

The Role of Postal Networks in Expanding Access to Financial Services

Country Case: Romania's Postal Finance Services

**The World Bank Group
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Author's Note

This paper discusses the Romania case study of the role of the postal network in expanding access to financial services. The paper provides a review of the public postal operator within the postal sector and the broader context of the Communications sector. Subsequently, the roles of the postal network and the Romanian BancPost are reviewed in the perspective of the financial sector development, with particular focus on payments systems development and microfinance.

This paper has been prepared through desk research in 2004. Field visits were not scheduled, but nevertheless we were in the fortunate position to have been able to draw from previous missions to and work with Posta Romana and BancPost.

We found much recent data available on the payments system (from the ECB Bluebook), and an overview of the postal operator in reports prepared for the EU and several other sources, including annual reports of the BancPost and ING reports from previous missions.

We believe that the paper comprehensively presents the issues that Romania faces in addressing the remaining gaps in communications and financial infrastructure and the role that the postal network could fulfill helping to bridge those gaps.

While this country case on Romania can stand alone, it is an integral part of this large study of the potential of postal networks to coordinate with financial service providers in 7 countries (*Egypt, Kazakhstan, Namibia, Romania, Sri Lanka, Uganda, and Vietnam*) and 5 regions (*Africa, Asia, Eastern Europe and Central Asia, Latin America and the Caribbean, and the Middle East and Northern Africa*).

Glossary of Abbreviations and Acronyms

<i>acquis communautaire</i>	total body of European Union law accumulated so far
BCR	Commercial Bank of Romania
BRD-GSG	Romanian Bank for Development–Groupe Société Générale
CEC	State Savings House
CU	credit union
EBRD	European Bank for Reconstruction and Development
EU	European Union
EUR	euro
GDP	gross domestic product
GE Capital	General Electric Capital
GSM	global system for mobile communications
ICT	information and communications technology
IFC	International Finance Corporation
MCIT	Ministry of Communications and Information Technology
NBR	National Bank of Romania
POS	point of sale
PTT	post-telecommunications-telephone
PTTR	post-telecommunications-telephone-radio
ROL	Romanian leu, lei
SME	small and medium enterprise
SWOT	strengths, weaknesses, opportunities, and threats matrix
USD	US dollar

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Summary

SWOT Analysis of Romania Postal Financial Services

Strengths	Opportunities
<ul style="list-style-type: none"> ▪ Has a reliable but unsophisticated reputation in financial services delivery, while banking sector underwent serious crises in past years ▪ Nearly 80% of the nation's network of outlets for financial services with 7,135 post offices ▪ Had more than 100 million payments transactions per year ▪ Offers postal money order and cash payments at post offices, which are the most important payments instruments for individuals ▪ Co-operates with major retail and savings banks in the country (BancPost and CEC, the State Savings Bank) ▪ Derives substantial part of total counter revenues from financial services (estimated at > 65% as part of total revenues) ▪ Making progress via ongoing efforts in automation, but relatively slow ▪ Monitors staff performance (by a number of criteria) ▪ Has norms and standards to calculate workload and set operational organization 	<ul style="list-style-type: none"> ▪ Market for modern cashless payments products and other financial services has only recently begun to gain momentum. The mass market—the typical clients of Romanian Post—is not yet served by banking institutions. ▪ Privatization and liberalization in the banking sector has brought a broader diversity of potential partners that might enable Romanian Post to provide a much broader range of financial services through the post offices, as well as attain increased efficiency, prompt more investment in post office counters, share costs, improve risk control, and eventually create a stable source of revenues. ▪ In the context of the intended liberalization of the postal sector, an overall transformation of the post office (counter) network will become feasible and necessary in the medium term, as the economic rationale and legal obligation to maintain such network from a postal perspective will fade.
Weaknesses	Threats
<ul style="list-style-type: none"> ▪ Although postal financial services form a large part of the operation of Romanian Post, there is no business unit and specific accountability to operate and control the financial services on a nation-wide scale. ▪ Although the vast majority of Romanians use postal financial services, Romanian Post cannot identify its clients or record their behavior (in a database) in order to market new services. ▪ Products and processes for financial services are not or are only partially computerized (only 450 post offices have on-line service). This results in high operational costs, and targeted quality levels and security are difficult to ensure. ▪ Management has been rather unstable; nominations for executive posts are subject to political influence. ▪ Organization has an internal focus on operations and processes, rather than a market and customer orientation ▪ Potential of co-operation with BancPost is vastly under-utilized ▪ It has made several unsuccessful attempts to obtain a banking license, and aborted an initiative to set up its own giro system. 	<ul style="list-style-type: none"> ▪ Its narrow and antiquated range of cash-based, paper-based services is not competitive with modern account-based, card-based products. ▪ Use of modern card-based and Internet payments applications is growing rapidly. ▪ Revenues from financial services at post offices may fall as result of increased use of other payment instruments. ▪ Post office network is by far too large and too costly to be modernized and maintained by Romanian Post. ▪ Murky privatization process may result in sub-optimum focus and/or postponement of investments, as well as hesitation by private sector parties to co-operate with Romanian Post. ▪ Partnerships with BancPost and other institutions are based on short term, narrow contracts only, rather than from competitive bidding. Termination by one of the parties could result in sharp loss of revenues, clients, and image.

1—Postal Sector Development

Romanian state postal services date back more than 2,500 years, initially established for public transport and official correspondence between Rome and the new province. Postal services functioned throughout the Middle Ages to transmit landlords' orders throughout the territory. By the second half of the 18th century, it was decreed that all postal couriers' expenses should be borne by the state, including postal inns used by couriers, travelers, and clerks, and that the public be allowed to travel by postal transport for a fee.

Until the 1848 revolution, the postal services were commissioned to private individuals, usually for a period of three years. After 1850, in county towns, the postal stations were transformed into postal offices, and a mail service for individuals was established under the supervision of the Ministry of Finance. By 1864, a state monopoly over postal activities had been instated and postal and telegraph services (and later telephone) were combined as the PTT (post, telegraph, and telephone). Postal money order service was expanded to include telegraph money orders and money collection services. In 1925, the PTT administration extended its control over the new communication sector of radio-telegraphy, and became the PTTR.

In 1938, a law was passed separating PTTR's management, operations, and control; and finance, accounting, and human resources were centralized. After World War II, a more decentralized, or regional, administrative organization was introduced, and the state monopoly over telecommunications and the post was reconfirmed.

