

## RISK MANAGEMENT - COMPONENT OF CORPORATE GOVERNANCE APPLIED TO BANKS

CIURLĂU LOREDANA

LECTURER PH.D, "CONSTANTIN BRÂNCUȘI" UNIVERSITY, FACULTY OF ECONOMICS

e-mail: lciurlau@yahoo.com

### Rezumat

*This article is focused specifically on the banking system, as required by the economic segment of the assembly. Taking into account the economic and financial reality, both at international level and internally, each country and implicitly and Romania is interested in creating a solid banking system, to ensure an appropriate organizational framework the development of financial mechanisms.*

*I chose this theme as a result of the impact on the banking system in the whole economy and taking into account the fact that a market economy cannot operate without banks profitable and well consolidated. With the development of the economy and the improvement of the business environment in Romania the banking system has undergone significant development exponential growth. in the context of the challenges imposed by the globalization process of european integration, which is equivalent to the development process of Romania, cannot be achieved without the existence of a banking system performance to meet the intense competition between the countries of the world. Determinants of the Romanian economy - transition, integration, globalization - provides significant opportunities to increase the economic performance - financial, making more revenue, but also major risks.*

*The assessment of the performance indicators have a great expressiveness banking, reflecting a multitude of aspects such as the degree to generate profits, operational efficiency and management. Taking into account the banking institutions competition both internally and internationally we evaluated and analyzed the economic and financial profitability rate in the Romanian banking system reported to the european to assess the viability of the Romanian banking system when compared to other countries in the European Union.*

**Keywords:** *the Romanian banking system, globalization, integration in the European Union, the performance of the banking, risk of liquidity*

**Classification JEL:** G21, G32, M42, M48

### 1. Introduction

The economic literature attaches great importance to the analysis of banking performance, expressed in terms of competition, concentration, the efficiency, productivity and profitability. The main reason for this special attention is the central role of central banks in the financial intermediation.

One of the most important management aspects of any banks, consists in ensuring adequate liquidity. A bank is considered to have liquidity if they have immediate access, at reasonable cost, the necessary funds.

The management of a banking institutions may set a policy on possession of a volume greater than or less than cash, according to the needs foreseen by the funds, the dislike of risk, the risk factors and other considerations. In the creation of such a strategy, managers must take into account and torque of the liquidity-profitability.

According to Myers and Raghuram, the corporate governance of banks faces bank-specific challenges such as negotiable assets, changing the risk profile of banks, and structuring assets in a way that conceals the risks to which they are exposed. Kieff and Paredes [8] debated two major banking issues. first of all, the need for banks to maintain a deposit insurance system to protect depositors from showing excessive lending. Secondly. exposing them to a range of new, diversified types of risks, such as credit risk, operational risk and market risk. As banks face new and different risks in their business models, the nature of corporate governance must also be personalized at

micro and macro levels. The corporate governance mechanism has been a key contributor to the banking crisis.

## 2. The impact of Basel III on risk management in the Romanian banking system. Alignment measures

Although the effect of Basel III requirements on Romanian banks is considered to be limited, a number of measures can be adopted by banking companies in order to align with the new standards:

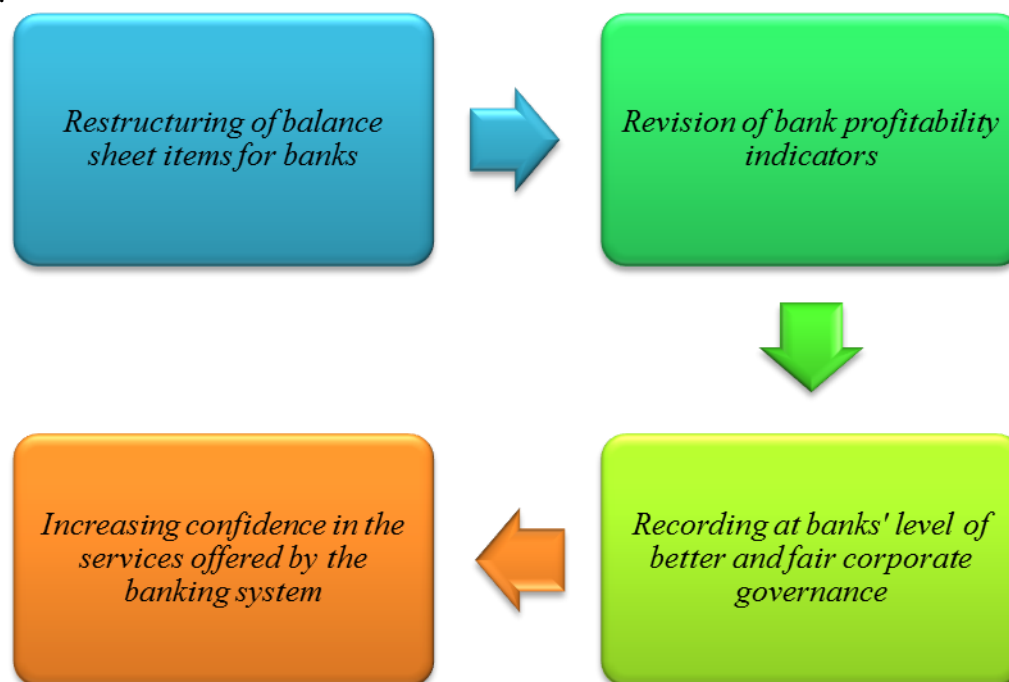


Figure no. 1 „ Measures to align with the new Basel III standards”

### *Restructuring of balance sheet items for banks*

The Basel III Accord emphasizes the importance of integrated asset management, capital and funding, with banks not having the solution to optimize the value of their liabilities and assets in an independent manner. A particularly significant level of Basel III impact stems from possible capital deductions. The new standards and additional capital quality requirements are differentiated by Basel III in that it is necessary to identify them at the level of banks [5]:

- the capital of subsidiaries in the insurance area exceeding the threshold of 10 percentage points, thereby reducing the possibility of re-using a significant part of the capital in the banking sector of that consolidated entity;
- the amount of any benefit related to the assets of that pension fund;  
the value of investments at the level of non-consolidated financial institutions exceeding the threshold of 10 percentage points

### *Revision of bank profitability indicators*

Certain banks will need to redesign their services and products to their customers, while ensuring the necessary measures to optimize their capital and bank liquidity levels. Banks, in redesigning the services and products offered, can take a series of measures on:

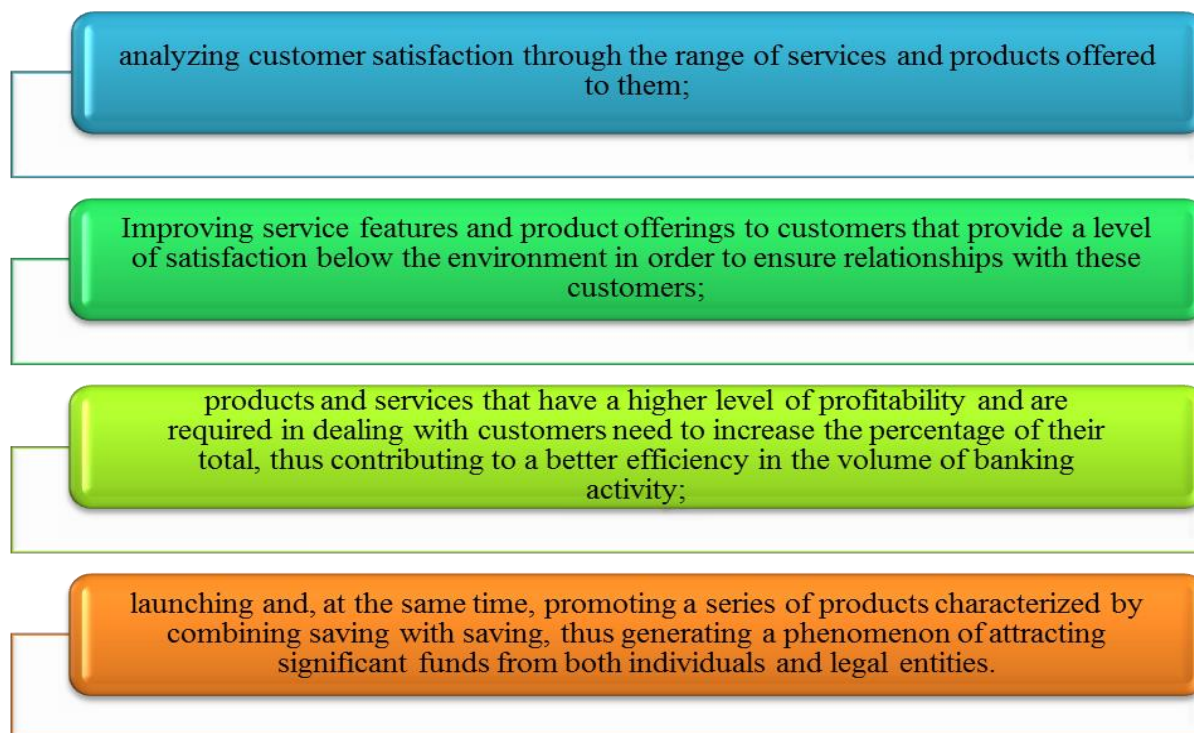


Figure no. 2 „ Measures to align with the new Basel III standards. Revision of Bank Profitability Indicators”

### ***Registering better and fair corporate governance at banks***

The crisis in the financial and banking segment revealed a series of corporate governance flaws. Thus, the financial crisis has revealed an ineffectiveness of certain principles of corporate governance (which did not contribute to the achievement of its objectives) in the area of banking services, being determined in particular by:

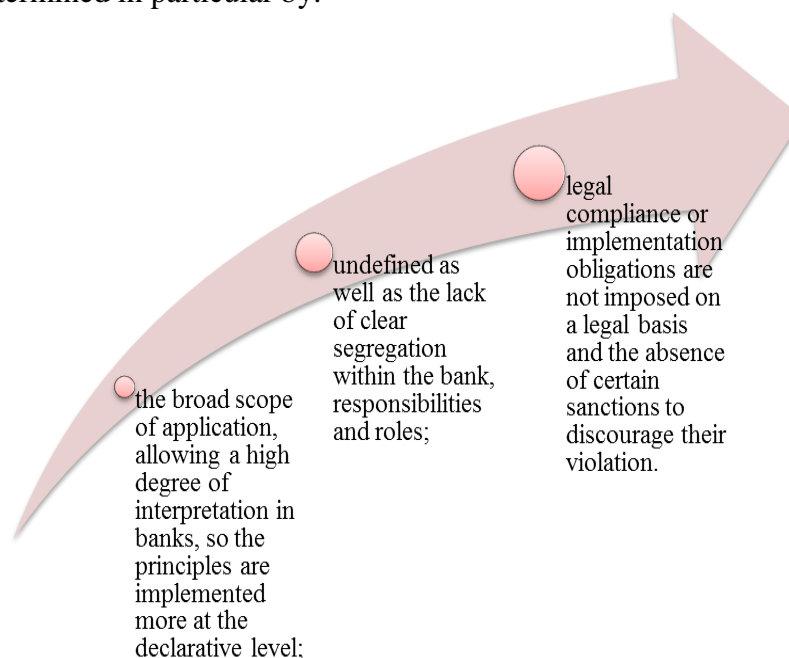


Figure no. 3 „ Measures to align with the new Basel III standards. Registering better and fair corporate governance at banks”

It is of particular importance that market players rely on the services provided by the banking system, representing an intangible value that is held by each individual banking company and ultimately has a profound impact on the profitability of that banking entity.

Equally, banks should pay close attention to the level of exposure to risks in the business environment. Hence, the importance and necessity of a thorough analysis of the degree of exposure to credit risk, environmental, counterparty risks and, last but not least, liquidity risks. In this area, a significant role is played by professionals involved in risk management activities that need to identify, manage and take measures that are considered appropriate to mitigate the risk exposure of banking companies.

In conclusion, the primary purpose of Basel III is to ensure stability and accentuation in the banking system of its profitability.

The established measures are designed to improve banks' ability to remain resilient to shocks by effective risk management within a framework to ensure significantly enhanced transparency.

