crescut spectaculos in sondaje – INSCOP*, in Ziare.com, 7 February 2014.



Over the last years in Romania, several financial institutions have started to provide services and products designed to meet the needs and the possibilities of the unbanked population. The target group was made up of several social disadvantaged groups such as low-income customers (who normally do not have access to banking services), unemployed individuals, single parents who are caring for their children, persons unable to work due to illness or disability, people living in a small communities (in particular in rural areas) and ethnical minorities. One of these institutions is BCR who wanted to offer access to basic banking services to these people.

The structure of financial exclusion in Romania according to: gender, age, education, occupation and place of living.

The level of financial exclusion in Romania highly depends on national particularities, market structure, cultural background, gender, specific age groups and geographic regions. According to the results provided by Euro barometer Survey, even if the overall of financial exclusion in the country exceeds 57%, unlike some other European countries, gender and age factors are not significantly differentiating the population in this respect.



The largest percentage of those able to use financial services is made up of persons between 25 years old and +65 years old (the limit of retirement age in Romania). This is probably the effect of the level of income and professional stabilization of this group. It has been observed that 87.2 % of the population who are past the retirement age do not use overdraft. Although the percentage of bank refusals is the highest among pensioners, this category is also the main one that has never applied for an overdraft. In exchange, if we compare it to the average European situation, we can conclude that the highest percentages for financial exclusion are among the unemployed and students between 16-24 years.

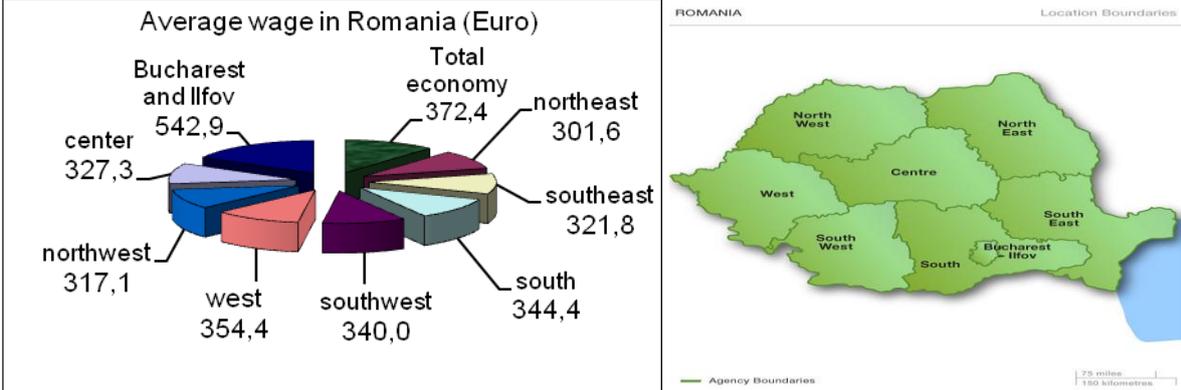
“Even if the national bank institutions offer possibilities of using an Internet account, only somewhat over 3-4% of the population who have Internet access at home, make bank operations via Internet”¹². These are mostly persons in the two youngest age groups, i.e. up to 40 years, having at least secondary education and residing in cities. Bank services are not used very often by most of the persons having a bank account and this is mainly the reason for the high discrepancy between the “non-banked” (39%) population and the financially excluded population. For instance, most often bills are paid at a post office. As a result, even those who have a bank outlet nearby often prefer to pay their bills at a post office or in a store. The percentage of people in Romania who choose freely not to use a particular service is considerably lower than those who are deterred from doing so because they believe the features of the products or services make them inappropriate to their needs or the costs put them beyond their reach.

¹² According to GFK, EMDS-2011, Internet Banking

Customers who prefer micro-lending services are mainly in the rural areas, mainly because of the lack of access to basic financial services, but also because of the limited information about various products and financial services. In terms of destination loans, there is a strong domination of investment loans, which represent 91 % of total loans in Romania. A very special feature for the Romanian environment is that specific micro-credit activities are generally high among female customers (more than 25%) than among male customers.

As far as the role of the geographical areas is concerned, several studies show that in those areas where the financial service providers are too far away from their clients, the use of bank cards tends to decrease. “As the size of a city decreases, it will increase the percentage of persons withdrawing from the account the entire remuneration or other income and of those who will discharge all liabilities and bills in cash. This is connected not only to an easier access to cash desks of service and utility providers (e.g. power, gas, water), but also to the fact that residents of smaller localities obtain on average lower income than in larger localities.”

The south region of the country is one of the most economically developed, an aspect that is related to more favourable socio-economic conditions for salary increases (the general incomes in this region are 1.5 times higher than in other regions). As a result, the highest percentage of the population that uses various financial products and services, on a regular basis is located in this region.