In 1991 the Romanian post was split off from Romtelecom (telecommunications and other entities such as Rompet, radio, and television) as Posta Romana an autonomous national company, as opposed to a "commercial company." (Its formal name is Compania Nationala Posta Romana S.A.) This entity later founded BancPost as a commercial banking subsidiary. Major changes during this period were the creation of a post vehicle fleet (to be able to operate more flexibly, more economically, and more reliably); installation of a new corporate and regional organization (based on postal market needs and cost-effective operations) to avoid greater bureaucracy; development of an information technology system to improve quality and reliability of operations; and promotion of an active international policy of co-operation and harmonization, ultimately to build strategic alliances. Between 1998 and 2002, several more changes in management and corporate governance were made to further the transition from a state utility service to a commercially managed company. The dense Romanian postal network is the country's widest network.

Legal Status and Subsidiaries

In 1998 Posta Romana was converted from a state enterprise into a joint stock company fully owned by the state to provide more opportunities for commercialization. Although organized as a joint stock company, some specific rules apply to this "national company" that are different from commercial company law and are set out by government decision. The Ministry of Communications and Information Technology (MCIT) manages the ownership rights, including appointing the managing director and setting overall financial and operational targets for Posta Romana. Posta Romana does not receive any financial support or subsidies from the government, and there is no value-added tax exemption for postal services in Romania.

Posta Romana became one of the founding members of PostEurop¹ in 1993. Almost a decade later in 2002, Romania harmonized its national legislation on postal services with the *acquis communautaire*² via Government Ordinance No.31/2002 (the basic postal law on postal services in Romania), which was approved, with amendments and completions, by Law No. 591/2002 and Law No. 642/2002. There is one implementing regulation issued by the national postal regulator (ANRC President's Decision No. 118/2003) on the procedure to authorize postal services providers. The Ministry of Communications and Information Technology mentioned above is responsible for postal affairs.

¹ Posteurop is the association of European public postal operators. See www.posteurop.org

² The term *acquis* (or *acquis communautaire*) is used in European Union law to refer to the total body of EU law accumulated so far (en.wikipedia.org/wiki/Acquis).

The National Regulatory Authority for Communications (ANRC) regulates both the telecommunications and postal sector. It became operative and was vested with responsibility for the postal sector by the postal law in 2002, and operates autonomously and independently from the post and the MCIT. This national postal regulator, which appears to be remarkably powerful in comparison to others, describes its general fields of responsibility (including those outside the postal sector) as follows:

“The main objectives that guide the activity of ANRC are to promote competition in all sectors of the electronic communications and postal services markets, to ensure the conditions for the Romanian citizens to exercise their right of access to the universal service, to protect the rights and interests of the users, to encourage efficient investments in infrastructure, to promote innovation in the electronic communications and postal services sectors, and to promote media convergence and technological neutrality.”

The national postal regulator implements general postal policy and is responsible for all major regulatory tasks, in particular, the definition of universal service requirements including access conditions and approval of geographical exceptions to universal service; the implementation and administration of licenses; tariff regulation; supervision of accounting separation and determination of accounting principles and cost allocation rules; and the establishment of quality of service targets as well as the monitoring of Posta Romana’s related performance. Furthermore, it is the national postal regulator’s decision to establish a reserved area if considered necessary. In doing so, the national postal regulator may not exceed the maximum limits prescribed by law but may set out a monopoly of a smaller extent.

According to the 2002 postal law, the reserved area may be changed—and is intended to be changed—by secondary legislation, thus allowing harmonization with the 2002 postal directive without legislative initiative. As pointed out by the national postal regulator, the government has thereby expressed its willingness to progress toward a gradual and controlled liberalization in the sector. According to the national postal regulator, a general strategy paper on postal policy is reportedly in an advanced state of development.

Posta Romana has been able to transform its operations without state intervention since 1998. The postal market has been de facto deregulated. There are more than 50 private operators, mainly in the courier, express and parcel segments, and Posta Romana holds no statutory monopoly. The postal market and Posta Romana, as universal service provider, comply with nearly all requirements from the European Commission for postal market deregulation.

Access to Posta Romana and Postal Services

The universal postal service provider in Romania is Posta Romana, with a total workforce of 34,097 (32,523 are full time). In tourist areas on the Black Sea, seasonal employees are hired during the summer. (Posta Romana has internally established a target of five minutes for maximum queuing time in post offices.)

Posta Romana provides a high level of access to postal services. It operates 7,135 postal outlets that are all run by directly employed staff, and 37,645 letter boxes. (Posta Romana does not have any postal agencies.) There are 3 post offices and 16.8 letter boxes per 10,000 inhabitants (28.3 outlets per 1,000 square kilometers),³ comparable to the averages of the historic EU countries. Also compared to other Central and Eastern European countries, the Romanian access network is remarkably dense.

In 2002, the total revenues of Posta Romana were EUR 145 million. Annual revenue growth between 1998 and 2002 was 9.3 percent.

The total market for domestic and outbound postal services in Romania is grossly estimated to be about EUR 47.5 million. The letter post segment is approximately EUR 20 million, less than half of the total postal market. This may be explained by the relatively poor development of the letter segment, as well as by the comparably highly developed competitive express segment.

³ Source: WIK-Consult postal study for EC accession countries, www.europa.eu.int/comm/internal_market/post/studies_en.htm

Estimated Romanian Postal Market (2002)

	Posta Romana Revenues, 2002 (in EUR 000)	Posta Romana Volume, 2002 (in 000 pieces)	Estimated Posta Romana Share	Market Revenue, 2002 (in EUR 000)	Market Volume, 2002 (in 000 pieces)
Letter, domestic	n/a	250,589	85%	n/a	294,810
Letter, international	n/a	12,700	95%	n/a	13,368
Total letter post	18,108	263,289	90%	20,120	308,179
Parcels, domestic	2,872	5,048	75%	3,829	6,730
Parcels, international	1,154	92	75%	1,539	123
Total parcels	4,026	5,140	-	5,368	6,853
Express, domestic	10,768	18,852	60%	17,946	31,421
Express, international	768	31	20%	3,838	154
Total express	11,535	18,883	-	21,784	31,574
Unaddressed mail, domestic	129	4,794	60%	215	7,990
Total, all	33,798	292,106	-	47,487	354,596

Source: WIK-Consult postal study for EC accession countries, www.europa.eu.int/comm/internal_market/post/studies_en.htm

As of 2003, 88 companies had been registered with the national postal regulator as postal service providers, indicating that competition may be emerging at least in the letter segment (part of this segment may be reserved by the national postal regulator). Posta Romana and the national postal regulator reported intense competition in the liberalized direct mail segment, and estimated Posta Romana's market share to be approximately 60 percent. In the parcel segment, substantial competition was reported, while Posta Romana continues to dominate the market; its market share was estimated to slightly more than 70 percent. As in most countries, Posta Romana does not participate much in international express, which is dominated by international courier companies. However, and unlike many other public postal operators, the Romanian post was unanimously reported to be quite successful in domestic express mail, and was estimated to serve more than half this segment.

