A BANKING -INTELLIGENT MANAGEMENT MUST FOCUS TO RISKS AND PERFORMANCE OF THE BANKS

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A balanced attitude of each actor of the Romanian economy ensures the premises of a prudent and healthy banking activity in an extremely difficult context. This paper aims the advantages of the implementation of the risk-intelligent management into the Romanian banking activity where the performance can be defined as an indicator which measures the stability level of the banking companies, characterized by low-risks and a trend of rising profits from one period to another.

Keywords: banking management, risks, liquidity, performance, Romanian financial market

JEL Classification: E5, G00, G20, G2, G30, G320

Introduction

The financial market is highly volatile due to the influence of a large number of objective and subjective factors. For this reason, in their struggle to maximize profit, credit institutions are faced constantly with all sorts of risks.

According to the Project Management Institute Body of Knowledge (PMBOK 2001), there are three definitions of risk management: risk management is the formal process by which risk factors are systematically identified, assessed, and provided for risk management is a formal, systematic method of managing that concentrates on identifying and controlling areas or events that have a potential for causing unwanted change risk management, in the project context, is the art and science of identifying, analyzing and responding to risk factors throughout the life of a project and in the best interest of its objectives.

Economic, monetary and financial-banking environment, are permanently affected by a fierce competition. Today the banks are viewed by specialists, and not only, as the only institutions that manage risk.

This attribute given to banks is due to the fact that any financial-banking operation on domestic and international markets is a subject of the action of a combinations of interdependent risk factors. In ideal risk management is a prioritization process is followed whereby the risks with the greatest loss (or impact) and the greatest probability of occurring are handled first, and risks with lower probability of occurrence and lower loss are handled in descending order. In practice the process of assessing overall risk can be difficult, and balancing resources used to mitigate between risks with a high probability of occurrencehe characteristic of the contemporary world is the uncertainty (Angela Belobrov, 2013, p.326).

In the 1944 conference in Bretton-Woods (USA), it was founded the so-called international monetary system a code of good conduct in the monetary area, but also the organization of financial-monetary institutions on international level, were established.

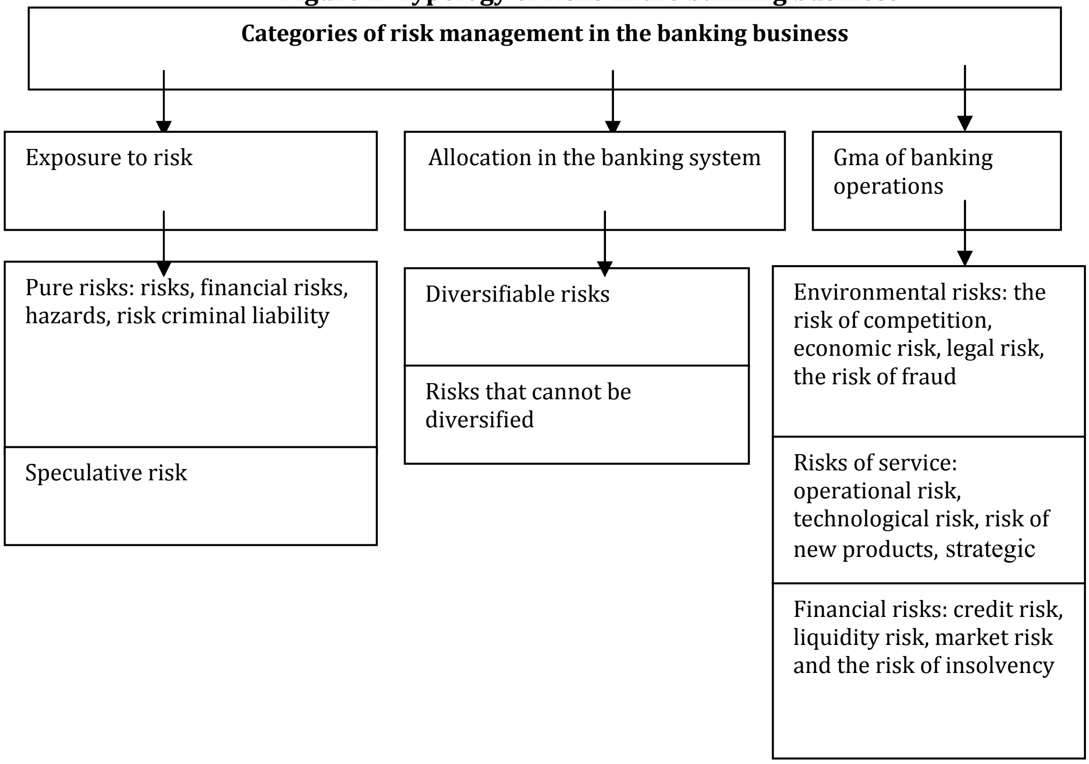
Until 1980, the financial-banking community had an unilateral perspective on risk only from the creditor's point of view. Risk management was being reduced to the lending risk, this thing being possible due to the relative stability of the financial system. This stability was specific to that period and it was possible primarily because of the existence and functioning of the international monetary system founded in Bretton-Woods.