Source: National Statistic Institution of Romania¹³

¹³ Romanian Statistical Yearbook, 2013: 7-23

Forecasting of level and structure of financial exclusion in your country in next years

The financial exclusion situation in Romania requires the national authorities and banking sector to improve the financial standing of the banks and to maintain the trust (or re-build reputation) in the banking sector among the Romanian population in the next years. Over the last two years, several banking institutions and NGOs together with the Romanian Central Bank have developed a series of measures to decrease the degree of financial exclusion at national level. For instance, the implementation of several programs such as delivering pensions, salaries and scholarships on a card; the increase of foundations that develop programs of financial education in schools; and the fact that increasingly more agencies apply (through online payment) fee discounts, all these actions led to an improvement of financial inclusion in the Romanian society.

Considering the considerable number of actions taken not only by the Government (which we will discuss in more detail in the following sections) but also by various national authorities and private companies in the last years with regard to the issue of financial exclusion, and, more importantly paying attention to the effective actions of Romanian people to get involved in the financial sector (as we saw, the statistics show that in the 5 years Romanians was the first country in EU with the most number of persons opening a bank account) we believe that in 10 – 15 years, Romania will be able to arrive at a lower percent of financial exclusion, between 20-25%.

2. Causes and consequences of financial exclusion

Short description of causes of financial exclusion in Romania

In Romania, the factors that help to explain the phenomenon of financial exclusion are very similar to those which speak for social exclusion. The general causes of financial exclusion in Romania include a wide range of factors such as: *national economic instability, lack of financial educational, social factors, technological gap between generations, people's mistrust in the financial institutions, supply and demand factors, geographical area and range of attitudes among the society.* “Bank exclusion in Romania is largely influenced by the *economical growth rate, unemployment rate, unfavourable employment structure (including a high percentage of employment in agriculture), inflation rate and net revenue*”¹⁴. The **national economic instability** created “an important link between levels of banking exclusion and levels of income inequality as measured by Gini coefficients”¹⁵.

Several **labour market changes** from the past years have generated less stable revenues and *income inequalities*, facts which bring difficulties of access to financial services. During the Communist period, market instruments were not commonly used, the banking system was highly centralized and subject to strict control by the state, without introducing the modern financial instruments for individual users such as cards, cheques or debit. After 1980s, there was a rapid growth of inflation, which caused many people to “lose” their money in real terms. Therefore people gave up saving money with banks.

There is a clear correlation between general **financial education** of the population and the incapacity to access and use appropriate financial services. The interest and knowledge in bank services used to increase as the customer graduate education level rises. The **level of integration of certain social group** can influence the financial behaviours of the country and can bring to certain exclusion from bank services. The high levels of youth unemployment and the existence of several disadvantaged social groups (such as families with low incomes,

¹⁴ Popescu, B. 2013: 3

¹⁵ European Commission 2008: 75-78

families receiving social aid, over-indebtedness people, individuals with low skills levels, lack of language knowledge, psychological barriers or several ethnical minorities) are important causes of financial exclusion.

After 2006 the **high interest rates and fees** charged by the banks represented an important cause of the financial exclusion. Several banking policy adopted after 2006 lead to **distrust in financial institutions** on one hand, and on the other hand to accepting the services of **alternative financial services providers**, due to bad experiences from the past concerning **inappropriate national banking policies**. These services are generally obtained by older customers, people with lower income or without a stable situation on the labour market. *The technological gap brought about by demographic changes is also an important factor.* The elderly in Romania, are mostly part of a “cash only” generation who have difficulty in staying up-to-date with the new technologies.

The **Geographical area** is one of the most important *factors* of the high level of financial exclusion, especially if we take into consideration that more than 9.6 million people live in the rural area; this represents 44.9% of the entire population¹⁶. Moreover, the economic disparities between different regions in Romania influence the level of financial exclusion of the population.

Short description of consequences of financial exclusion in Romania for people, local society, country and Europe.

The financial exclusion in Romania can generate both **financial and social consequences** for the citizens. On the one hand, the high level of financial exclusion directly and indirectly affects the way in which the individuals can raise, allocate, and use their financial resources. On the other hand, “*social consequences are affecting individuals’ patterns of consumption, the way they participate to economic activities or access social welfare and the distribution of incomes and wealth*”¹⁷ Financial exclusion in the local society impacts the way in which

¹⁶ICCV (2011). [online].[cited 01.03.2014].

Available from Web: http://www.insse.ro/cms/files/publicatii/Romania_in%20cifre%202011.pdf

¹⁷ European Commission 2008: 79

people behave both in terms of purchase decisions and the way in which they choose to spend their time, as well as their overall quality of life.

As a consequence of economic instability “*people with low income cannot make savings and are therefore not interested in having an account. It has to be added that for a long time banks did not attempt to gain clients with low income, and even discouraged them with high costs*”¹⁸. Moreover, several labour market changes, such as long-term unemployment have lead to loss of the right to benefits and a further lowering of household income.

