



SPI Project:

Technical and regulatory requirements for improving clearing and settlement of checks, drafts and promissory notes

Regulatory Impact Assessment
Approach Note

Background* - 1

The processing of debit instruments under the current regulatory framework is paper based. Currently, checks and other debit instruments are processed manually, while all the credit payment instruments are electronically processed. The physical exchange of the paper debit instruments takes place at the 41 local clearing houses of TransFond, which are maintained only for this purpose. The manual processing of debit instruments generates high costs for banks, which are reflected into final prices of bank products and services and implies a long settlement period. The current law does not allow the digital presentation of debit instruments.

Pending a change in the law, banks have worked, as an interim solution, on a proposal to centralise at TransFond headquarters, the physical exchange of paper-debit instruments by the banks head offices with a parallel electronic transmission of the data drawn from debit instruments.

Many in the banking industry feel that a permanent solution has to be found in order to address this issue, but different views exist among market participants as to what that “ultimate solution” should be.

One idea raised in the banking community is to eliminate checks. In order to implement such a solution, at least the following aspects have to be clarified: implementation period, the check users’ opinion, the impact of such a measure, needed regulatory actions and alternative instruments.

*= Drawn from the Project Working Group ToR

Background* - 2

Until now, no task force gathering all stakeholders' representatives has addressed the issue in order to facilitate the finding of a commonly accepted solution. The polarity of the checks market (where some banks make extensive use of checks while others do not use checks that frequently) and the relatively reduced number of processed checks prevents the banks from reaching a commonly agreed solution, making unlikely the elimination of checks in the short term.

NBR is currently working on two parallel initiatives:

- a) an interim solution – facilitated by an NBR norm regulating the RBA proposed interim solution;
- b) a permanent solution – the amendment of the relevant laws in order to allow the electronic processing of debit instruments.

where you could have only paper less instruments

The interim solution is meant to address the concerns that the enactment of the permanent solution will take too long.

shorten the time span from interim to permanent

Economic impact assessment - 1

i – Banking industry

A	Number of banks	38
B	Savings in staff/bank as a result of the Electronic processing (#)	42
C	Gross annual wage/bank employee (RON)	59,840
D	Number of paper-based transactions in 2005 (#)	7,660,674
E	Commissions charged by TransFond on each manually processed transaction (RON)	2.2
F	Estimate of commissions charged by TransFond on each electronically processed transaction (RON)	1

Economic impact assessment - 2

i – Banking industry

G IT one-off investments per bank (RON) 288,000

H Overall IT one-off investments borne by banks (Mln, RON) [A*G] 11

I Overall business-related staff savings

1-year horizon: (Mln, RON) ⁽¹⁾ 85

5-year horizon: present value, (Mln, RON) ⁽¹⁾ 380

J Overall savings in TransFond commissions

1-year horizon: (Mln, RON) 9

5-year horizon: present value, (Mln, RON) 38

(1)= Net of IT one-off investments

Economic impact assessment - 3

i – Transfond

A

Average annual losses from paper-based business
Line under current framework (Mln, RON)

2

B

IT one-off investments (RON)

704,000

C

Overall savings net of IT investments

1-year horizon: (Mln, RON) ⁽¹⁾

1.3

5-year horizon: present value, (Mln, RON)

7.5

Analytics - 1

Banking industry	Number of banks	a)	38
	Savings in staff/bank as a result of the electronic processing	b)	42
	Gross annual wage/bank employee (RON)	c)	59,840
	Number of paper-based transactions in 2005 (#)	d)	7,660,674
	Commissions charged by TransFond on each manually processed transaction (RON)	e)	2.2
	Estimate of commissions charged by TransFond on each electronically processed transaction (RON)	f)	1
	IT one-off investments per bank (RON)	g)	288,000
	Overall IT one-off investments borne by banks (Mln, RON)	h)=a*g	11
	Overall business-related staff savings (Mln, RON)	i)=a*b*c	96
	Overall savings from Transfond commissions (Mln, RON)	j)=(e-f)*d	9
Overall net benefits (Mln, RON)	l)=i+j-h	94	
Transfond	Transfond: Annual losses from paper-based business line under current framework (Mln, RON)	m)	2
	Transfond:T one-off investments (RON)	n)	0.70

		2007	2008	2009	2010	2011	5 years
Banking industry	PV - Overall business-related staff savings (Mln, Eur) (Mln, RON)⁽¹⁾	78.2	83.3	77.7	72.6	67.8	380
	Overall savings from Transfond commissions (Mln, RON)	8.6	8.0	7.5	7.0	6.5	38
Transfond	PV - Annual savings due to the shift from paper based to electronic system (Mln, RON)⁽¹⁾	1.21	1.74	1.63	1.52	1.42	7.5

(1)=Net of IT one-off investments

Discount rate (%) 7.10%

Discount factor 0.933707 0.871808 0.814013 0.76005 0.709664

Analytics - 2

Data and assumptions:		
a) Savings in staff/bank as a result of the electronic processing (#) [Assuming that there 1 person in each of the 42 clearing units fully dedicated for this]		42
b) Annual wage/bank employee (Eur)		17,000
(RON)		59,840
<i>Source: Roland Berger, The impact of external regulation on the Romanian banking system.</i>		
c) Number of paper-based transactions in 2005 (#) [Source: TransFond. Available information provide this data only for 7,660,674 interbank transactions and not intrabank ones]		
d) Commissions charged by TransFond on each manually processed transaction (RON)		2.2
<i>Source: Transfond</i>		
e) Commissions charged by TransFond on each electronically processed transaction (RON)		1
f) Average IT investments needed by each bank to join the new framework (RON):		288,000
g) Transfond: average annual losses from paper-based business Line under current framework (MIn, RON)		2
<i>Source: Transfond</i>		
h) IT one-off investments	(EUR)	200,000
	(RON)	704,000