



## MULTILATERAL COMPENSATION OF NON-CASH INTERBANKING PAYMENTS ON PAPER

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**Abstract** *The paying activity, regardless of its form, is part of a separate chapter, which we consider to be very interesting, because it always leads to something constructive, because it always leads to something constructive, because it induces satisfying some needs, finalizing some steps, have found the solution but also (sometimes) the redemption of mistakes. Every man or business representative, when making a payment has some particular feelings, because the feeling of resource shrinking appears, and the human being is sensitive by nature to such facts. At the same time, payments are very serious, and the higher the amounts spent, the more they reach the most distant places on the planet, the more it involve the intervention of several different factors of management, financial accounting, banking, taxesauthorities, IT, etc.*

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Compensation  
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### 1. INTRODUCTION

Until April 1995, payments on Romanian territory could only be made by using payment and check payments with or without the amount limit. These paper payment instruments are settled through manual data processing systems, between banks and businesses. There was a need for an efficient payment clearing system in the Romanian economy.

“Carefully studied the stages of the development of a national payment system that corresponds to the qualitative requirements imposed by the international regulations in the field and the expectations of the banking clients lead to the identification of:

I. The 1990-1995 period, characterized by the absence of a real-time payment system in the true sense of expression, during which banks were able to process small interbank payments as a number and value in the economy;

II. The 1995-2001 period, characterized by the functioning of the first paper-based banking settlement system, called the National Payment System - DECONT BNR, managed by the central bank. Within the system, valid procedures for the entire Romanian banking system were developed for the intra-and interbank funds transfers on behalf of the clients. However, the system was insufficiently developed and adapted to meet the

requirements of an expanding economy and a dynamic banking system;

III. The 2001-2005 period, characterized by the functioning of the TransFonD system, as an expression of the outsourcing of interbank payment activities, under the custody of the central bank.

The TransFonD system was designed as a settled system, non-cash, on paper. It involved the physical movement of payment instruments - payment order, from the payer bank, to the beneficiary of the funds (in the case of payment instruments - payment orders) or from the beneficiary to the payer (in the case of debit payment instruments - checks, bills of exchange and promissory notes).

TransFonD, as a national fund transfer company (having as shareholders banking companies and the central bank), provided the necessary framework for the multilateral clearing of non-cash interbank payments on paper” (Socol, 2007)

The actual clearing activity took place through specialized organizational compartments, existing in all TransFonD branches in the territory (from each county residence) and the TransFonD Central (Bucharest), whose specialized structures represented interbank compensation houses.

IV The year 2005 marked the entry into effect, by the first quarter, of the components of „SEP Electronic Payment System. The system administered by TransFonD is attributed to the lack of global connectivity between the active banking companies in Romania and the rigid nature of the

compensation made within a predetermined schedule and locations.”(Socol, 2007)

Also, in view of Romania's accession to the European Union, the national payment system had to be aligned with European and international practices and standards (established by the European Central Bank and the Bank for International Settlements).

„The new Electronic Payment System has been implemented over 30 months as a result of the collaboration of 70 different institutions. The systems have been tested for 15 months. The costs of the Electronic Payment System were estimated by the National Bank of Romania at EUR 16.5 million (EUR 8.04 million, borne by the European Union and the rest of the amount borne by TransFonD).” (Faer, (2004-2005)

## 2. THE CLEARING-OVERVIEW- SYSTEM

The National Bank of Romania, in fulfilling its role as the central bank, issued the regulation on multilateral clearing of cashless interbank payments, on paper, containing thorough details of all clearing procedures, regulation that took account, both the information provided by bank representatives and those from internal resources used in other countries.

“The main advantage for a commercial bank's client is that through an efficient clearing system, his / her own options are available much faster than before.” (Diaconescu, 1999)

“The compensation system was designed to use the interbank network of the National Bank of Romania, covering all counties of the country.

For the system to work, it is made up of.

- the compensation house organized at the level of the National Bank;
- territorial compensation houses situated in the city of Bucharest and in the towns of the county residence throughout the country.” (Mitrache, 2005)

The system processes more than one thousand payment instruments a day, as their number grows.