Service Portfolio

Romania Post has made significant efforts to introduce new services and currently provides a wide range of different services, including insurance and registration for universal service items. It offers a full portfolio of non-universal postal services. Several domestic express products (Prioripost, Ultrapost) guarantee national delivery from 6 to 36 hours, depending on the destination and the product type. Apart from express mail service, international express services are provided in co-operation with TNT (SkyPak). For direct mail, Posta Romana offers customized solutions, including printing, inserting into envelopes, customer reply items, and address labeling (if mailers select a target group from Posta Romana's address database). Moreover, Posta Romana offers a hybrid mail product to business customers and residential clients in post offices. Posta Romana also has a guaranteed day (and hour) delivery for documents and goods.

Posta Romana provides several financial services in addition to traditional postal money orders, such as international money transfers through Western Union, online money orders, payment and bill collection services (taxes, utility bills, and TV subscriptions, etc.), and payment of social benefits. In this area, Posta Romana co-operates with BancPost, which extends other banking services at the post offices such as savings, deposits, checks, and applications for advanced financial services.

Various consumer goods are also sold in post offices, such as books, cosmetics, stationery, maps, lottery tickets, mobile and fixed phone cards, mobile phones, envelopes, leaflets, video tapes, non-alcoholic beverages, etc.

Postal Logistics Infrastructure and Automation

Romania Post appears to have introduced technology and automation into many of its operations. The company operates 9 main sorting centers, 113 local sorting centers, and has 6 sorting machines (2 for letters and 4 for parcels). In comparison to other countries, the total number of sorting centers appears rather high—particularly with respect to the low volumes processed by Posta Romana. Twenty-seven percent of all post offices are equipped with computers. Depending on the type of vehicle, the average age of Posta Romana's fleet varies between 4 and 10 years.

Postal Market Development Discussed by Segment

Posta Romana's position in the letter post market is dominant. In the courier, express mail, and parcel markets, however, it is less significant with an estimated 20 percent—this market is dominated by foreign and local private players. Revenues from retail financial agency services are the main source of income for Posta Romana, and only 19 percent stems from letter post services. The revenues from postal money orders are about 7 percent and with the revenues from remittances (Western Union) and BancPost (the financial service component) come to 70 percent of the total. The rapid growth in the financial service business line has enabled Posta Romana to develop its own strategy and to self-finance improvements in the mail sorting operations and counters of the postal network.

Letter Mail

In general, the universal services market in Romania appears to be progressing fairly well. Domestic letter post volume grew by 11 percent from 1998 to 2002, while international letter post grew more slowly. The number of domestic letters per capita was about 11 in 2002, about 5 percent of the average of the historic EU countries. The number of letters per EUR 1000 in gross domestic product (GDP) was less than 6, compared to an average of 10 in the EU. These figures suggest that the Romanian letter market not only appears to be under-developed, but is also comparably less developed than expected, given the country's general economic potential.⁴ In 2002 only about 5 percent of all letters delivered by Posta Romana (i.e., domestic and inbound international) originated from abroad. As a result, Posta Romana is not heavily dependent on the negotiations of terminal dues and foreign postal services. In addition, the outbound to inbound ratio indicates that Romania does not receive significantly more letters than it sends abroad.

Parcels

Domestic parcel traffic decreased 21 percent from 1998 to 2002. However, sharply increasing competition reported in the domestic parcel market likely indicates a loss of Posta Romana market share rather than a decrease of market volume. Conclusions concerning the development of the entire parcel segment cannot be drawn in the absence of private operator data. The massive growth, in particular since 2001, is most likely a result of Posta Romana's increasing orientation towards business customers in the parcel segment and thereby proof of its success in this segment.

Courier and Express

Based on information from Posta Romana as well as from the national postal regulator, the Romanian domestic express market appears to have impressive growth rates between 1998 and 2002, increasing by 15 percent. Posta Romana states that it increased its efforts in this market segment during this period, and increasing competition was reported at the same time. Apart from Posta Romana, the most important players in the domestic express market were two international courier companies, DHL and TNT, plus several local companies.

As in most countries, the international express market is dominated by the major international courier companies DHL, FedEx (Romexpress), TNT, and UPS (Trans Courier Services). However, the Romanian

⁴ WIK-Consult, www.europa.eu.int/comm/internal_market/post/studies_en.htm

operator Pegasus Courier is providing international services successfully in co-operation with Airborne Express and the important Arabian courier Aramex.

Bulk Mail

Both the national postal regulator and Posta Romana report substantial competition in the bulk (unaddressed) mail market and estimate Posta Romana's market share at 50–70 percent. The unaddressed volumes carried by Posta Romana drastically declined from 1998 to 1999, and have been relatively stable since then. However, Posta Romana's revenues from bulk mail rose by 8 percent between 1998 and 2002, and increased by 9.5 percent in 1998–99. It thus appears that the market revenue did not decrease although the volumes did.

Universal and Reserved Services in Practice

In accordance with the universal service obligation, Posta Romana provides service to all points in Romania for all types of letters, direct mail, newspapers, periodicals, books (up to 2 kilograms), and domestic parcels (up to 10 kilograms), as well as for incoming international parcels up to 20 kilograms. Registration and insurance are offered for all universal service items. Delivery service is provided five days per week as a standard, and letter boxes are cleared five times weekly. In some areas with exceptional geographic conditions, there is less frequent delivery (two or three times a week) and clearance (twice a week). This geographic exemption applies to 139 villages in total, less than 1 percent of the total population.

At present, no postal services are reserved in Romania. The postal legislation provides the possibility for the national postal regulator to introduce a reservation that may not exceed the limits stipulated in Directive 97/67/EC. Direct mail and document-exchange services may not be reserved. Competition for services that could be reserved under present legislation (domestic and international letters) is reported to be emerging. By contrast, competition in the liberalized direct mail segment is intense.

Accounting and Quality of Service

Posta Romana's accounts (and accounting methodology and systems) do not provide separate measurement and assessment of profitability of the different business lines (reserved postal services, non-reserved postal services, non-postal services, and financial services). A new accounting system that will do so was reported to be under development.

Posta Romana has not met several norms in respect to quality of service yet. While it has service targets for domestic letters internally, there is no independent monitoring of service performance quality at present. There are no regulatory targets set neither. Consequently, there are no publications on quality of service performance.