The lack of counselling programs for promoting a broad understanding of the financial sector, very often leads to a lack of financial transparency in the country and inadequate means regarding the terms and conditions for the target public. The lack of appropriate information regarding payment facilities can make the payment of bills costly – particularly when such accounts are the norm and outlets for paying in cash are closed. Moreover “the lack of financial education seems to be a potential reason for the belief that bank accounts are not for poor people, the concern about costs or the fear of loss of financial control.”¹⁹.

After 2006 several banking polices decided to adopt various measures to relax financial controls by simplifying the loan procedure, reducing interest rates and allowing loans only by using identity cards. This measure somehow led to self financial exclusion, society found it difficult to know beforehand how much it was going to cost to borrow money, and did not expect financial institutions to give them financial advice; later more than 10% of the affected population was not able to pay their loan rates.

In several geographical areas, the lack of a bank account with payment facilities makes payment of bills costly. The fact that people are unable to get credit from banks or other mainstream financial providers leads to the use of middlemen or sub-prime lenders where the charges are higher and the terms and conditions may be worse. Recent studies showed that

¹⁸ ***(2008) *Financial inclusion – Ensuring adequate access to basic financial service*, Brussels:MEMO/08/344

¹⁹ European Commission 2008: 80-81

several Romanian customers had fallen into greater financial difficulties and over-indebtedness as a result of terms and conditions applied to some sub-prime products.

The European Union underlines the importance of accessing and using basic bank accounts and simple transactions in order to grant the integration of people in the current European society. The fact that “Romania has the highest level of financial exclusion in the EU”²⁰ is a widely supported claim since access to banking is important for the economic development of a country.

²⁰ ICCV (2011). Casele de ajutor reciproc oportunitati pentru includerea financiara in Romania [online].[cited 01.03.2014]. Available from Web: <http://www.slideshare.net/ruxandrapalade/casele-de-ajutor-reciproc-oportunitati-pentru-includerea-financiara-in-romania>

3. Government role in preventing financial exclusion

The actions taken by government and local authorities against financial exclusion

In the last 7 years, Romania's Government began to pay more attention to the multiple facades of financial exclusion and intervened, through different actions, both as a facilitator and as a legislator. As a **facilitator**, the Government undertook and financed some research studies which aimed to investigate the level of financial exclusion in our country, the regions and the groups of people most affected by this problem and, most importantly, the causes of financial exclusion – all these in an attempt to understand the problem and to start to fight against it. In 2011, a team of the National Bank of Romania launched a survey on the lack of access to a current bank account among the senior (aged) population of Romania. The objective of this action was to understand the difficulties encountered by the elderly Romanians to access and especially use financial services and products. Some of the local authorities also got involved in the actions against financial exclusion.

The Ministry of Economy together with the Ministry of Work, Family, Social Protection and Aged Persons developed a campaign in 2012 through which they publicly encouraged the banks which develop their activity on the Romanian territory to offer banks accounts to every citizen of this country and to develop informational products and activities designed to educate, from a financial point of view, various groups of population. In addition, Romanian Government, following the example of the United Kingdom, developed some actions in order to stimulate low-cost and low-risk products. The Government initiated a dialog and even negotiations with some stakeholders in areas such as income protection, maximum interest rate and access to credit. Because one important cause of financial exclusion in our country is the reticence and the diminished trust of some groups of the population in the banking sector, the Government developed campaigns in 2012 and 2013 to promote transparency in prices and fee levels, to protect human dignity in the financial area (protection of minimum living standards) and to increase responsibility for lenders. Besides, it also designed a consumer protection representative office in charge for actions dealing with irregularities committed by providers. In order to increase financial inclusion, the Government encourages all the institutions within Romania to pay welfare benefits, salaries and pensions into bank accounts.

Romanian Government is also a direct provider of financial services designed to meet the needs of people who are financially excluded. Since 2010, the Government offers financial support which goes up to 10.000 Euro to young people who want to start their own business. This action is intended to encourage the entrepreneurial spirit among freshmen and young people who are financially excluded because of their lack of financial resources.²¹ Consumer's confidence and understanding of financial products and services are essential for the reduction of financial exclusion. Some local authorities contribute as facilitators for financial inclusion through their programs designed to increase the financial literacy among Romania's citizens. The 3 projects developed by the National Bank of Romania in 2009, 2010 and 2011 and its other activities realized in partnership with the Ministry of National Education aimed to support the financial education in Romania.²²

The national and regional policy against financial exclusion and the law regulations in this area

As **legislator**, the Romanian Government developed a series of legislative actions aimed to promote financial inclusion. Through a direct legislation, the financial services providers are imposed with various obligations which are aimed to ensure the consumer protection, increase the trust in the financial sector (improve the relationship between banks and customers and the protection for investments products), ensure transparency and information about products and costs and ensure the fair competition among providers and to combat the financial exclusion and increase the access and use of appropriate financial services. The direct legislation oriented to eliminate financial exclusion in Romania is primarily concerned with the right to an account, adequate transaction and payment services provision and appropriate lending. In law in Romania requires that every citizen or resident should have access to transaction banking and payment services. **Romanian banking law nr.58 from 1998** defines