This mechanism controlled the fluctuations of the currencies and interest rates did not differ too much just because of the monetary policies adopted by the central banks and that were in accordance with the immediate interests of the debtor states.

At the end of 1980 the situation changed, the explosion of oil prices and the growing dependence of the Western states for sources of raw materials have generated an inflationary process that led to large fluctuations in nominal interest rates.

Competitive environment was affected by some changes because of the abolition of the control of international transfers of capital and changes in the structure of banking costs. All these factors have determined the specialists and practitioners to recognize the existence of a risk factors multitude - the risk of liquidity, risk capital, interest rate risk/currency risk, settlement risk, business risk (fig. 1).

Figure 1. Typology of risks in the banking business



Source: Olteanu, A., Olteanu, F.,M., Badea, L., 2003, p.201.

Risk and bank earnings have conditioned each other directly; finding a point of balance between these two sizes was somehow the key to success, the temptation of gaining repeatedly overcame the inclination towards caution. At the same time, the banking risk cannot be easily isolated, once appeared in the case of a bank in the whole banking, financial and economic system, it affects banks, institutions, activities that are not directly related with that bank (Constantinescu, L. M., 2013, p.21).

Proper evaluation of the banking risks assumes the knowledge of risk factors and this requires an useful and relevant information about the economic environment as a whole and about each of the persons with whom the bank conducts businesses. The risk becomes a brake in developing economic activity and growth, its impact hinders the decision process by reducing the volume of business because of the losses associated with adverse developments on the results.

Risk in banking activity can be characterized by three essential aspects: the causes of the instability of the banking risks, the critical point of banking risks (determined mostly by the bank's goals). In other words, banking risks designate the probability that, in a transaction the expected profit cannot be obtained or the loss may appear. Banking risk is a particular form of application of the theory in the field of banking activity.

The emergence of banking risks can manifest itself in the case of attracting resources (passive banking operations), and also in the case of placement (active banking operations), even though in most cases, due

to their correlation with their active operations, passive operations are considered to be less risky.

According to the NBR Regulation No. 18/2009, with subsequent amendments and additions, the main risks, with major impact on the economic situation of the banks are: compliance risk, credit risk, country risk and transfer risk, market risk, interest rate risk, the risk related to informational technology (IT risk) and reputational risk.

Strategic risk means the present or future risk which negatively influences the profits and the capital, and is determined by the changes in the business environment or unfavourable business decisions, by the implementation of inappropriate business decisions or because of a lack of reaction to changes in the business environment.

Liquidity risk is the present or future risk which negatively influences the profits and the capital, and it is determined by the impossibility of a bank to meet its obligations

According to the banking risks management, a specific protection can be conceived only in the case of diverse risks, risk becoming a probability of occurrence of an uncertain event for which the repartition of the effects of its production is known or for which it may be predicted by studying random effects already produced. Also, it is known that the financial risks are the only ones that can be quantified through a system of indicators, the other categories of risks being generated by external factors of the banks.

In conclusion, the correct identification of banking risks is essential for finding in a short time the most effective decrease measures. Knowing the time interval at which these risks occur is also important, because this thing provides the banking institution the possibility to mobilize resources and to adopt the appropriate measures in order to ensure the effective management of risks.

