

# CEC BANK CASE: PROPOSALS AND POSSIBLE SOLUTIONS FROM THE EXPERIENCE OF ITALIAN FOUNDATIONS OF BANKING ORIGIN

Adalberto RANGONE<sup>1,2</sup>,

<sup>1</sup>University of Pavia, <sup>2</sup>University of Oradea, [adalberto.rangone@eco.unipv.it](mailto:adalberto.rangone@eco.unipv.it)

**Abstract**—Privatization processes have been carried out all over the world in many different ways. However, sometimes due to particular features Countries involved can try inspiration and advantage from the experience of other Countries in which privatization has been already completed.

In our opinion, that's the case of Romanian CEC (Casa de Economii si Consemnatiuni) Bank that during 2005 has gone through a hard privatization process without obtaining a positive result. Because of interesting similarities with Italian Savings Banks, there is a great chance that CEC Bank takes possible and innovative solutions to conclude the privatization process. For this reason, in this paper we present some proposals for a possible implementation of the Foundations of banking origin's experience.

In order to carry out this analysis the paper is structured as follows. In the first chapter we have retraced the most important steps of the privatization process made in Romania in order to understand the particular evolutionary path and features. In the second chapter we focused on the similarities between CEC Bank and Italian Savings Banks (Casse di Risparmio) in order to clarify the chance to implement the Italian experience in Romania. The third chapter is completely devoted to Italian experience through the analysis of the privatization process featuring the Casse di Risparmio and at the same time the birth of the Foundations of banking origin. The last and more important chapter describes the possible steps the CEC Bank could make in order to accomplish its privatization process. Some conclusions end the paper.

**Keywords**—Privatization, Savings Banks, Foundations of Banking Origin, Welfare

## I. HISTORICAL PRECONDITIONS TO THE CURRENT ISSUE

AS Italy and other many European Countries, Romania has been subjecting of substantial privatization programs.

The 90's in particular were extremely important for the disposal of public property.

The first privatization plan was promoted at the end of 1992 and foresaw four intense years during which were disposed shares in 2.871 State-owned enterprises, approximately 46% of the number available for privatization.

During this program - since the State Property Fund was the main shareholder holding packages equal to 70% of companies - five-private funds were formed with the aim to receive the 30% residual interest.

Of these funds, each Romanian adult citizen received a certificate of ownership that could be converted into shares of investment funds [1].

In subsequent years (after 1995) were implemented important privatization plans leading to the disposal of the most part of public interest within industrial companies.

After privatizations of State-owned commercial and energy companies were also incorporated into the project the credit institutions.

In the early 90's in Romania were seven state-owned banks:

Bancorex, Agricultural Bank, CEC Banc, Banca Comerciala Romana, Banca Romana de Dezvoltare, Exim Bank and Bancpost [2].

After the disastrous events characterizing Bancorex and Banca Agricola, serious plans were promoted in order to privatize the remaining banking institutions.

Since 2005 the CEC Bank was at the center of political and economic debates, but above all media. The decision was supported by the context of privatization that was already affecting Banca Comerciala Romana, later sold for € 3.75 billion (61.88% equity) to Erste Bank [3].

However, the project to sell the majority stakes hold in a bank that could play a strategic role in the restructuring of the national banking system inflamed public opinion, as well as scholars and political parties.

Over the years, countless theories with contrasting character have deeply influenced political decisions so as to create a stalemate condition. Among the reasons causing the talks cooling down they put forward the low profitability from the offers.

The dispute between two international heavyweights in 2006, such as the National Bank of Greece and Hungarian OTP Bank, to acquire the 69.9% of interest produced not anything so that political authority and

CEC Bank's governance rejected more deals and exited the privatization program.

Today, the positions regarding the sale of Romanian savings bank are still uncertain and discordant. However, it is considering the story and nature that has characterized this institution - in many aspects very similar to Italian ones- which we consider extremely interesting the experience from ancient Italian savings banks and in this paper we propose similar solutions.

## II. CEC BANK AND CASSE DI RISPARMIO:

### CONSIDERATIONS ON THEIR PROFILES AND SIMILARITIES

At the same time of the savings banks' birth in Italy, in Romania the CEC (Casa de Economii si Consemnatiuni) was funded in the 1th January 1865. This institution substantially expresses the same function characterizing the savings banks in Italy.

Today, the CEC is a bank nationally diffused that formerly in 2009 disposed of 1.351 offices [4] also in rural areas.

During the historical evolution CEC bank developed different services towards the firms and the citizens.