²¹ Flavia Nicolae, *10.000 de euro de la Guvern pentru tinerii afaceristi*, in Alba24.ro, february, 4, 2011 - [cited 6.03.2014]. Available from World Wide Web: <http://alba24.ro/10-000-de-euro-de-la-guvern-pentru-tinerii-afaceristi-14662.html>

²² Mirea, F. *Proiectele de educatie financiara ale BNR sau cum face Banca Centrala CSR?* In www.nonguvernamental.org 18 March 2014 , [cited 6.03.2014]. Available from World Wide Web: <http://www.nonguvernamental.org/intersectorial/proiectele-de-educatie-financiara-ale-bnr-sau-cum-face-banca-centrala-csr/>

and regulates the activity of the banks which develop their activity on the Romania's territory. Among other directives, in the present (after several modifications) this law also states every bank in Romania should offer a regular bank account (with no overdraft) to every citizen who asks for a basic transaction bank account. It clearly states that everyone in Romania should have the right to transaction banking and savings account.²³ **Government Emergency Ordinance 50 from 2010** provides for a prepayment fee of up to 1% for loans with a fixed interest rates and prohibits the charge of any prepayment fee for loans with variable interest rate. The number of commissions for credit contracts is limited to four (credit administration fee, penalty fee for delaying the payment of a fee, prepayment fee for fixed interest rate and unique fee for services rendered at the request of consumers). In addition, the lender has the right to collect only a file analysis fee (only if he accepts the lending) and a fee corresponding to the cost of insurance (for situations where insurance is provided). The Act provides for the explicit prohibition of those fees for transactions with cash for credit rate payment and for the obligation to calculate the variable interest rate in a transparent manner. Moreover, the Bank is obliged to submit the credit agreement to the customer with at least 15 days before the signing. The customer has the right, within 14 days of the signing, to give up the credit agreement, unconditionally, without justification and without giving any other reasons. This Act applies to all credit agreements and leases.²⁴

As in other European countries, in Romania too exist positive incentives to promote financial inclusion. These incentives' objective is to encourage the use of banking and bank products by people at risk of exclusion. A fiscal incentive is granted to persons who save and deposit their savings on a special deposit account with the aim to buy their home.

²³ Parlamentul Romaniei, *Legea Bancara nr. 58/1998*, in Monitorul Oficial, Partea I, nr.121, din 23/03/1998

²⁴ *Bancile, obligate sa modifice toate contractele de creditare aflate in derulare*, in *ziare.com*, June 2010 - [cited 6.03.2014]. Available from World Wide Web:<http://www.ziare.com/bani/credit/bancile-obligate-sa-modifice-toate-contractele-de-creditare-aflate-in-derulare-1023528>

4. Institutions and their actions

Institutions, organizations and foundations that act on financial exclusion in Romania

Financial brokerage is a procedure carried out mostly by banks that facilitates the channelling of funds between lenders and borrowers. If an individual needs to borrow money, he or she can try to find another individual that wants to lend it. But this could be very time consuming and one can never know how reliable the lender is. Hence, instead of looking for individuals to borrow a sum, it may result way more efficient to go to a financial intermediary, such as a bank that has the means to borrow that particular amount of money. As banks raise funds from people looking to deposit money, they can eventually afford to lend out to those individuals who need it. The process involves taking money from a person that deposits it – a depositor and then loaning it out to someone that needs it – to a borrower. Financial institutions can give money to borrowers in the form of loans and mortgages because they receive funds from savers. Therefore, banks raise funds from people willing to deposit money, that have a surplus of funds and that want to lend so they can afford to lend out to those individuals who need it and that have a shortage of funds and want to borrow.

In Romania, there are many financial institutions that act as financial brokers. The banks are the most important in this category and the most numerous, but there are also insurance companies, building societies and pension funds that act as financial brokers. As financial brokers, institutions generally offer their services to help both natural persons and legal entities to save or borrow money. They have the means, resources, and procedures to facilitate the different needs of lenders and borrowers.

The financial crisis had a severe impact on Romania and caused financial losses especially in the banking sectors. Many financial institutions and corporations were badly hit and therefore they were forced to change the structure of their assets and liabilities, due to the modification of the behaviour from the corporate and household sector concerning the loans and savings.²⁵ Within a short period of time, the financial institutions altogether with the corporate sector

²⁵ Nistor I.A., Paun : 2012: 7.

and the household sector in Romania moved from a period of financial expansion to a period of financial distress. If before the crisis, Romania attracted large capital flows which financed development, after 2008 these capital flows decreased. For this reason, in 2011, Romania had the lowest rate of financial brokerage in the region with a weight of gross credits of 40% of GDP at the end of the year. The weight of the deposits to the GDP in Romania has also been the lowest among the UE countries, with a percentage of 33.9.²⁶

Specific institutions that act on financial exclusion - short characteristics, scale of activity (national or local), and actions.