Internally, Posta Romana has set a goal of delivering 60 percent of letters in day + 1 (D+1), 90 percent in day + 2 (D+2), and 100 percent within day + 4 (D+4). According to performance results derived from an internal measurement, Posta Romana achieved the targets in 2002 for the first time. However, no details about the measurement method were disclosed, so the validity of the performance results can hardly be assessed. As reported by Posta Romana itself, "the Romanian Post still has to improve the actual performance."

Post Office Network

In 2002 the Romanian post had about 7,135 postal outlets,⁵ with approximately 2,700 post offices, 2,400 postal agents, and 2,000 rural postal outlets. The 2,700 post offices provide BancPost services. Postal agents and rural postal outlets are small, providing basic postal and communications services only, but are staffed by personnel of Posta Romana.

Initial capital expenditure was directed to building up the vehicle fleet and logistics infrastructure. This has effectively ensured that Posta Romana continues to play a significant role in the postal market, and in other

⁵ The postal network comprises 7,135 postal outlets, compared to 2,253 bank branches and sub-branches. More than 50 percent of these branches belong to the CEC, the State Savings House which is being prepared for privatization.

segments that are competitive. This has, however, implied a lower priority or even backlog in capital expenditure to upgrade the post office retail network. Computerization of postal counter operations in Romania started relatively late. In 1999 only 41 post offices were computerized, providing on-line connections 24 hours per day. A data transmission network connected the head office in Bucharest with the nine regions, and the terminal offices from these. The first application introduced for the terminal network was the electronic money order. Modernization has now started to gain momentum, with more than 450 post offices redesigned and interconnected by 2004 year end, yet many post offices need to be upgraded and connected. In addition financial services provided through the postal network appear to be underutilized because both the scope of services and the number of post offices involved and electronically upgraded are limited.

As mentioned before, the share of letter mail revenues for Posta Romana is relatively small (19 percent) and revenues from other services (courier, parcels, express, international and unaddressed mail) is about 11 percent of total revenue. The main revenue stream for Posta Romana is generated through the postal retail network, estimated at somewhere around 70 percent, with financial agency services being by far the most significant component. Through its post offices, Posta Romana offers more than just traditional postal services, including such products as books, tobacco, cosmetic products, and stationery. These services generate some additional income. The annual report of Posta Romana does not provide insight into the relative share of the total revenues attributable to these extra services provided at the post offices, nor to the earnings from providing financial services, compared to mail and other services.

As a basis for cost calculation (and derived charges to external users of post office infrastructure), Romanian Post does use norms and standards - based on operational surveys - for the various counter transactions at the post offices. E.g. the payment of a money order takes 350 seconds.

Telecommunications and Information Communications Technology

The current state of Romanian communication markets has substantial potential for further development: there are 51 fixed telephone lines per 100 households (the average in the historic EU countries is 10), and mobile penetration was 21 percent in 2002, which is below the EU average of 73 percent. About 9 percent had Internet use in 2002.

The Ministry for Communications and Information Technology develops the strategy and plans for further closing the digital divide. The postal network has not been earmarked to fulfill a special role in providing access to internet or to telephone services. Through its own commercial initiatives, Posta Romana contributed not only access to postal communication services, but also to Internet access at specific connected post offices, and to telephone/data communication services through its joint-venture in this sector of the industry.

2—Postal Financial Services in a Market Perspective

Origin of Postal Financial Services

As mentioned earlier, the origin of postal financial services can be traced back to the early nineteenth century when postal money orders came into circulation as a payments instrument. In 1883 the range of payment services was expanded. In the areas of present-day Romania which were a part of the Austro-Hungarian Empire, postal savings and postal giro services had already been introduced. This was not the case in the rest of Romania which had established the CEC as a state savings bank with a similar mission as the postal savings bank. The CEC continued to be the nation's savings house until 1991, when the introduction of a modern postal financial service marked the de facto monopolization of the retail financial market.

Ownership and Legal Structure

BancPost S.A. was created pursuant to Government Decree No. 448/1991, and in accordance with the stipulations of the Romanian laws on banking (Act No. 33/1991) and on commercial enterprises (Act No. 31/1990). In August 1991, BancPost was registered with the Romanian Chamber of Commerce. The creation

of the Romanian Postbank took place in the framework of reform of the state enterprises that fell under the supervision of the Minister of Communications of Romania.

From the state enterprise for Romanian PTT (RomPostTelecom), four autonomous companies were formed for post, telecommunication, newspaper publishing and circulation, and radio and television, plus BancPost. The government still had ownership in the form of two proprietary funds, the State Ownership Fund which held 70 percent of the stock, and the Oltenia Private Ownership Fund. The ownership fund shareholders agreed to capitalize the dividends over 1992 and 1993 to increase the bank's capital. In 1993 it was decided to privatize BancPost via a financial sector adjustment loan from the World Bank. In spite of further support from the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD), it took until 1999 before privatization started and was effectively implemented through sales to General Electric Capital. Further changes in 2002 were implemented and BancPost was the first 100-percent privatized bank within the Romanian system.

The year 2003 was a consolidation year for BancPost in many respects. The most significant development concerned the bank's shareholding structure: EFG Eurobank Ergasias from Greece became the majority shareholder in BancPost with 53.25 percent. Following its offer to buy shares from individual shareholders in 2004, EFG Eurobank Ergasias acquired an additional 5.34 percent stake in BancPost.

Since its first year of operation, BancPost adopted a bold and proactive strategy based on flexibility, quick response to the market needs and innovative solutions. BancPost grew rapidly to become one of the top banks in Romania, building and enhancing its good reputation both countrywide and abroad. Today the bank offers a comprehensive range of products and services to both individuals and corporate customers.

The 41 branches in Romania rapidly established a bank branch network which was included in its registration with the Chamber of Commerce. In 1991, the bank was also licensed by the National Bank of Romania (NBR) for banking operations. A general license for banking operations was obtained in 1993, and BancPost became responsible for the operations through the postal network.

BancPost concluded in 1992 its first agreement with Posta Romana (now a long-term agreement) to make it the agency of financial services at post offices. Prior to that, the founder entities (including Posta Romana) had charged BancPost with the management and keeping of several large accounts, including those for pension, social security, and children allowance payments, as well as for salary payments of staff in state enterprises, and collection of RomTelecom bills. This provided the new bank from the onset with significant banking assets, payment traffic, and potential for customer relationships.

In 1993, BancPost gained membership in World Savings Banks Institute, Society for Worldwide Interbank Financial Telecommunications ("SWIFT"), and Universal Postal Union/Commission for Financial Postal Services. BancPost has expanded its successful business strategy and performance, which in 2004 were recognized by the prestigious review *The Banker* (part of the Financial Times publishing group), with its "Bank of the Year in Romania" award.