### **3. CHARACTERISTICS OF THE COMPENSATION SYSTEM THAT OCCURRED IN 2010**

“The multilateral interbank compensation system on paper is a manual data processing system that is based on international standards and at the same time provides a regulated organizational framework that meets all legal and technical requirements on the Romanian territory.

Because the system is based on the payment instruments postal circuit, the average clearing time is 3 days for payment orders and 4 days for checks. The maximum amount of a compensated payment instrument is 5,000 million lei. Exceptions include inter-bank payments made with checks, bills of exchange and promissory notes, which are entered into clearing irrespective of their value.

The system is a very safe way of transferring payments, which respects a strict schedule of operations.” (Mitrache, 2005)

Commercial banks are preparing daily payment clearing instruments. Both during the clearing session and the pre-offsetting moments,

the commercial banks treat separately the circuit of the credit payment instruments (payment order) and the debit payment instruments circuit. (check, bill of exchange and promissory note).

## **4. CIRCUITS OF THE PAYMENT ORDER**

### **4.1. CIRCUIT 1 – LOCAL CIRCUIT OF THE PAYMENT ORDER**

Local settlement takes place when the payer client and beneficiary customer have current accounts opened at bank units in the county seat of the city and belonging to different bank companies.

“One day before the clearing (c-1) occurs, the paying agent will submit the payment order to his bank. On the same day, the paying bank may refuse to process the payment order or accept the instrument, in which case it will debit the payer's account.

The next day, the day of compensation (c), the order will be presented to the compensation house of the National Bank's branch office or branch. Settlement meetings take place every working day. Once the beneficiary's bank has accepted the payment order, it proceeds to crediting the beneficiary's account. This operation will take place on the clearing day.”(*Norma BNR nr. 1/2005, MO al României nr. 75 /2005*)

### **4.2. CIRCUIT 2 – PAYING CIRCUIT WITHIN OF THE SAME COUNTY (INTRA-COUNTY)**

In this case, the payer client and beneficiary customer have current accounts opened at banks located in the same county and

belonging to different banking companies.

“The banking circuit will be the same as for local clearing, only that the distance between the localities (other than the county residence) requires an extra day before the beneficiary gets the money.

The beneficiary's bank needs another day (c + 1) after the day of the compensation, if the beneficiary has his account opened at a branch or agency situated in a different city than the county seat of the county to transfer the funds.”(*Regulamentul BNR nr. 3/2005*, MO al României nr. 267/2005)

#### **4.3. CIRCUIT 3 – CIRCUIT OUTSIDE THE COUNTY (INTER COUNTY) – A VARIANT**

The payment order goes this circuit in the situation when the payer client and beneficiary customer have current accounts opened at different bank branches located in different counties and appearing in different banking companies and the initiating bank company has a banking unit in the destination court.

In this case, “the payer must submit the payment order to the bank, three days before the settlement takes place. In the same day, the payer's bank may accept or decline payment.

The order must be sent to another unit of the initiating bank, located in the bank where the beneficiary's bank is located, which corresponds to the time interval (c-2) (c-1)). The compensation and crediting of the beneficiary's customer account takes place on the same day, respectively day (c). (*Regulamentul BNR nr. 1/2005*, MO al României

nr. 265/2005)

#### **4.4. CIRCUIT 4 – CIRCUIT OF PAYMENT OUTSIDE OF THE COUNTY (INTER COUNTY) - B VARIANT**

This circuit refers to the case where the payer client and beneficiary customer have current accounts opened at units located in different counties and belonging to different bank companies. “The initiating bank company does not have a bank unit in the destination court, but the receiving company has a banking unit in the county where the payment was initiated.” (*Regulamentul BNR nr. 2/2005*, MO al României nr. 265/2005)

#### **4.5. CIRCUIT 5 – NATIONAL PAYMENT ORDER**

Only in exceptional circumstances will it be necessary to choose this circuit, most of the banks have territorial units located either in the county of destination or in the county where the payment was initiated. However, “if the payer client and beneficiary customer have open accounts with different bank branches, in different counties and belongs to different bank companies (the initiating company does not have a banking unit in the county where the payment was initiated), the compensation takes place at the head office of Bucharest.