At the end of 2009, the total number of credit institutions in Romania was 42, of which 25 Romanian legal entities with foreign private capital, four local private owned 10 branches of foreign banks, one state owned, one owned State and Creditcoop.

Banca Transilvania (Transilvania Bank) was the first bank in Romania that acted against financial exclusion by launching the free current account for every individual in Romania. The bank requires no charges for opening an account and no administration fee. For debit cards, the withdrawal fee from the bank's ATM is zero and there is no fee for card issuing and card management. The only condition imposed by the bank to the possessor for keeping the current account is for the latter to effectuate at least one transaction in six months, regardless of the amount traded.²⁷ **Banca Transilvania (BT)** was founded in 1993 in Cluj-Napoca. Currently, BT ranks third among Romanian banks in terms of assets with a market share of over 8%. Banca Transilvania is one of the financial institutions which did not experienced losses during the crisis. As in comparison to the previous year, in 2013 it registered increasing financial results. It was also the first bank in Romania which launched on its site, a special section called the Social Media Newsroom.

As we have already mentioned, one principal cause of financial exclusion in Romania is the financial illiteracy among citizens. In order to diminish this issue, some institutions developed several CSR programs through which they aim to educate Romania's population in this

²⁶ Panduru, G. *Fitch: Romania has the lowest rate of financial intermediation in the region*, 2 June 2011, in HotNews.ro.

²⁷ Popescu B.B., Totan S.L., *Econometric Modeling of Banking Exclusion*, in Romanian Statistical Review, 3/2013.

matter. In the last 5 years, **Romanian Commercial Bank (BCR)** implemented many programs designed to help various groups of people (children, adolescents, students, the large public) to understand more about finances and their management. We will analyse the BCR's major campaigns in the last section of our study.

National Bank of Romania (BNR) is another institution sustained the economic and financial education through projects addressed especially to young Romanians. Among BNR's educational campaigns it counts the projects “**Să vorbim despre bani și bănci**” (Let's talk about money and banks) and “**Academica**” which intended, as principal objective, to facilitate the dialog between young people and the principal institutions involved in the financial sector and to help the public to understand more aspects from the financial and economical domain.²⁸

CEC Bank Romania is another institution that contributed, through its projects, to the decrease of financial exclusion in the Romanian Environment. CEC Bank developed a crediting product, the non-reimbursable credit line (named the APiA Credit - Rural Development AXIS II PNDR), for unemployed persons living in the rural environment, in order to sustain the agricultural sector. The clients benefit of financing under advantageous conditions and of free consulting about the preparation of the documentation for accessing the loan. This type of product is designed for citizens living in affected geographical or difficult to access areas (such as the villages from the mountain), for farmers living in rural environment, and for individuals/legal entities or groups who develop agricultural activities on Romania's territory. The credit is granted irrespective of the legal standing of the land (property/concession/lease). The loans are granted in LEI, and the value of the credit may reach up to 80% of the value of the amount calculated according to the certificate issued by APiA.²⁹

²⁸ Moldovan, H. *Proiectele de educatie financiara ale BNR sau cum face Banca Centrala (C)SR?* – in Nonguvernamental.org, March 18th 2014, [cited 6.03.2014]. Available from World Wide Web: <http://www.nonguvernamental.org/intersectorial/proiectele-de-educatie-financiara-ale-bnr-sau-cum-face-banca-centrala-csr/>

²⁹ Petre I. *CEC Bank launches the APiA Credit – Rural Development AXIS II PNDR*, 21.12.2012, CEC Bank.

CEC launched a public information campaign for a period of 5 months in order to inform the targeted public from the rural areas about the funding opportunities offered by the National Rural Development Program. The campaign was intended to be a national action that has a different approach, mostly focused on practical aspects such as interactions with the public, meetings with small groups of villagers, “a round table” discussion in which these inhabitants will be given the chance to expose their ideas regarding the projects and will receive direct guidance. Through workshops, the public target will be taught how to obtain grants. At the beginning of March 2014, a series of conferences will be organized in every county. The aim of the meetings will be to put in connection people that can benefit from grants from European Funds and the institutions that can facilitate the procuring of those grants. Other activities of this campaign are represented by thematic seminars on how to avoid errors in accessing European Funds and thematic fairs.³⁰

³⁰ NRDP “European Funds for Rural Environment” Public Information Campaign starts with 2nd February, press release, CEC Bank.

5. Other activities against financial exclusion

Although a small number of associations operate on financial exclusion at a regional level, there are two important non-governmental associations (**ANPCPPS – Asociația Națională pentru Protecția Consumatorilor și Promovarea Programelor și Strategiilor din România** and **APC-Romania**) that are active nationwide. On March 15, 2013, at the World Consumer Rights Day in Bucharest, **ANPCPPS Romania - Infocons** Launches National Campaign to educate and inform consumers of financial - banking, under the national campaign "o9atitudine."