Products, Services, and Clients

Within one year of operation, BancPost gained a portfolio of about 100 large companies and enterprises, about 30,000 private small and medium size enterprises, and more than 250,000 individuals as clients, mainly for deposits and credit products, which produced a balance sheet of around EUR 35 million. The basic range of products grown has rapidly becoming more sophisticated and well-rounded for the different segments. Currently, BancPost serves a diverse range of customers, offering products that fit the specific requirements of each group of consumers, be they large companies, private entrepreneurs, employees, schoolchildren, students, or pensioners.

BancPost's customers represent more than 10 percent of the total population, or an estimated market penetration of around 20 percent of adults. As such, BancPost is second only to the CEC, which has nine times the number of accounts on its books (but it is unclear how many of these accounts represent actual clients). Deposits also significantly grew to more than ROL 22 trillion (approximately EUR 550 million), but it is not known what share originated through the postal network.

Number of BancPost Customers and Accounts, by Legal Status

	Customers	Accounts
Total	2,557,149	3,057,483
Legal entities	85,003	142,958
- National companies	55	214
- Trading companies		
- Other companies	73,250	129,752
Individuals	11,698	12,992
	2,472,146	2,914,525

Number of BancPost Loans and Deposits, by Customer

	Loans	Deposits
Total	18,985	22,080
- Individuals	10,692	13,474
- Large companies and SMEs	8,292	8,606

BancPost's loan portfolio has also rapidly evolved. As of mid-2004, its portfolio amounted to nearly 19 trillion Romanian lei (ROL), approximately EUR 480 million. Overdue and litigious loans have remained at a low level (0.97 percent), due to BancPost's risk management measures, rigorous application of "know your customer" procedures, and strict loan monitoring. BancPost offers small and medium enterprise loans, and has obtained credit lines from EBRD and others to on-lend to such entrepreneurs. (Several initiatives to provide small loan products through the postal network were proposed to Posta Romana by BancPost between 1998-2001, but no agreement could be reached.)

BancPost was one of the first banks to introduce bank cards in Romania. In 1996 it issued ULTRA, the first VISA debit card in local currency, and in 1998 it launched the Millennium (Maestro) debit card in local currency, which was usable abroad, and marked the national premiere of ROL electronic convertibility. The first VISA credit card, Brilliant, was launched at the end of 2001, while the Taifun MasterCard became available in summer 2002. The size of the card business⁶ led to the development of the Total Account, an integrated service package that allows phone bills to be electronically paid directly at ATMs or to electronically pay an overdraft on the card account. Total Account includes SmartTel™, SMS, 3G, and WAP mobile banking services that enable the user to receive financial and banking information directly on a mobile phone display. A large number of BancPost's retail financial services are also provided through the postal network.

Current BancPost products include:

- ROL and foreign exchange consumer and corporate loans;
- Savings books;
- ROL and foreign exchange deposit accounts;
- Current accounts for pensioners;
- Traveler's checks (American Express);
- Payment of state allowances for preschool and school children;
- Payment of salaries into current and card accounts;

⁶ Total bank cards issued was 1,777,015. Of these, 1,346,102 were VISA credit cards; 20,061 were VISA debit cards; and 410,852 were Europay/MasterCards.

- Debit (VISA and EUROPAY/MasterCard) and credit cards (VISA);
- Total Account packages, SmartTel™, SMS, 3G, and WAP (mobile banking);
- Internet banking;
- eTax (electronic payment of local taxes and duties), capital markets foreign exchange transactions, and trade finance (discounting);
- Receivables from letters of credit with deferred payment, or letters of credit with payment by acceptance;
- Forfeiting (the no-recourse purchasing of export receivables resulting from exports of capital and consumer goods, raw materials, and services which are guaranteed by the importer's banks)
- Payment of fixed telephone and gas bills from subscribers' personal current accounts;
- Collection of phone bills from RomTelecom, Mobifon, Orange, Cosmorom, Zapp;
- Cash collection;
- Money transfers from Israel and Portugal;
- Pension transfers to Israel residents of Romanian origin;
- Western Union quick money transfers;
- Eurogiro transfers (Japan and Germany);
- Payment of international postal money orders;
- Depository services for investment funds and companies, special settlement services for securities companies, and clearing services;
- Trading and custody services for treasury bills;
- Payment of dividends to shareholders of commercial companies at BancPost units; and
- Safe deposit boxes.

The distribution infrastructure of BancPost has also evolved, and currently has 165 outlets. There are 55 branches which have the scope and focus to deliver corporate banking services for which post offices are not suitable. The 109 other outlets (subdivided into agencies and outlets) duplicate the available postal network. In addition there are more than 500 ATMs. The distribution infrastructure of BancPost also involves the Internet, telephone call centers, and direct mail.

Human Resources and Management

BancPost has recognized that developing its human resources is key to effective and successful growth of the bank. No institution can be successful without the commitment and professionalism of its personnel. At BancPost, the rigorous selection of key management skills, the continuous improvement of employees through training, and appropriate internal communication channels for sharing best practices are main priorities of its management.

Initially, the Bank's management mirrored key staff of the postal, telecom, banking, and private sectors. International training helped to professionalize the senior staff. In the privatization process, the new owners (initially GE Capital and later EFG Eurobank) also provided hands-on, day-to-day management, bringing international banking experience and practice and an influx of new knowledge into the bank.

BancPost was one of the first banks in Romania to adopt a code of conduct for staff who deal directly with customers. However, this did not include the post office staff. Starting from the BancPost strategy of encouraging all its employees to push for better and better performance, this code of conduct is based mainly on work ethics, therefore on fundamental ethical principles, and adds to their professional knowledge. Convincing employees to embrace a common business culture, the values of the group, and commitment to BancPost are key to BancPost's long term success.

Operations and Systems

At a very early stage, BancPost management identified the implementation of modern information technology (IT) as the basis for providing effective mass and small-value retail financial services. The first centralized client database and data processing center were operational in 1992. IT has been a determining factor in gaining market share and providing quality financial services. In specific comparison with the CEC, IT provided BancPost with a competitive edge to expand its client base and to reach further via modern means. Until the late 1990s, CEC services and operations remained fully manual and paper-based. Operations at the post offices remained paper-based as well. Several initiatives from BancPost to upgrade the post offices (and to share the cost) were not accepted, which made the postal network less optimal in offering modern financial services or providing greater access to them.

BancPost Partnership with the Postal Network

BancPost outlets and agencies have been cause for tension between BancPost and Posta Romana, as well as mutual dissatisfaction. As BancPost developed, the management teams of both institutions recognized that there was a sizeable opportunity to be gained by using the postal network to expand the relatively underdeveloped retail financial services markets of Romania. However, this opportunity has not been fully utilized.

