



RISK MANAGEMENT IN COOPERATIVE BANKS FROM THE 21ST PERSPECTIVE

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Abstract

Globalization of markets, the extremely fast pace of technology, especially in communications technology, increasingly fierce competition between credit institutions to provide the most competitive products and services to customers led to an acceleration of activities in the banking system internationally. The cooperative banks have undergone extensive reforms since 2006, pursuing their restructuring, a process leading to the presence in this area of the financial system - modern banking, adapted to the market economy with legislation harmonized with the EU. Only a pertinent analysis and a very good knowledge of the new tendencies in banking financial risk management can provide cooperative banks in Romania efficient options on their use of management, while obtaining a higher profitability and an adequate level of liquidity.

Key words:

Risk management,
cooperative banks,
profitability, liquidity,
credit policies

JEL Codes:

G21, G32

1. Introduction

Credit risk can have a significant impact on cooperative banks. It can be direct, when not managed properly and becomes loss, or may be indirect, with negative results on customers, employees, business partners, or even on the banking supervisory authority. Credit risk may arise from within the institution, driven by exposure to customers, or beyond, coming from the external environment. Cooperative banks are also subjects of all the risks the customers are facing, risks that can be extremely diverse.

The literature in the field of banking highlights directions for the development of risk management and bank performance in recent years focusing on banking risk management in crisis conditions. In addition, the importance and complexity of banking risk management, the rapid development of methods and techniques of management and, not least, the emergence of new types of banking services and products that have exposed the cooperative banks and cooperative banks in particular the growing risks diverse and complex, requiring an update of the topic, taking into account the specifics of the banking sector in Romania and the reform in this sector.

The current period is called "risk management era" in banking, and risk management is an extremely complex and important banking management. Risk management involves prevention, measurement, risk management and control. This is achieved through commensurate

efforts and quantify them one of the ways the calculation of risk indicators, which enables static and dynamic assessment of the risks, with reference to international standards in the field or historic bank experience.

Risk indicators are more relevant in a general context for assessing bank profitability and its competitiveness in the market, the ultimate objective of bank management; consisting of maximizing the market value of the bank, influence risk -adjusted returns to shareholders.

2. Risk management in cooperative banks from the 21 century perspective

Cooperative banks represent a dynamic changing in view of the competitive market economy. They have undergone extensive reforms since 2000, aiming their restructuring, process leading to the presence in this area of the financial system - modern banking, adapted to the market economy with legislation harmonized with EU.

Given the fact that Romania is part of the family of the European Union requires adjustment striking concepts, and drastic measures and energy in order to adapt to the demands of financial institutions - European cooperative banks, including measures of concentration decisions, many made by merger. NBR has imposed new rules since 1991 to modernize the financial -

banking system by adopting the Banking Law 33 and Law 34, status of The National Bank of Romania. They have stated the basic principles for the further development of the system of cooperative organizations, which operate on the Emergency Ordinance no. 99/6 December 2006 and Law 227/2007 on cooperative banks and capital adequacy, as amended and supplemented.

Financial - banking institutions market specific of credit cooperative sector is dominated by small cooperative banks, not devoid of tradition and resources, which are not far from the demands of performing management. Many professionals and managers in the credit cooperatives have not adapted to the market economy and, therefore, did not survive the competitive challenges.

Since Romania's accession to the European Union (1 January 2007) seems to have become an adjustment of concepts, and drastic measures and energy in order to adapt to the demands of European co-operative banking and financial institutions, including measures of decision- focus , many made by merger.

The economic and financial internal and external frame set its mark on the local financial market behavior. The size of the domestic interbank rates remained low, cooperative banks financing through loans uncollateralized playing a marginal role. Interbank interest rates fell in the first quarter of 2014 due to weekly injections of liquidity by the National Bank of Romania and the successive reductions in the monetary policy rate.

In the 21st Century, in a market economy, knowledge of risk management has become indispensable in running any kind of business, and especially cooperative banks. Awareness of performance and risk management can form the basis for development, and managers must act as catalysts.

Economies are faced with rapid mutations: each activity field is geared towards change, creating numerous interactions as regards the social organisation and environment, and the strategies used in the financial world.

Cooperative banks belong to the category of services aimed at immaterial goods, and therefore quality and productivity are often conflicting. Clients want both, and it is up to the high-performance cooperative banks to strike the right balance between these two aspects to the benefit of their clients.

There are other main problems to be resolved by cooperative banks wishing to offer high-performance services, including:

- offering diverse services that are simple and easily accessible;
- continuously training personnel to be qualified and friendly to customers;

- prompt service, a main way to retain clients;
- client-orientated attitude for the staff, who are ambassadors of cooperative banks;
- authority delegation, so that the front line employees can personally attend to emerging problems.

In the activity of cooperative banks are identified five major risk categories, namely:

- a) credit risk;
- b) market risk;
- c) liquidity risk;
- d) operational risk;
- e) reputational risk.

These types of risks are not excluding each other, given the fact that a product or service can expose the cooperative banks and other banks at multiple risks.

a) The credit risk

It 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.

b) The market risk

It 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.

c) The liquidity risk

It is defined as the risk of loss record or of failure to accomplish estimated profits resulting from the incapacity of cooperative banks to cope with the decrease of funding sources or the need for increased investment returns without involving costs or losses that cannot be supported.

d) The operational risk

It 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 cooperative bank 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 cooperative bank or the state of the cooperative bank.

e) Reputational risk

It 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 cooperative bank.

Risk management is an important component of the strategy of a cooperative bank to obtain a desired level of profit while maintaining an acceptable risk exposure. In the domain of risk management a cooperative bank 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.

Given the importance and complexity of risk management, in this process are involved all the structures of a cooperative bank from the Annual General Meeting to each business division.

Risk management in 2012 - 2014 was made part of the general objectives, so that levels of activity to be mutually supported. This approach allows the cooperative bank to define and implement a risk management strategy that starts from the top and it is integrated in its routine activities and operations. The management personnel, regardless of its hierarchical level, will manage the activity on principles of risk efficiency. Moreover, the staff as a whole, will be trained to be aware of the importance of risk management in achieving their own objectives.

One of the main objectives of the risk management process for 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.

Risk management in the banking systems is in our opinion a complex topic, which can be positioned in the middle of the financial system due to the role that banks occupy within it. The role and implications of financial and banking institutions in the international financial system is perhaps best highlighted by the current circumstances of economic and financial crisis which proved the world the manner in which irregularities of the American credit institutions had the capacity to be propagated internationally infiltrating diverse effects inside national economies, which, coupled with other specific weaknesses specific for their national financial systems have led to crises with different features, but each time with worrying effect.

3. Conclusions

The complexity of the credit cooperative operations which generate the need for daily labor monitoring and risk management as an essential condition for the continuation of the parameters of normality.

Another important aspect that banks should take into account for the conceiving of a risk management strategy is the impact of the economic and financial crisis has on its customers. Just a very good knowledge of efforts felt in customers' businesses may cause the bank to take the appropriate decisions. Also, risk

management models used by banks to be adapted to the current conditions in the economy, given the customer perception about the structural changes in a bank in the context of the current financial and economic situation.

As a final conclusion of the research in banking risk management we want to emphasize and express our opinion that the methods and techniques of risk management must constantly be reviewed and changes occurring in the financial markets, implementation of Basel III is absolutely necessary in the current economic and financial context.

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