Three days before the clearing date (c-3), the payer will present to his bank, the payment order. In the same bank, the payer's account is

debited with the amount enlisted on the payment order. The initiating bank unit sends the payment order through its interbank network, to the Bucharest office which will present the payment order in compensation.

As a result of the compensation, the central bank in Bucharest will provide you with the payment order within the (c + 1) (c + 2) bank. In the day (c + 2), the beneficiary's bank will credit the customer's account or the amount enlisted on the payment order.”(L. nr. 312/2004, M O al României, nr. 582/2004)

## 5. CHECKS CIRCUITS

Circuits for clearing checks are the same as those for clearing of the payment order. “The main difference is that of this time, the beneficiary is the that who has the payment initiative. It is important that bankers to examine the checks, when they are presented to ensure that they contain all the necessary mandatory references and that they have been correctly filled in. The omitting such issues may put the bank in a risky situation, if there is a problem with the cashing of the check.”(Diaconescu, 1999))

### 5.1. CIRCUIT 1 – LOCAL CHECK CIRCUIT

The local circuit will be used when the customer beneficiary and the paying client have current accounts opened at bank units located in the city seat and belong in different bank companies.

“The beneficiary will present for check

cashing, to the bank where he / she has his / her current account open, two days before the day of the compensation (c-2). His bank will present the checks to the paying bank for verification, without introducing them into the National Bank branch of the respective county or the National Bank's central bank one day prior to the clearing.

On the same date (c-1), the paying bank will debit the payee's account, the amount of the accepted checks, and on the day of the clearing (c), the beneficiary's bank inserts the checks at the B.N.R. from the county or the NBR, as the case may be.

The Beneficiary will be credited with the amount inscribed in the check by his bank on the very day of the compensation (c).”(Norma BNR nr. 1/2005, MO al României nr. 75 /2005)

### 5.2. CIRCUIT 2 – PAYMENT CIRCUIT INSIDE THE SAME COUNTY

In the second round of checks, the beneficiary customer and the paying client have opened with banks located in the same county, accounts belonging to different banking companies.

The circuit diagram is similar to the local circuit diagram, with the indication that its duration is extended by one day due to the fact that the beneficiary bank unit will remit the checks through the interbank network, to the paying banking unit that will introduce them, effectively, in compensation. ”(Regulamentul BNR nr. 3/2005, MO al României nr. 267/2005)

### **5.3. CIRCUIT 3 – CIRCUIT OF PAYMENT OUTSIDE THE COUNTY (INTER-COUNTY) - A VARIANT**

In this circuit, the beneficiary client and the paying client enroll, have current accounts opened at different banks, in different counties, that apply to different banking companies and the initiating bank company has a banking unit in the destination county.

The beneficiary remits the check to his bank, four days before clearing (c-4). The beneficiary bank unit sends the checks through the interbank network, to the reporting bank, within the destination county (c-3) (c-2)). It shows the checks at B.N.R. branch from the county.

The beneficiary's bank unit credits the beneficiary's account with the amount of the accepted check on the clearing day (c).

### **5.4. CIRCUIT 4 – PAYMENT CIRCUIT OUTSIDE THE COUNTY (INTER-COUNTY) – B VARIANT**

In the case of circuit 4, inter-county, of the check, the beneficiary customer and payer client have accounts opened at different bank units, but the designated bank company has a bank unit in the county in which the payment was initiated.

In this case, on the day (c-6), the client returns his bank's check to be cashed. This, on day (c-5), presents the checks to the receiving bank unit for verification, without introducing them in compensation, to B.N.R. or at its headquarters, as appropriate. The receiving banking unit sends the checks, through the interbank network, whichever is the payer, within the (c-4) (c-3)). There is a debit of the payer's account, on the

day (c-3) and the paying bank, the dates are sent to the beneficiary, to be accepted for clearing.