World Consumer Rights Day is celebrated on March 15th since 1962 when U.S. President John Fitzgerald Kennedy delivered his speech that led to the Charter of Consumer Rights. The Charter was built around essential principles such as the right to be informed, the right to be heard, the right to choose or the right to safety. Following these directions, the National Campaign aims to educate and inform consumers of finance and banking and is mostly focused on modelling the mentality of Romanian citizen as to transform them from passive citizen to active citizen.

By launching this campaign **Infocons** aims to help raise consumer information and education in Romania on financial services - banking, as well as changing the mentality and attitude of consumers in relation to their rights and obligations in this area. In this sense, the campaign focuses on the development of consumer advice centres, where both association members and external partners with expertise in banking and financial services, consumer and alternative dispute settlement will provide specific information and will provide the assistance necessary for a better understanding of the banking sector. With partial funding from the EC, ANPC has also established the European Consumer Centre and the Consulting Centre to provide advice to customers. The campaign aimed at encouraging civic behaviour and a proactive consumption, and helping people to become aware of the opportunities and risks in this area. Another objective is also to harmonize relations between consumers and financial banking institutions to resolve possible conflicts. With regard to the problems existing in the past, this

activity not only aimed at regaining the trust of the Romanian citizen but also at determining financial institutions to place their clients where they deserve.

This campaign whose objective was to educate and inform consumers from the financial - banking sector, lasted for 12 months and aimed at increasing consumer awareness, and the quality of the services offered by their counselling centres.

Recently, other institutions (apart from Banks and financial associations) started to contribute as well to financial inclusion. A Romanian supermarket chain, **PROFI**, developed a day to day practice in which its employees help people who don't know to use the ATM for bill payment to pay their bills. Aged people are the principal category which uses this free service and, by their testimonials, this program is very helpful.

Last but not least, another institution that acts against financial exclusion in Romania is **The Romanian Banking Association (ARB)**. In 2012, The Romanian Banking Association developed a series of campaigns as to make consumers more accountable and to help learn more about how to manage personal finances, in order to avoid risks and possible financial exclusions. The campaigns were designed to teach people about card operations, savings, landings, savings and deposit guaranteeing, how to manage their budgets, mediation, payment methods, collateral and collateral enforcement, bank fees, influence of the exchange rate, loan margin, annual effective interest rate, variable interest rate loans, loans and the borrowers' responsibilities, credit risks etc. Moreover, at the beginning of 2000, **The Romanian Banking Association (ARB)** attempted to create a sort of "CNP" bank to be used for recording national bank accounts, but without success. This action was taken with the aim to monitor the number of bank accounts existing in Romania. Unfortunately, the program was not successful and even at this moment there are difficulties in knowing the precise number of bank accounts existing in Romania. **The Romanian Banking Association (ARB)** was established in the year 1991 as a professional association with the objective of representing and defending its own members, to promote cooperation amongst banks – including branches of foreign banks operating in Romania, to train experts in the banking system and prepare specialization programs for the banking staff. Starting from 14 commercial banks as members, now the Association has 39 members. The Romanian Banking Association also

works on rebuilding the customers' trust in the banking sector by trying to implement initiatives and actively contributes to improving the level of consumers' financial and banking education.

Actual cases of financial exclusion in Romania

In spite of the different acts led by some institutions, organizations or foundations, financial exclusion still exists in Romania. Discrimination may result when financial institutions choose their clients according to criteria such as age, sex or marital status. While in other countries the decision of granting or not granting a credit to a client based on such criteria may result unacceptable, in Romania there are no laws that oblige the banks to grant loans based only on the financial status of the client.

Public figure and member of the Senate Urban Iulian has been posting a series of articles on financial discrimination on his personal website, as to inform people on their rights and to determine them to take action against discriminatory actions in the financial field. The senator states that many of his acquaintances have been complaining about facts that almost all financial institutions choose to keep hidden and that are not granted too much importance in the media. According to Urban Iulian, when applying for a mortgage loan, age discrimination cases are caused by the policy of the banks to grant this kind of credit only to young people who are not necessarily financially suitable, but that are, medically speaking, capable of repaying the loan. The senator also highlights the fact that, according to their internal policies, different banks choose different age limits for applying for such a credit and that they use demographic statistics (according to which life expectancy for Romanians is 62 years on average) as an excuse for their discriminatory measures.³¹

Besides situations of financial discrimination based on age limit, there have been registered other several cases in Romania when people with AIDS or disabled people were refused access to credits and insurances.

³¹ Bancile discrimineaza persoanele de peste 40 ani , cand vine vorba de obtinerea unui credit ipotecar [online]. [cited 05/14/2008]. Available from Web: <http://www.urbaniulian.ro/2008/05/14/bancile-discrimineaza-persoanele-de-peste-40-ani-cand-vine-vorba-de-obtinerea-unui-credit-ipotecar/>.