Originally its activities consisted of:

- 1) *Various savings;*
- 2) *Escrow Accounts;*
- 3) *Various funds;*
- 4) *Local authority treasury (district and province) while today, in addition to the classic banking systems, the CEC offers particular services for the SMEs.*

In accordance with the strategies promoted by the European Commission, the CEC Bank aims to support the realization of projects for the development related to:

- 1) *SMEs' development;*
- 2) *Human resources development;*
- 3) *Infrastructure*
- 4) *Regional Development;*
- 5) *Tourism [5].*

This can far highlight the CEC Bank commitment promoted on the local economy, helpful to realize the symbiosis between the current globalization and the glocalization process [6].

CEC Bank is today subject to different political and economic flows conflicting and uncertain on the privatization process.

The reorganization process of the CEC bank such as for other credit institutions began through the Law no. 83/1997 followed by other regulations as well as the Order no. 42 of the 26th May 2005.

At the same way of Romanian savings banks, Italian Casse di Risparmio were born to assist the local community.

The first reason of their birth and further development has been attested in the social intervention and charity work carried out in XIX Century.

Hereafter, savings banks developed a particular

organization in order to receive the savings of the local community and for managing them.

But it is just managing higher classes' savings that Casse di Risparmio developed a sort of speculative management of the asset received [7].

This was the breaking point in which Casse di Risparmio needed particular discipline and regulations concerning the double nature of the charitable entity and the bank.

In 1888 Italian savings banks acquired juridical personality, governmental controls were disciplined and their juridical responsibility was finally established.

However, after the law no. 5546 of 15th July 1888, due to their specific role of savings managers, Casse di Risparmio were always considered public institutions and were no chances to provide them a private personality.

The savings deposits were the major Casse di Risparmio's funds resource – approximately the 99% - even though the services provided were also extended to other types of financial investments; the mortgage loans, for example, were the main promoted financial resource in addition to the savings management [8].

In accordance with this analysis, in our humble opinion the similarity between the Italian savings banks and the Romanian CEC is expressed by many conditions.

If CEC Bank's privatization process resumes, we consider the experience of the savings banks privatization in Italy as a possible solution.

## III. ITALIAN EXPERIENCE: THE BIRTH OF THE FOUNDATIONS OF BANKING ORIGIN

This process of privatization - started in 1990 with Amato's Law - involved different phases in which the foundations of banking origin (FBOs) were primarily majority owners and then allocated their interest in the receiving banks in the financial market. This trend allowed the wild privatization process to be limited. As a consequence it maintained the control of the banks and the grant-making activity in the hands of the local authorities through the foundations of banking origin. The figure 1 can better explain the transformation process.

Today, indeed, the foundations of banking origin play a very important role in the community and the local economy.

Some data can better explain FBO's consistency and the economic effort they promote inspired by an ideal of globalization.

The ACRI (Associazione delle Casse di Risparmio) revealed that thanks to a total asset of € 40.9 billion, in 2013 the 88 foundations of banking origin have destined among € 1.287,3 million for the institutional activity.

More particularly, the initiatives financed by FBOs have been 22.334 with an average of disbursement for a single project of € 39.619 [9].

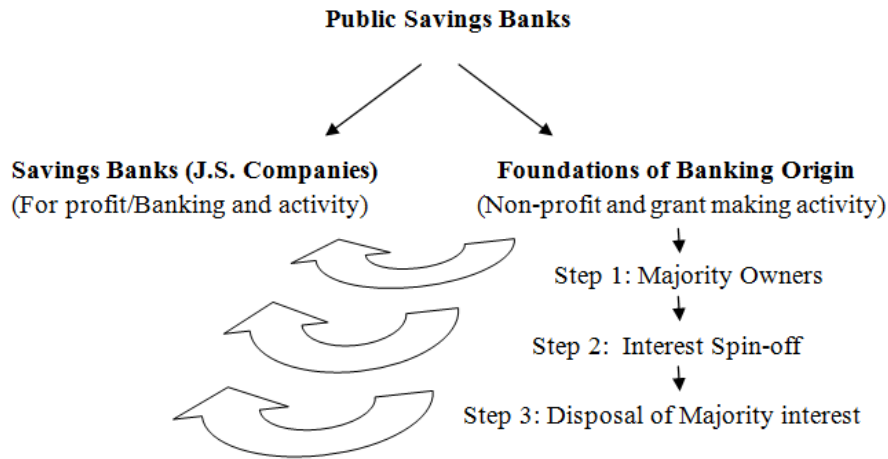


Fig. 1. The privatization process of Italian savings banks (Source: author's elaboration).

The field featuring the institutional activity are 21, but 7 are the most important and concentrated.

Art, activities and cultural assets are the first fields receiving the most part of supports from foundations of banking origin.