The beneficiary's bank unit introduces scripturally, in compensation, the checks, at the central office or B.N.R. branch, on the day when the beneficiary's account is credited with the afferent amount of the accepted check.

### **5.5. CIRCUIT 5 – NATIONAL CHECK CIRCUIT**

In the case of a check or a payment order, there will be different situations where such a national circuit will be needed, because most banking companies have territorial units operating in the same county.

So, “the beneficiary customer and the paying client have current accounts opened at different bank branches located in different counties and which belong to different banking companies, and the initiating bank company does not have a banking unit in the destination county, nor does the bank company designated have a bank unit in the county of initiation.”(L. nr. 312/2004, M O al României, nr. 582/2004)

## **6. COMPENSATION HOUSES**

The circuits covered by paper-based payment instruments for the purposes of their compensation are processed through the compensation houses.

“Every working day, payment instruments are physically (bundles of documents) exchanged between banks, so the home of compensation is practically a nodal point of this activity. At the

headquarters of B.N.R. the data received from all the county compensatory houses from the city of Bucharest is centralized to establish the final daily balance of each banking company resulting from multilateral compensation.” (Dumitru, 2003)

Each bank will centralize payment orders, checks, bills and payment orders that are presented to them by a "Summary of the centralizing receipts" (for checks, bills and promissory notes), "Summary of the centralized payment orders "(for payment orders).

“Both the payment clearing circuit and the check, both instruments may be refused to receive or pay. The banks present their checks, before the day of their settlement, then on day (c) they will actually be settled. When the bank refuses to pay a check, it issues to the beneficiary a denial of payment, stating the reason for the refusal.” (Șeulean, 2001)

The compensation form is drawn up by the representative of each bank present at the clearing (called clearing agent).

After the preparation of compensatory payment instruments and refusals, presenters banking units complete the clearing form based on their own bills of centralizing provisions and refusals initiated by them.

During the clearing session, the compensation form will be filled out based on the limits of the centralizing provisions and the refusals received in compensation from the other participating banks.

The subtotal is calculated for each category of amounts and will reach a debtor or

creditor position of that bank.

The compensation officer's representative (clearing inspector) will enter the amounts in the centralized clearing form and will be able to clear the total debtor or creditor position, on the respective day, for each bank unit present in the bank or branch office.

The content of the centralizing clearing form will be sent daily by the clearing inspector to the Compensation Service at the B.N.R. It will calculate the daily net position of the banking companies. Subsequently, these amounts (debtor or creditor) will be credited to the current accounts opened at the B.N.R. for each banking company.

## 7. CONCLUSIONS

The issue of payments must be clear, clear and precise, only the multitude of forms make it complicated. Ultimately, the precision with which such operations are carried out requires a lack of ambiguity and, following the procedures that have been in place lately, the activity does not raise suspicions.

Even more, there have been standardized forms that, depending on the type and type of payment, put the homeowner and the payer in charge and the one who has to collect the money.

In Romania, the National Bank, as a central bank, carried out, in due time, the required regulations.

Romania's accession to the European Union's financial market, has also added the implementation of Community payment procedures between European partners as well as third parties.

In some countries, cashless payment systems are present but are needed to promote their development. These measures are considered to have been primarily geared towards creating a favorable climate for use and introducing non-cash payment instruments, such as payment orders, checks, bills, promissory notes, and the improvement of clearing and settlement systems of these paper payment instruments. In these countries, in general, the technological infrastructure has not reached a stage of development sufficient to facilitate the transfer of funds by electronic means.

It is worth mentioning the initiatives of the European Central Bank which, given its statutory objectives and being aware of the indispensable economic and financial ties established between the Member States of the European Union and the rest of the non-EU countries, has started an analysis activity since 1998 payment systems and settlement systems in the countries associated with the European Union as a first step towards promoting their harmonization with the systems within the community.

It should be mentioned once more that payment and settlement systems in a modern market economy are some of the most important areas on which public and private attention is focused, being considered as the specialized mechanisms that support the implementation of policies in the field of real economy, financial, fiscal and even social markets.

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