“I went to the bank and I discussed the conditions to access a credit with one of the bank’s employee. He explained the conditions and then, I told him that I would also want to get a life insurance. I told him that a year ago I was hospitalized because of pneumonia and a month later I left the hospital - my medical tests said that I was infected with AIDS. The only explanation I could give was that I took AIDS from the hospital. I immediately noticed the change in the employee’s behaviour when I pronounced the word AIDS. Embarrassed, he told me that, unfortunately, the insurance company did not include insurance policies for such a case. When I asked him for an explanation, he just told me that this was the company policy and implicitly, that of the bank. For a moment I simply couldn’t believe my ears. I took my things and I left speechlessly. I decided then to contact a lawyer and try to do something not only for me but for all those people who are in the same situation.”

(Petru Emil, 34, Bucharest)

6. Characteristic of BCR – The Romanian Commercial Bank



www.bcr.ro

Who is BCR?

The most important financial group in Romania, BCR is Romania's number 1 bank in terms of assets (over €16 billion), client base, savings and crediting. Being one of Erste Group's members, the Romanian Commercial bank occupies the first position in providing universal banking operations (retail, corporate & investment banking, treasury and capital markets) and in covering specialty companies working on the leasing market, asset management, private pensions, housing banks and mobile banking. In addition, BCR is Romania's most important financial brand, judging by the client trust rate and by the number of persons who consider that BCR is their main banking partner.³²

*BCR uses a network of **48 corporate business centres** to serve corporate clients and **667 retails units** dedicated to natural persons. All of them are located in most of the communities inhabited by at least 10,000 citizens and provide a full range of financial products and services. **BCR is Romania's No. 1 bank running on the card and banking transactions market**, since BCR customers have the largest ATM network at their disposal – over **2,200 ATMs** and **18,000 POS** terminals enabling customers to use their cards for shopping purposes, as well as the complete **Internet banking, phone-banking and e-commerce services**.³³*

³² BCR official website – www.bcr.ro

³³ Idem.

Historical background

The Romanian Commercial Bank was established in 1990, by taking over the commercial operation of the National Bank of Romania. Four years later, BCR became the first acquirer in Romania and the main member of EUROPAY. BCR issued the first debit cards in Romania in 1995 and made the first transaction at an ATM in Romania. After launching the first treasury loan for individuals in 2000, BCR became the first bank in the Romanian environment to trade securities on the secondary market. In 2003, the European Bank for Reconstruction and Development (EBRD) and International Finance Corporation (IFC) bought BCR's block of shares and thus, BCR became a private bank. One year after launching the first mortgage loan on the Romanian banking market, BCR started to provide mortgage loans to retail and corporate customers.

In 2004 started to install, for the first time in Romania, Currency Exchange Machines (CEM) and one year later it enabled the use of CHIP cards (smart-card) in its ATM and POS network. Social Responsibility started to be a priority for BCR in 2006 when the Bank launched an internship program addressed to students – STUDENT BCR – that aimed to prepare them for a future career in the financial domain. In the same year, BCR launched a national network of specialized offices – EU Office BCR dedicated exclusively to European Funds. Throughout the years, BCR developed several financial products and services with aiming to cover a broad area of needs within the Romanian society.

Organizational Structure

From an organizational point of view, BCR contains two levels: a central level and a territorial level.

At the **central level**, the bank is organized into seven basic business lines. One is subordinated directly to the Chief Executive Officer and the other six cover the following areas: retail & private banking, corporate banking, finance & risk management, treasury & capital markets and operations.

At the **territorial level**, retail and corporate services are organized into eight regions. Each retail region is coordinated by a Retail Regional Director who is subordinated to Private Banking and Retail Vice-President. The corporate divisions are coordinated by corporate regional directors who are subordinated to the Executive Officer of Public Sector and Small and Medium Enterprises Direction.

The functional entities of the Principal Center assure the legal organizational framework for the execution of bank's services. Functional entities and territorial units are responsible for the implementation of the relevant legislation, of national regulations and of BCR's internal rules. Today, BCR has around 8500 employees.

BCR's activity against financial exclusion³⁴

For the Romanian Commercial Bank, long term investments in domains that directly contribute to a healthy development of the community play a highly important role. For this reason, through its CSR policy, the bank develops a wide number of community projects along three directions: education, entrepreneurship and social solidarity.

One of the main activities conducted by BCR against financial exclusion is financial education. A major objective of BCR is to help children and young people to understand the principles of a good management of their financial resources and thus, to contribute to a higher financial literacy among the future adult citizens of the Romanian society. Until present, BCR developed a series of programs and campaigns in this direction.

