Challenges, Opportunities and Solutions in the European Banking System

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Abstract
In this article, the authors intend to underline the main aspects regarding the risk in European banking system. The economic downturn and financial crisis has negative impacted the European banking system, has affected all types banking products and services, all models of supervision and all evaluation methods known. Basel Committee on Banking Supervision in response to the credit crunch, has developed a series of stringent financial regulations „Basel III”. The global financial economic crisis has unveiled significant lows in the regulation and supervision of the international financial system.

Key words:
Risk management, risk administration, compound risk, crisis management team, communication during crisis

JEL Codes:
G21, G24

1. Introduction
Risk management is an important component of the strategy of a credit institution to obtain a desired level of profit while maintaining an acceptable risk exposure. In the domain of risk management a credit institution guides itself by the operational legal provisions, resolutions, instructions and regulations of the National Bank of Romania, standards, manuals, circulars, instructions, regulations and by its own strategic objectives and rules.

In the last years, the desire to increase profit generated a large range of innovative products with higher risks, avoiding regulations and reducing capital allocation: while the proper risk management system behind is dynamic.

The Bank of International Settlement issued in 2006 very complex regulations regarding the minimum capital that companies must allocate as buffer for many risk coverage, but the financial crisis from 2008 proved that is still place for the regulation improvement and new Basel III was enhancements are elaborated.

One of the main objectives of the risk management process for 2012-2014 is to ensure a steady flow, with a high quality and with increasing trends of the net revenue even while the international economic crisis is acutely manifested nationally. This objective will be achieved by ensuring optimal combination between the assets, the liabilities and the financial risks.

2. Risk management in European credit institutions
The economic crises reflects the difficulties of the economic activity, that is slowing down, stagnation as a serious fracture of the macroeconomic equilibrium especially of the equilibrium between production and consumption between demand and supply, between the extent to which the production factors are used and the level of employment, between the level of prices and the purchase power of the citizens etc. Financial crises reflect serious malfunctioning of financial system of all countries, which are the significant deficits of the public budgets. Financial crises may appear as a result of accidents (significant reduction of money collected to the budgets), unforeseeable shocks to the real economy due to hasty decisions of the management that trigger exaggerated expenses, thus ignoring risks, etc., as the case may be consequently, economic-financial crises are caused by crisis-generating elements that pertain to both categories and negatively influence, both fields of activity.

Crisis management is a very complex task involving both predictive capacity crisis, creation of scenarios for keeping control and solving them and the feedback when crisis appear. Their solution is achieved by identifying the causes, an important activity for any organization, because research helps, as a crisis is likely to recur.

The importance in resolving crises is a decision
cooperatives as soon as Romania joined the European system is built and develops as an open system, which enables it to organize its activity through mobilizing its own resources and to continuously adapting to market signals and economic developments, of which it is a cause.

The Cooperative Bank appeared in Romania in 2007. It was necessarily to change the organizational structure of cooperative banks as soon as Romania joined the EU, in accordance with G.E.O. no 99/06.12.2006 on credit institutions and capital adjustment, approved through Law no 227/2007, with subsequent amendments. The implementation and transposition of European Parliament and Council Directive no 2006/49/CE of 14 June 2006, regarding the adjustment of the capital of investment companies and credit institutions, needed to be completed by the end of 2006 (a deadline established as part of accession negotiations). The procedure to pre-notify the European Commission of the entire legislative framework adopted was performed in the spring of 2007.

Within the EU, the European Association of Cooperative Banks is an important organization with an intense and varied activity, involved in all European Commission activities regarding the cooperative banking system. As from April 2003, Romania has been a part of the European Association of Cooperative Banks, alongside Austria, Belgium, Bulgaria, Cyprus, Switzerland, France, Finland, Greece, Germany, Italy, Hungary, Luxembourg, the Netherlands, Poland, Portugal, Spain and the UK. Congresses of the European Cooperative Banks take place annually, hosting debates on the following themes: financial markets, accounting and auditing, social responsibility, social and assisted development, banking legislation, payment systems, consumer protection and social affairs. The Congress is also the time for presenting the financial statement for the current year and the budget for the following year, as well as initiatives to increase the profile and to consolidate the position of the cooperative banks within the European banking system. With specific characteristics, Cooperative Banks are recognised both by national and by European legislation. They are valued by all financial rating agencies and ranked as a real banking force. Cooperative banks contribute to financing local economies and have the capacity of meeting the needs of co-operating members and of other clients. They are a moving force of cohesion and social integration and

to combat financial exclusion, so that all social categories in the demographic system may have access to financial services, without any discrimination. Cooperative banks equally play an essential part through their staff and collaborators, as the personnel of these banks accounted for 15% of all European employees over the last three years. Furthermore, local and regional cooperative banks are the most important contributors to municipalities and local communities and also participate in regional economic development. In the activity of credit institutions are identified five major risk categories, namely: credit risk, market risk, liquidity risk, operational risk and reputational risk. These types of risks are not excluding each other, given the fact that a product or service can expose the credit institutions at multiple risks.