From the perspective of Posta Romana, the argument has often been heard that the remuneration (commissions only, not sharing in the build up of value) from BancPost is not adequate. From BancPost's side, the main argument is that costs are relatively high, compared to its own network, and for a substandard quality of service. BancPost has proposed in past years to co-finance or co-invest substantial amounts to improve the postal retail network in order to make it more suitable as competitive outlets for financial services, as well as proposing they consider creating a joint-venture to operate the retail network. Posta Romana has not done much with these propositions, although it has made efforts to upgrade the postal network through its own resources and partnerships with other providers. The biggest reason for the under-utilization of the postal network is the inadequacy of the long-term agency agreement as a basis for a postal financial services partnership. The partnership did not originate through a competitive process and is not currently considered exclusive.

BancPost was co-established by Posta Romana and the state. In the privatization process of BancPost, investors were mainly attracted its balance sheet and financial performance. The relationship with Posta Romana was not highlighted as a major asset or item in the strategic valuation. Therefore, the new owners have emphasized enhancing BancPost's value by increasing its own network rather than prioritizing use of the postal network (whose performance, quality, and cost remained largely beyond control of the bank).

Without a transparent competitive bidding process for a joint operation with the bank, the postal service appears to assess the value of such a commitment as too low. Another major argument may be that Posta Romana does not want to share management and control of its postal network, although its core postal business cannot economically sustain such a network. The ineffective progress and development in a greater BancPost-Posta Romana partnership also implies that substantial market opportunities have not been (and are not being) taken advantage of, and that revenue streams have not been generated.

BancPost appears less critically dependent as its own growing network reaches a sizeable client portfolio. As the market, competition, and technology continue to develop, the strategic value and rationale for involving the postal network may also tend to decline. The strategic course of Posta Romana of not making optimum use of its network for financial services may be hazardous to the future of the postal network, as these services are a key source of revenue. Currently, revenues are partly generated by postal money orders, some payment services, and Western Union, while bulk payment services, savings, and other financial services are operated via an agency of BancPost. Neither the state (as owner) nor the regulator of Posta Romana has intervened regarding using postal network for its economic sustainability.

Other Posta Romana Partnerships

Western Union

Both BancPost and Posta Romana have agency agreements with Western Union for urgent cash transfers. There are Western Union agencies in around 550 post offices 120 BancPost branches, and the volume of transactions is significant. It grew to more than 800,000 transactions in 2002, a flow of around USD 250 million. In addition, both Posta Romana and BancPost are active members of Eurogiro and other international remittance networks. The commission revenues for Posta Romana are relatively high, estimated at more than EUR 5 million, and are essential for overall profitability of the company.

State Savings Bank (CEC)

The second bank working with Posta Romana is the CEC, the state savings bank. The volume and range of services are of minor significance: clients can only deposit or withdraw money from their accounts at the post offices. Opening new accounts cannot be done in the post offices, but has to be done at a CEC branch. The actual volume of operations has declined to less than 50,000 transactions per year.

Insurance Companies

On a small basis, insurance is sold through the post offices. Insurers that Posta Romana works with are ASEROM, Garanta, and Concordia. Their co-operation is only on a small regional basis.

Mutual Funds

Posta Romana has a contract with Active International to sell a mutual fund. Taking part in this mutual fund is only possible at the biggest post offices in the country.

Financial Sector Development Perspective

Before 1989 there were five active banks in Romania. The most important of them, the National Bank of Romania, handled central bank activity as well as commercial banking. The other banks were specialized banks with monopolies in their field, running bank operations strictly for those areas: foreign trade financing, industry finances, agriculture and agribusiness finance, and personal savings and loans to individuals. Since the state was the sole owner of all these institutions, the main feature of the old banking system in Romania was no risk-taking.

The post-communist banking system has been restructured to support transition into a market-oriented economy. In this respect, two key elements were targeted: turning the NBR into a true central bank and developing a network of commercial banks. One of the most important steps was to divest the commercial business of the NBR to a new bank, the Commercial Bank of Romania (BCR). Now the NBR is now solely a central bank and is independent in the performance of its duties, with the governor and the board of directors appointed for a renewable eight-year period by the parliament, on the recommendation of the prime minister.

In the years since 1989, more banks beside the state banks became active in Romania. New private banks were started, and foreign banks came to Romania. In May 1999, restructuring the banking sector finally seemed to bear fruit, with two banks partly privatized and the Banking Assets Resolution Agency (AVAB)⁷ working on the bad loans of the rest of the state banks. The process of bank sector restructuring progressed between 1990 and 2000 much more slowly and with more difficulty than in most other Central and Eastern European countries.

Under the new banking legislation, commercial banks are allowed to freely compete for business in the general market place, offering a diversified range of services. At the end of the first quarter of 2004, there were 38 banks operating in Romania, and the total assets of the Romanian banking sector amounted to 33 percent of GDP. This is still significantly lower than in other Central and East European countries and indicates

⁷ In 2004, the Banking Assets Resolution Agency (AVAB) was reorganized by merging it with the Authority for Privatization and Management of State Ownership (APAPS) to create the Authority for State Assets Recovery (AVAS). AVAS is a specialized body and reports to the government of Romania.

substantial room for growth in the banking sector. The banking assets of the three largest banks account for some 51 percent of the sector's assets.

Raiffeisen Bank Romania, the local unit of Austria's Raiffeisen Zentralbank, grew the most among local banks in 2003, pushing state-owned savings bank CEC out of third place. CEC in fourth place held 6.7 percent, while ABN AMRO in fifth place had 5.1 percent, ING in sixth place with 4.3 percent, and BancPost with 4.2 percent in seventh place.

Market Share of Banks in Terms of Total Assets, 2002-03

Banks	% Total Assets (2003 year end)	% Total Assets (2002 year end)
BCR	30.8	31.4
BRD –GSG	13.4	13.6
Raiffeisen Bank	7.0	5.1
CEC	6.7	7.7
ABN AmroBank	5.1	5.1
ING Bank	4.3	4.5
BancPost	4.2	4.1
AlphaBank	3.6	3.1
HVB Bank	3.5	4.1
BancaTiriac	3.2	2.8
Citibank	2.7	4.0
BancaTransilvania	2.4	1.8
Eximbank	1.3	1.3

Notes: BCR (Romania Commercial Bank); BRD-GSG (Romanian Bank for Development–Groupe Société Générale)

Source: National Bank of Romania

The predominance of the state sector has declined and state banks have largely been cleaned up. The envisaged privatizations of the largest remaining state-owned bank, BCR, and the savings bank, CEC, would significantly reduce state ownership in the banking sector. The EBRD and IFC bought a 25 percent stake in BCR in 2003, and the government announced an additional stake of 25 percent would be sold before the end of 2004. CEC's privatization process also began in fall 2004.