The main project developed in the educational area is "**Finantele mele**" (My financial resources), a 3 year program of financial education for high school pupils developed in association with Junior Achievement Romania. The program was designed to teach young people how to manage their resources, which are the principles of money saving and investment, how to open a bank account, which are the main advantages and disadvantages of

³⁴ BCR Report on Corporate Social Responsibility, 2012, [cited 4.03.2014]. Available from World Wide Web:<http://www.bcr.ro/csrro/Proiecte/educatie>.

a loan; the types and costs of a loan and also how to become a professional in the financial sector. Another objective of the program was to help BCR's employees to get involved in volunteering activities. Thus, the programs trainers were BCR's employees. They helped the young people involved in the project to acquire various skills such as analytical thinking with regard to their future decisions in the context of a global economy. Since its beginnings, this program developed in a harmonious manner and in 2009, BCR concluded a partnership with the National Romanian Television to diffuse 14 episodes "Finantele mele" on the national TV channel in order to educate the general public as well.

"Banca Copiilor Responsabili" (The bank of responsible children) and **"START! Business"** were two other projects developed by BCR to the benefit of the community, which aimed at improving Romania's population financial literacy and contributing to a financial inclusion in the long run.

The first project, implemented in 2010, was designed to help children to efficiently manage their future economies. One of the participants in the project is 13 years old **Ana**. Her testimonial illustrates the great opportunity BCR has offered her: *"The money I used for my deposit helped me fulfil many of my dreams and desires. In this way I could help my grandparents who are very ill. I am very thankful for taking part in this training program."*¹⁴ 14 years old **Cătălin** states: *"The bank of responsible children helped me to better manage my resources and to save money. For example, I could buy all the necessary for camp by using the money that I have been saving. I, for one, think that the initiatives of this bank are good ideas for all the children in Romania"*.³⁵ The second one is a project of entrepreneurial education for the young public in which BCR employees counsel young people (in general students who want to learn from practicing) how to start and manage their own business.

Besides educational programs, BCR also developed several cause marketing campaigns integrated in the bank's CSR (corporate social responsibility) program in order to contribute to the fight against financial exclusion. One of them was the campaign **"Școala de bani"** (School of Money), in which an online platform was built to promote the bank's financial products and services and to inform the general public about the principles of a healthy budget

³⁵ Idem

management. The platform combined lessons of theory with practical exercises in a very creative and interactive manner.

In 2010, after a constructive dialogue with the representatives of various Romanian NGOs, BCR developed the “**Pachetul Comunitate**” (Community Package), a product addressed exclusively to NGOs and religious associations. This package offers sales up to 100% for some bank commissions. This was a unique offer on Romanian banking market appreciated for its complexity and the number of the persons targeted: over 20.000 associations and foundations. At the end of the third semester of 2010, there were 1.350 of Active Community Packages.

Conclusions

Romania will be challenged to fight against financial exclusion for some decades more. In our opinion, in order to improve the level of financial inclusion in Romania, national authorities and the banking sector will have to create a larger variety of products and services that can meet the demands and possibilities of all the sectors of Romanian society. Besides, there is an increasing need to adjust the education and vocational training system so that the latter could meet the requirements of working and living in a knowledge-based society. Additionally, it would be of tremendous help if these authorities develop various activities to support social integration and to avoid the creation of permanently excluded groups. The modernization of the socio-financial protection system, including retirement systems and health care, is also a necessity which will provide financial stability and will also lead to a proper coordination between the educational and employment sectors, especially in the rural areas. A more informed society will certainly lead to a lower percent of financial exclusion among its groups; therefore we consider that the national authorities and banks should continue to implement programs of financial education in order to help Romanians to understand how to best manage their finances and economies.

In the last decade, a subject that has introduced within the European agenda and the public debate was related to the approach of financial inclusion through **microfinance**. Microfinance means “*offering financially excluded people (on low incomes) and micro entrepreneurs basic financial services, like credit, savings and insurance*”.³⁶ These services give people an opportunity to protect their families against financial risks and invest in new or existing economic initiatives. Such services are provided by specialized institutions that can be classified as banks (cooperative, commercial, microfinance or savings banks) and non-banks (financial cooperatives, non-profit companies and NGOs). The reason for which we chose to mention this aspect at this very point is because we consider that microfinance is a very good tool for increasing employment and moving people out of poverty and, implicitly, in fighting against social and financial exclusion. Therefore, we consider that a favourable EU policy

³⁶ *From Exclusion to Inclusion through Microfinance* (2006), a project made by Microfinance Center, European Microfinance Network and Community Development Finance Association with the financial support of the European Commission within the framework of the Community Action Programme to Combat Social Exclusion 2002-2006.

environment in this area will have a significant impact across the whole of Europe. In addition, a sustained effort to improve co-operation between the EU member countries, NGOs and private corporations will be very important in the effort to tackle social and financial exclusion. When it comes to individual entities (more exactly banks) we would recommend them to develop a range of services and products to support a wide category of groups and to create a culture of innovation which will be able to respond to the changing needs of the market. For the networks of banks and companies, we would suggest them to promote the creation of a favourable microfinance environment at EU and member state levels, to develop partnerships with EU member states, NGOs and private corporations which can strengthen work towards the shared goals of social and financial inclusion and to promote and develop the understanding of microfinance among stakeholders and a more general audience.

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