1. The banking risk influence on the financial performance of the banks

A balanced attitude of each actor on the stage of the Romanian economy ensures the premises of a prudent and healthy banking activity in an extremely difficult context: the global financial and economic crisis. Like other organizations, the primary objective of the financial activities carried out by the financial banking units is to maximize their value, the wealth of the shareholders, the effectiveness and performance. In this context, performance can be defined as the indicator that measures the stability level of a banking company's activity, and it is characterized by low-risks and a trend of rising profits from one period to another. In this regard, the informations regarding bank's assets and liabilities will be representative and reflected in the balance sheet of the company and in the profit and loss account. Studying the financial statements in the case of credit institutions is a form of fundamental analysis, embodied in specific indicators that are built at well-defined periods.

Some elements of the bank's balance sheet have been defined in their relationship with profit and risk: the assets may be performing or non-performing assets, while the assets that cannot generate incomes cannot get this attribute. Thus, being a derivative of the concept of performance, non-performing assets can be defined as being in a direct relationship with the risk of loss of placed funds and outturned but never collected revenues. Given the fact that the aim of any banking activity is gaining profit and performance, which allows it to operate in normal conditions and to develop, the management of banking performances has great importance, the reason being the fact that it can have powerful interactions with other areas of management (Ionescu, R. V. and Constantinescu, L. M., 2013, pp. 34-35).

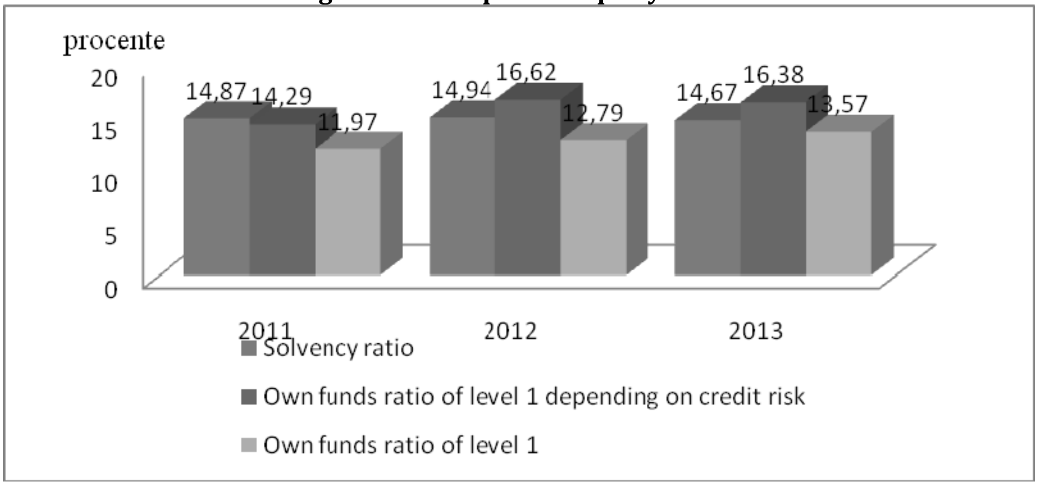
Management must take into account the following factors: a competitive information system, the selection of the appropriate products and markets, the reward of the bank's personnel, according to the bank's performance, the knowledge of techniques and financial instruments, the development of the strategies.

The development of balanced strategies must take into account the level of profitability that banking institution wants to achieve with the risks they can take and locate the bank's future.

In our country, the international financial crisis influenced the volume of net autonomous liquidity and the structure of the liquidity supply. National Bank of Romania (NBR) monitored the indicators of the adequacy of the capital reported by the credit institutions in our country, the lowering of the reliance on foreign markets, and the degree of capital adequacy calculated in the Romanian banking system has maintained at a comfortable leveland in the internal macroeconomic context of the risks coming from the Eurozone sovereign debt crisis, and of (L.M. Constantinescu, H. Melliani, L. Badea, 2011, p. 84).

According to the current rules of prudential banking capital, the level of capital adequacy is assessed by the indicator of solvency, which recorded indicated values in the reviewed period (14,87% in 2011, 14.94% in 2012 and 14.67 percent in 2013) compared to the minimum required limit, brought into line with that applicable one in the European Union, but also to the minimum level required in the process of prudential supervision (10%) established at the beginning of the period in our country of the economic crisis, measure which had the objective of increasing the ability of banks to withstand potential endogenous and exogenous shocks (fig. 2).