• The credit risk is the risk of record loss or failure to accomplish estimated profits due to non-fulfillment from the counterparty of its obligations stated in the contract.

• The market risk is defined as the risk of record loss or of failure to accomplish estimated profits arising from changes in the market prices, interest rate and exchange rate. As part of the market risk we distinguish the interest rate risk arising from fluctuations in market interest rates.

• The liquidity risk is defined as the risk of loss record or of failure to accomplish estimated profits resulting from the incapacity of credit institutions to cope with the decrease of funding sources or the need for increased investment returns without involving costs or losses that can not be supported.

• The operational risk is defined as the risk of loss record or of failure to accomplish estimated profits and it is determined by internal factors (inadequate performance of internal activities or the existence of untrained staff) and external factors (economic conditions, changes in environment of the credit institution etc.). As part of the operational risk it is also identified the legal risk, which may occur due to the lack of correct or poor implementation of legal or contractual provisions that adversely affect the operations of the credit institution or the state of the credit institution.

• Reputational risk is defined as the risk of record loss or of failure to accomplish estimated profits due to lack of public confidence in the integrity of the credit institution.

In terms of economics, risk is defined by three main activities, namely:

• the analysis activity, which requires accurate estimation of risk based on customer’s initial status parameters and of the transaction for which funding is needed.

• the risk prevention activity to diminish or even remove the effects.
The crisis is a period in the evolution of a credit institution, characterized by increased accumulation of difficulties, the outbreak of conflict stress, the onset of strong pressures from outside, making difficult its normal functioning. Managers and employees of the credit institution which enters into crisis are suddenly deprived of the landmarks, as it is, they are removed from their normal bases of decision making and information so that it is difficult for them to measure and analyze the sum of new elements issued the crisis.

A crisis occurs in circumstances where the credit institution is unable to overcome, with the applicable means and strategies in normal times, a certain situation.

In a crisis, the credit institution goes through several stages:

1. The first stage, the impact stage, would be one in which there is an unexpected event that takes by surprise the credit institution and this automatically responds with its own routine of problem-solving;
2. In the next stage, it appears that we can not solve the problem by the means and strategies applicable in a situation of normality;
3. In stage 3, on the background of crisis augmentation, the management structure seeks to put at work all available resources to solve the problem;
4. Stage 4, is the active stage of crisis. The duration of this stage and the way in which it is solved depends on the speed of reaction of the crisis management team and the quality of alternative plans used for the crisis situations.

Alternative plans for crisis situations have as purpose:
- Making the situation stable
- Limiting the damages
- Functional restoration

The alternative plans for crisis situations, drawn by credit institutions include the following principles:
- Identifying the causes that generated the crisis;
- Formation of teams with specific tasks and more decision-making power;
- The attempt to rapidly remove the outbreaks of crisis;
- Maintaining the image of the institution as being a financially solid one;
- Prepare post-crisis action plans for implementation.

These principles lead to the achievement of action plans that will be used in unplanned situations.

3. Conclusions

In our contemporary world, marked by risk and uncertainty, the banking activity evolves under especially risky circumstances. Risk and uncertainty can be associated to each and every type of active and passive operations of the credit institutions, and also, they can be traced by means of the implementation of such techniques and procedures, so that the level of these ones should be enframed within manageable bounds.

The new Basel III enhancements cover all three pillars and they refer mainly to more strict rules and higher capital allocation for resecuritization and liquidity facilities, extension of prudent valuation guidance to the banking book, disclosure of liquidity information, more complex stress testing models, reputational risk coverage, conducting own credit analysis, more detailed disclosures especially trading book quantitative disclosures. In a very dynamic and innovative market, risk coverage is one of the keys for success and survival. Therefore each institution should invest in both human capital and IT system in order to have a complex and advanced risk monitoring system, to be able to implement fast and with transparency the newest risk management regulation, to anticipate the risks and mitigate them.

The Basel Committee has proposed supervisory institutions the development of detailed norms on the harmonization of minimum liquidity standards to ensure within a month stability of financial crisis and to promote long term elasticity for the banks.

Recommendations on capital adequacy and liquidity have been the subject of numerous consultations with EU Members and central banks were also established and developed new strategies that will be imposed under a new paradigm for credit institutions management.

The European Union countries should learn from the experience of the global financial and economic crisis. We are stronger when we work together, and the success of getting out of the crisis depends, therefore, on a close coordination of the economic policy.

"The crisis has exposed fundamental problems and unsustainable trends which can no longer be ignored. Europe has a deficit of growth which puts our future in danger. We need to decisively resolve the vulnerability and fructify our many advantages. We need to build a new economic model based on knowledge, on an economy with low carbon and high labor employment. This battle requires a mobilization of all the stakeholders in Europe". (Barroso, J., M., 2010)

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