In 2013 the disbursement was € 269.2 million, consisting of 30.4% of total.

Research and Development absorbed € 128.3 million in 2013, equal to 14.5 % of total institutional activity.

Social Assistance is the third field for a number of disbursements with an intervention of € 119.8 million (13.5%).

Education, Instruction and Training (€ 105.3 mil.-11.9%), Philanthropy, Charity work and Donations (€ 104.6 mil.-11.8%), Public health (€ 68.4 mil.-7.7%), Local development (€ 49.7 mil.-5.6%) follow [10].

It's then possible to observe the importance the foundations of banking origin play for local welfare and economy.

They have received the cultural heritage and the significant social-economic role promoted by savings banks before.

The message we intend to highlight in this paper is that Foundations of banking origin thus express the need of privatizing a very important figure for Italian economy (Savings Banks) without creating a dispersion of national resources in foreign investments.

Of course, also the foundations of banking origin have been affected during the following years by numerous laws.

But this cannot change the important and current role played by them.

#### IV. IMPLEMENTATION OF ITALIAN EXPERIENCE IN CEC BANK CASE

Considering the particular experience coming from Italian savings banks and foundations of banking origin, although the privatization process is already started, also in Romania we could consider a scenario in which the Romanian government confers the entire shares control

to a foundation of banking origin.

This scission could be as follows:

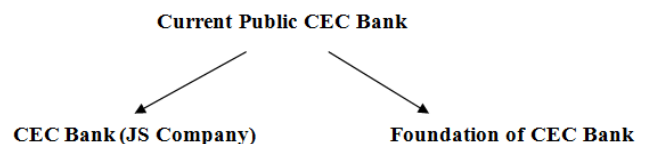


Fig. 2. Hypothesis concerning the implementation of the FBOS' experience in the CEC Bank case (Source: author's elaboration).

However, due to the importance that this scenario has on the national economy, it should be disciplined by further regulations in order to have not contraindications.

The different phases could be as follows:

- 1) *STAGE 1* → Foundation CEC Bank = 100 % shares. In this phase the Foundation owns all the capital stock.
- 2) *STAGE 2* → A possible spin-off of the intangible assets not strictly necessary to the operative management of the bank towards the Foundation.
- 3) *STAGE 3* → Foundation CEC Bank = 51 % shares. In this phase starts the gradual divestiture of the shares on the internal and international market.
- 4) *STAGE 4* → Foundation CEC Bank = minority interest. This is the phase in which the Foundation plays a secondary role in the life of the bank. Contextually the income coming from the interest and the income from the previous divestitures is helpful for the economic-social purpose: community development, grants for companies in strategic sectors, grants for start-up companies, granting activity towards non-profit organizations.

Through this analysis the criticisms, often justified,

towards the privatization politics would be fewer.

Indeed, by this way the effects obtained would be:

- 1) *the privatization process is gradual and the control on the bank is in the hands of the foundation representing the local communities interest through its governance.*
- 2) *it make a serious and rigorous brake to takeovers of international groups. By this way the foreign corporations - often more interested in assets than to banking activity - are forced to continue the guidelines of the previous governance.*
- 3) *the CEC property assets - the result of an over the century activity of the Romanian state - is preserved and it is not destroyed by a wild privatization process such as happened in other Countries.*

In order to underline the relation between globalization and glocalization we could suggest the creation of a lot of foundations (i.e. for the nine Romanian regions) such that they can integrate better into the local economic-social context.

#### V.CONCLUSION

As we have analyzed in the present paper, there are many similarities between the figures of savings banks CEC Bank and Casse di Risparmio.

Local Communities have taken advantage of their role played over time.

In Italy, particular political and economic choices allowed to maintain public savings banks' asset anchored in the local territory for the development of the local community.

This has been a very wise choice in order to fall not into impoverishing foreign investments.

Indeed, as considered by the legislator Giuliano Amato the so-called "juridical monster" (the Foundations of Banking Origin) can today spend important funds into the local economy, welfare and other social necessities.

At the same time and due to the similar historical background, Romania could choose to create specific foundations or a large single foundation in order to funnel the CEC Bank asset.

This particular choice is not so odd if we consider that five large funds have been created already during the privatization processes in 90's.

However, the creation of foundations from savings bank should be different.

They should be private entities, but always having public authorities as stakeholders.

And this is a very important profile to be not forgotten.

In accordance with these analyzes we would like to underline that living in a globalized world every Country should take advantage and inspiration from experiences of other Countries.

This rule is even more realistic if we consider that Italy and Romania are tightly connected by historical happenings and a common path.

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