Figure 2.The capital adequacy ratios



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Despite the resumption of lending activity, the bank sector recorded in June 2012, a loss of 192 million, under the impetus of the depreciation of financial assets and of the induced effect by the reassessment related appropriations. Net interest income also continued having a negative dynamic, due to the decrease of the interest rates and the increase of the holdings of securities investment and low-yield investment.

A positive impact on the financial result was moved to IFRS, the expenses with depreciation adjustments of financial assets recorded in the first half of the year of 2012, according to the new standards, being about 1.5 billions of lei less than those that would have been recognised in accordance with the prudential approach.

The main profitability indicators of the banking system (ROE and ROA) were also negative. The evolution of the cost/income indicator in the first half of the year 2012 has illustrated a degradation of the capacity of credit institutions to generate profit from operating activit. Thus, in the absence of any increase of the lending activity of the real sector and of the restructure of the business models of credit institutions to the new realities of the macroeconomic framework, the evolution of profitability could continue the downward trend, amplifying the risk of capital erosion.

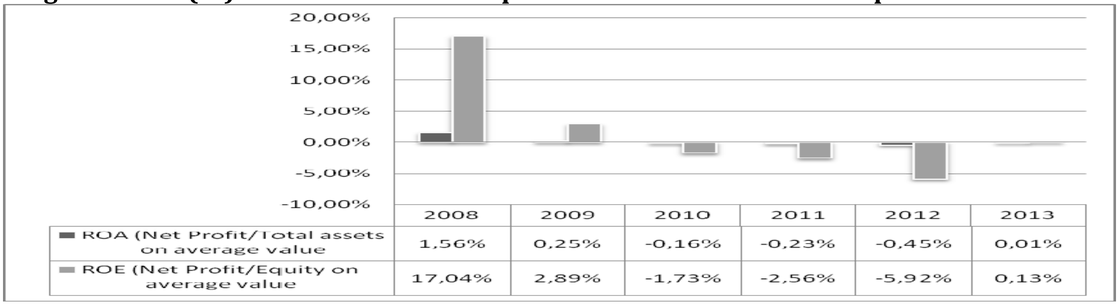
Table 1.The profitability indicator between 2010-2012 of the Romanian banking system

Indicator	31.12.2010	31.12.2011	31.12.2012	31.12.2013
ROA (%)	-0.09	-0.23	-0.45	0,01
ROE (%)	-1.02	-2.56	-5.92	0,13

Source : http://bnr.ro/PublicationDocuments.aspx?icid=6877

Thus, we can see a trend of decrease of financial profitability with 0.44 % at 31st of December 2011 to the end of the year 2010 (-0.09%-0.35%) and with0.35 % at 31st of December 2012 compared with the end of 2012(Table 1). In terms of economic profitability, it significantly decreases in the period of 31st of December to 31st of December 2010, with a rate of 1.54 percent. The trend of diminishing the economic profitability continued at the end of the year, reaching -2.56% from -5.59%. The trend of diminishing, both ROA and ROE, is highlighted in the chart below fig.3).

Figure 3.ROA (%) -The evolution of the performance indicators in the period 2010-2013



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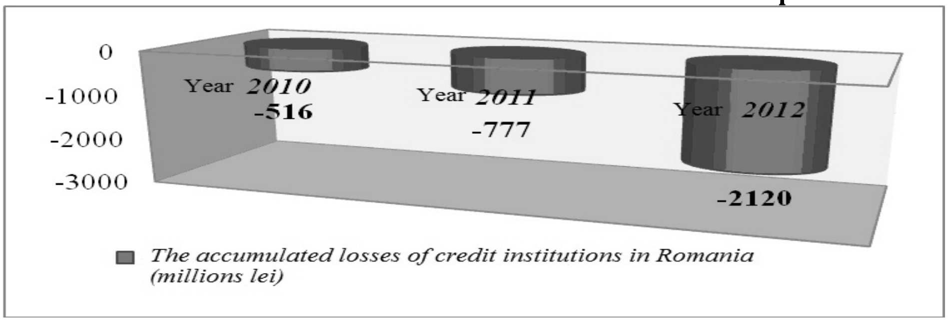
In 2012, the 40 credit institutions in Romania have registered record losses of 2.12 billion dollars, almost triple compared to the year 2011. Unlike 2008, when they recorded the biggest gains in history (over 4.4 billion), the year of 2012 was the third year in a row in which the banking system recorded a negative result, providing the largest increase in the volume of losses(fig. 4).