In this context, in order to meet the capital requirements and strengthen the resistance to shocks, as a result of the risks to which they are exposed, banks within the banking system in Romania will take a series of measures in order to:

- to ensure the alignment of internal banking processes with the standards and regulations imposed by Basel III;
- to implement Basel III requirements so as to ensure the optimization of risk management processes and compliance at the bank level with the related standards / regulations;
- to optimize the process of verifying the level of capital adequacy at banks' level.

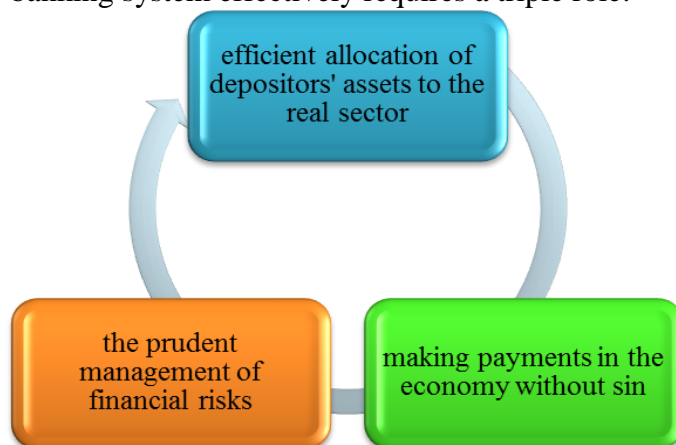
At the same time, with banks' continued interest in meeting minimum capital standards, effective liquidity management, and reduction of exposure to potential risks, special emphasis will be given to corporate governance issues that will ensure that the conditions for sustainable, sustained and sustainable development effective in the banking system.

### 3. The corporate governance system

Corporate governance is a subject of constantly up-to-date and wide-ranging interest, with the main purpose of ensuring adequate protection for investors and financial institutions. This interest in corporate governance is due to its influence on healthy business growth and society as a whole.

The concept of corporate governance has several definitions, due to the complex elements it covers. Corporate governance is the system by which companies are run and controlled.

Functioning the banking system effectively requires a triple role:



When one or more credit institutions fail to adequately fulfill these core functions, the economy may suffer significant losses.

Corporate governance refers to a set of fair relationships between executive management, board of directors, shareholders and other stakeholders interested in the good work of a banking corporation. The corporate governance system must provide the framework for setting targets, the means by which they are being carried out, and the methods to monitor the achievement of the proposed objectives.

The main components of the banking strategy are:

- the size of the bank's profitability;
- target groups for business activity;
- risk tolerance.

In the case of liquidity risk, credit institutions set tolerance levels based on indicators such as the share of liquid assets in total assets, the ratio of liquid assets to volatile deposits for a certain time horizon, or the duration of resistance under stress conditions, while the bank manages to pay its debts even when it is under pressure to withdraw deposits.

## CONCLUSIONS

I believe that the banking system, a healthy is built using appropriate banks profitable and capitalized. A full understanding of the sources of income and the changes in the structure of the revenue / profits, both of a bank and the whole banking system, in general, it is important for all those involved in the process of risk management. The supervisory authorities should look at the profitability of the bank as an indication of stability and as a factor which contributes to the confidence of depositors. Therefore, should be encouraged in a sustainable maximum profitability, because a healthy competition for profits is an indication of a financial system efficient and dynamic.

The improvement of the liquidity indices can be achieved, on the one hand, by optimizing the structure of the bank's assets. But as you know, as the asset's liquidity rises, its profitability decreases. Therefore, diversifying the asset portfolio can lead to optimizing the bank's performance or minimizing liquidity risk, depending on the principle underlying diversification. It is only that the dispersion of placements in several types of assets leads to a decrease in liquidity risk but also to a flattening of financial results.

The measures that credit institutions might adopt to mitigate the impact of alignment with new standards are business model adjustment and bank balance sheet restructuring. Effective bank corporate governance, depending on the business model and the corresponding risk profile, is paramount for the successful implementation of Basel III.

The most important benefits of corporate governance include the mitigation of business risks, performance development, openness to other markets, increased transparency and social responsibility.

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