Recently NBR lowered the intervention interest rate, given the positive evolution of the disinflation process; economists expected it to result in a drop in interest rates for both loans and deposits. Sector specialists estimated that there was considerable room for rapid growth in the Romanian financial sector, driven by the banking sector in particular. The range of products was also likely to broaden steadily as clients' needs became more sophisticated, and as the market for plain vanilla banking services became saturated.

The consumer credit market is still in its early stages in Romania. The volume of outstanding consumer loans reached ROL 74.6 trillion (USD 2.3 billion or EUR 1.9 billion) in 2003. Following a sharp increase in consumer and mortgage credit in 2003, overdue credit has also risen at relatively higher rates as a natural feature. As a result, in February 2004, the NBR enforced tighter regulations in the sector to fight the accumulation of risks associated with non-performing loans. Examples of such regulations were down payments of at least 25 percent of the loan amount; monthly installments equal to a maximum of 35 percent of the applicant's net income. A credit rating bureau was scheduled to start its operations in autumn 2004. The bureau will use the databases of its 24 bank members to monitor loans granted by banks to individuals.

Nine of the active Romanian banks offer mortgages. The most important players in the housing and mortgage credit market are the Romanian Commercial Bank, with a 33 percent market share, and the Romanian Bank for Development-Groupe Société Générale with 20 percent of the market. The volume of loans for housing purposes experienced strong growth in Romania in 2003-04, reflecting the emergence of the middle class and reaching ROL 19 trillion (USD582.3 million or EUR 477.2 million).

Payment Cards

The Romanian market for on-line commerce, evaluated at about EUR 2 million in 2003, significantly increased after the introduction of a security payment system through payment cards. The system called 3D Secure uses Visa and Master Card branded cards. Twenty-three Romanian banks offer 31 direct banking products or instruments, such as 15 Internet banking systems, 14 home banking systems, and 2 GSM banking systems. Mobile phone owners and internet users can obtain information direct from their bank accounts, execute bank transfers, and pay telecom and utilities bills through their mobile phones or the Internet. ATMs are also tools for on-line transactions. As an example, ING recently launched the SelfBank service, including use of ATMs for cash and deposits, and Multimat to handle individual accounts electronically and pay utility bills.

Romania has been experiencing one of the highest growth rates of payment cards in Central and Eastern Europe. Currently 16 banks issue payment cards. The number of payment card users increased by 25 percent in 2003, reaching five million holders, and the volume of transactions with cards rose by more than 50 percent. BCR alone has issued 1.3 million cards, and offers its customers 13 types of cards. The bank has 750 ATMs and around 2,900 point-of-sale devices (POS) installed with retailers. In 2003, 95 percent of card transactions were cash withdrawals, and the average value of card transactions was USD 50. The number of vendors who accept payments by card was 13,800 at March end 2004.

Bank Card Usage, 2003-04

Indicator	2003 Year End	2004 Year End
Number of cards issued	4,282,680	5,894,661
Amount of transactions (ROL billion)	27,987.8	44,652.4
Number of transactions in ROL	20,176,752	27,023,255
Amount of transactions (EUR 000s)	2,541	7,284
Number of transactions in EUR	14,118	50,393
Amount of transactions (USD 000s)	12,556	25,601
Number of transactions in USD	81,263	177,689
Number of ATMs	2,150	2,514

Source: National Bank of Romania

Access to Financial Services

The developments in the financial sector discussed above cannot but reveal that the financial sector is still in an early stage of development. As regards payments, there is indeed a fast growth in distribution of electronic and cashless payments instruments. With nearly 6 million cards (28 percent) issued in a market of 22 million, there is still considerable room for further growth before signs of saturation would appear. Usage of the modern payment instruments is relatively low. In 2001 the European Central Bank, in its Blue Book for Accession countries reported Romania as the country with the lowest number of cashless/electronic payments per capita, 3 compared to 22 in Hungary, 90 in the Czech Republic, and around 200 cashless transactions per

capita in France, the Netherlands, and Finland. The low usage appeared to be correlated with the smaller infrastructure for electronic payments in Romania than elsewhere in Europe. The recent growth in distribution of electronic payment instruments and its infrastructure leads to the assumption that usage will increase in the next few years.

The distribution of cards and the use of electronic payments, however, need a very dense and easy accessible infrastructure. The network for electronic payments, which has only recently started to develop, has 11 different networks, which is not suitable for standardization, cost efficiency, and accessibility. Apart from Bucharest with 2.2 million inhabitants, there are no other cities with more than 400,000 inhabitants. More than 60 percent of the Romanian population lives in rural areas and has low incomes, with very limited or no access to the financial services infrastructure. Many of them are confined to cash and making paper-based cash payments at post offices.

The Romanian postal network could play a role in providing access to electronic/cashless payments services, given its 7,135 postal outlets that far outnumber all bank branches and sub-branches (which are primarily located only in Bucharest and larger provincial towns). The postal network is estimated to have a 40 percent share of the volume of recurrent and bulk payment transactions and other post office-to-post office money transfers. If Posta Romana were able to build an effective partnership with one or more of the banks, the postal network could significant help expand the use of electronic payment services—as well as other financial services, such as savings, loans, insurance, and mutual funds.

Access to (micro, consumer, or small) credit has been difficult in post-communist Romania, although there is a positive trend evolving. The establishment of a credit bureau will actually facilitate the credit assessment for small borrowers, but the market is still young and small and better access to better microfinance services is necessary. Standards of living continuously eroded between 1989 and 1998 as has GDP, with high inflation rates and increasingly high rates of unemployment contributing to the pauperization of the population. The Romanian rural areas are amongst the poorest parts of Europe, with GDP per capita well below USD 1000 per year. Consequently the gap between the well off and the poor has widened and continues to grow. The hardest hit segments of the population are women and the elderly. Women are the first to be laid off and pensioners' static incomes have been eroded by inflation. In addition non-ethnic Romanians, such as Roma gypsies and Hungarian minorities, have suffered badly. This has also created a strong demand for microfinance, as many of the unemployed had no alternative but to deploy new initiatives often through the setup up of a new small company.

The small and medium enterprise (SME) sector—of which microenterprises account roughly for 90 percent—has showed the greatest dynamism since the transition process began. It has been the most important contributor to the state budget and is the only sector in the economy that grew employment. The lack of enabling legislation and support at the macro-level has continued to block its development. Currently heavily recapitalized SMEs have great difficulty accessing financing. This is especially true for start-ups, self-employed people, and family associations. Romania's low-income microentrepreneurs, and particularly female microentrepreneurs, have few to no viable sources of financing for their businesses and face other problems such as access to knowledge and practical support to set up and run a small business. Most of the new, small entrepreneurs had to start in an environment new to these initiatives.