The factors that have led to these negative results were: the deterioration in the quality of the portfolios of loans; the decrease of the credit balance, when the production of new loans has collapsed, and many banks have sold packages of loans that became unsatison.

Figure 4.Accumulated losses of credit institutions in Romania in the period 2010-2013



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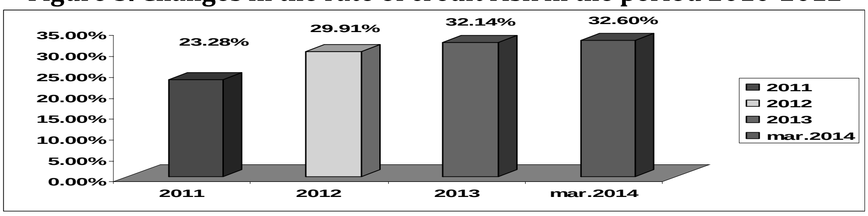
As it can be seen in the chart above, the accumulated losses of the 40 banks in the system have continued to increase in volume. Thus, in 2011 the losses were of 777 million lei, with 261 million lei more than in 2010 (when the losses were 516 million). The year of 2012 has recorded the biggest loss in history, reaching a value of 2.12 billion lei. Thus, the difficult economic context was the one who influenced the Romanian banking system, both in the area of savings, and crediting(Figure 4).Regarding the lending activity, according to the calculations of NBR, at the end of 2012, the rate of bad loans in the system increased to 18.2%, with almost four percentage points above the level of the previous year. This increase in the level of bad loans is due to the fact that the economy has not recovered, and many of the loans restructured in the early years of the crisis have come to accumulate new arrears, becoming non-performing again. Another issue that raised the level of the non-performance refers to cases of fraud which are still under investigation and that generate weaknesses of the risk assessment. The biggest challenge for banks in the year of 2012 was credit risk, regarding the bad loans. The rate of credit risk increased, according to the following figure 5

Figure 5. Changes in the rate of credit risk in the period 2010-2012



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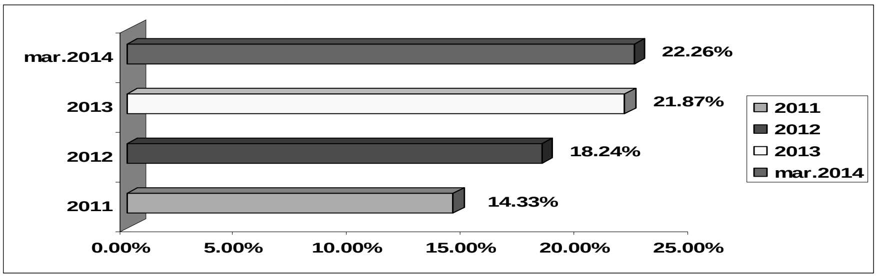
It is obvious that the tendency of the rate of growth of credit risk, that modified from 14.33 % in June of 2011 to 21.87% at the end of 2013(fig. 6). The same rising trend can be observed in the case of the rate of bad loans that has evolved in the period 2010-march 2014 according to the following schedule.

Figure 6.The rate of bad loans



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Conclusions

Economic stability seen as a whole has as main supporting pillar the stability of the banking system, the normal functioning of the banks in all their important tasks in order to avoid the disturbances from the activity of a bank, which can represent a risk of contagion for other banks in the economy.

The continuing growth of banking risks in the modern era, in the same time with the enhance of the relations of cooperation led to the internationalisation of the regulations for the purposes of development of national rules in accordance with the principles accepted by many countries, such as the international study groups organized by the Bank for International

Settlements or to the appliance of the community rules, drawn up in the form of European directives in the European Union.

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