The Romanian banking sector has been slow in responding to the needs of the SME sector. Many of the private banks did not regard extension of small credit as in their strategic interest, nor did they see the opportunity for profitability in this area. Most of the old state banks also refrained for SME lending, as they were directed to resolve the large number of non-performing loans of state-owned enterprises.

The first bank in Romania that seriously entered the SME lending sector was BancPost in 1998. BancPost has remained a significant player in this segment. Until its entrance, two small banks, Bank Ion Tiriac and MIND Bank, offered microfinance, with portfolios of less than USD 350,000. Other banks have gradually entered the market, spurred by initiatives from the development banks (including the EBRD) to provide credit lines for on-lending. Moreover, in 2002, MIRO Bank was established as the first bank that fully specialized in microfinance. Currently it has several operational branches, and more than 10,000 clients.

Credit unions (CUs) have a long tradition in Romania, dating back to the cooperative Raiffeissen principles of the early nineteenth century. However communist legislation made them unpopular and inadequate as vehicles for microfinance after 1989. Several adjustments have been implemented, and currently there are about 4,300 CUs serving about 1.6 million members. NGOs also provide another driver in microfinance development in Romania.

On the whole, demand for microfinance is not met by the financial sector, and for sustainable microenterprise development, more comprehensive support is required. The postal network does not have a role in this area, but as improvement of the post offices continues, they may become better suitable to become “small business bureaus” that provide a range of support to microenterprises.

3—Options for Development

Romania features a relatively successfully reformed public postal operator within a liberalized postal sector, and the successful development of BancPost as a significant player in retail financial services, able to attract foreign private investors. Both the postal operator and the postal bank operate without special privileges, and without state intervention or subsidies. From an economic point of view, Posta Romana primarily operates a dense financial service network with additional postal mail and express services that historically are considered the core business. Postal markets in Romania have shown attractive growth rates and are likely to see further development. However the markets for SME and consumer financial services have much higher potential growth rates, as do ICT-based services.

The strategic question for Posta Romana will be how to open up the scope and structure of its partnership with BancPost, which both feel is underutilized. Posta Romana is dissatisfied with the remuneration for its services on behalf of BancPost, while Banc Post does not consider the service level at the post offices adequate for its clients. The basic issue, however, appears to be control over the post office counter operations. Hence, Banc Post is only offering a few savings products at 2,000 post offices (savings books, savings certificates). From the start of its operations, Banc Post has chosen a dual distribution structure, in which the full and continuously expanding range of services is offered in its own branch and agency offices (numbering 155).

Developments in Romania’s financial sector over the past 15 years reflect the impact of the post-communist economic crises it experienced in the 1990s, which were aggravated by a hesitant reform process. Only in the late 1990s was bank privatization seriously embarked upon, with two privatizations successfully completed (BCR and BancPost). In the corporate banking sector, the entry of foreign institutions helped raise standards and service/product diversity, as well as competition. While the transition process has gained impressive momentum, the level of development particularly in the retail banking sector leaves much to be desired. Modern payment instruments are not widely used; although their availability has rapidly increased; and credit to SMEs and private consumers is considered too small. (The actual portfolio is EUR 1.9 billion.)

Despite many enabling regulatory and institutional conditions, the networks of the banks are small. Posta Romana, with its dense post office network, amongst others, has not stepped up to fill the void, particularly in rural areas, where banks are not represented at all, and counter computerization and interconnection needs to grow more quickly. Already today, Posta Romana handles more than 30 percent of all small value payment transactions; the bulk of which is made up by pension payments, child allowance payments, and money orders. It should be noted, however, that nearly all payments are paper-based cash transactions. Posta Romana has gained a strong position in the remittances market, mainly as the primary agent for Western Union. As agent for BancPost, it provides valuable agent services for savings and several payment instruments, through some 2,000 post offices.

The post office network of Posta Romana is costly to maintain, even considering the low staff salaries. The limitations in available resources imply that investments in automation, business-process engineering, and improvements to infrastructure can only be thinly spread across the network. Co-operation with one or more strong partners would therefore seem imperative, but in spite of a number of proposals, nothing has materialized.

Viewed against the above conclusions, the following priority areas need to be attended to in order to ensure the sustainability of the postal network and its sustainable role in providing broad-based access to financial services and other ICT based services.

Partnership and Co-operation with Financial Sector Institutions

For the development and optimum utilization of the payment system in Romania, it is of decisive importance that co-operation between Posta Romana and one or more financial institutions is firmly established, with a long-term horizon. As efforts for Romanian Post to obtain a banking license seem illusory, there are basically only two options:

- Reformulate and broaden co-operation with BancPost as the prime provider of banking products through the post offices. BancPost has both the product range that the mass market will increasingly expect to get, and the IT platform to provide it—in conjunction with increased automation of the post offices, the required back-office services. Moreover, through close co-operation with BancPost, Posta Romana can commensurately benefit from enhanced product know-how and staff training that the main private sector shareholder has committed to bring in.
- Should the recent history of relations between BancPost and Posta Romana (mutual distrust, incompatible character of top management) be insurmountable, the only alternative is to organize an international tender. The goal would be to select one or more licensed banks that wished to enter into a co-operative contract or partnership with Posta Romana and provide a full range of financial services through the post offices.

In either case, it would be sensible to thoroughly assess the facts of the current situation and assess the desired constellation of such a partnership. Since experience indicates that a contract-based relationship does not ensure adequate mutual commitment, it would be useful to explore the feasibility of a joint venture or other stronger form of partnership. The scope of the partnership could cover the provision of financial services through the postal network. In that case, Posta Romana would or should contribute its current payments business, international remittances, and access to the postal network as components to the joint venture. Another option would be to consider setting up a joint venture to modernize the postal network.

Restructuring the Post Office and Its Network

Posta Romana is still a joint stock company owned by the state, but its privatization, which is under preparation, should be speeded up and the date and means determined, so it can be more productive and free of the constraints of government priorities.

To become a competitive outlet for a broad range of financial services, large investments in front-office and back-office automation will be imperative for Posta Romana, and the overall appearance and functionality of the premises will have to be substantially upgraded. Posta Romana does not have the financial resources to make the required invests on its own, nor can it count on government support, nor can it assume that the postal business (mail, express, parcel) will generate the required revenues to justify the investments. Posta Romana would be able to construct a more viable business model if it could share overall cost and investment in the network with one or more large financial or communications institutions, and if it were able to gradually transform a number of the small outlets in agencies operated under agreements with individual private entrepreneurs.