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Risk Management Era in European Credit Institutions: Predictable Mutation in XXI Century

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Abstract

In the market economy, globalization, liberalization and diversification of financial markets, fierce competition between the credit institutions and many of the products and services offered by them are the main factors that have exposed the banking sector to new risks, while leading to multiple challenges. For these reasons it is becoming increasingly important both permanent innovation and risk management techniques tools as well as banking performance. Only a pertinent analysis and a very good knowledge of the new tendencies in banking financial risk management can provide credit institutions in Romania efficient options on their use of management, while obtaining a higher profitability and an adequate level of liquidity.

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1. Introduction

The central topic of the paper, the risk, can be defined as a multidimensional concept whose level cannot be reduced to a single element or a single number. For each banking sector it is important to determine an acceptable level of risk. It is closely related to the maximum loss that a credit institution can sustain, being absolutely necessary to improve its work. There is no single acceptable level of risk. This differs depending on the dissimilar development of each economic activity and the appetite that the decision maker has for risk.

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The term banking risk defines those risks faced by credit institutions in their current operations, not including the time only specific banking risks. However, even if we talk about some risks faced by other companies in the course of their work, how these risks affect the credit institutions is specific for the banking activity. General banking risks are part of banking risks, due to the specific way in which they affect banking activities (Predescu, I, 2005). Moreover, these risks are taken into account when talking about risk prevention and monitoring set by supervisors to ensure that they will not have a significant impact on the economic environment.

Credit risk can have a significant impact on credit institutions. 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. Credit institutions 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 credit institutions 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.

2. Risk management of credit institutions in the XXI century

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 credit institutions 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.

European Union financial crisis first hit developed countries, but risk aversion passed paced by the least developed countries in Central and Eastern Europe.

This region has entered a high risk area where contagion from one country to another has increased. The countries of Central and Eastern Europe are characterized by economic setbacks, unemployment amplified, shortcomings of the current account etc...

Globally, the main challenges of the international financial context are:

• worsening risk perception, including adverse spillover to regional development;

• contraction in international markets, external financing more difficult and replacement with the global liquidity risk solvency.

After 1989 the Romanian banking system has experienced intensified competition. The number of foreign banks that have opened subsidiaries in Romania increased significantly, being able to carry activities at distance. Thus, Romanian banks have faced stiff competition.

Gradually, interest margins have narrowed and competitiveness based on how attractive the interests were, was a big challenge for banks, as customers were more informed and more active, more experienced competitors and changes in technology have developed quickly. Risk management has remained an essential part of bank management and NBR's policies aligned with EU standards are not very comfortable for credit.

During this context, challenges appeared for the banking system. One of these is the Lisbon strategy, which is characterized by two central pillars:

• economic development

• fast employment, which by default can turn into a great opportunity for banks.

The Lisbon strategy involves investment in knowledge and innovation, harnessing business potential, especially through the development of small and medium enterprises. SMEs' segment will become their primary segment for banks as happens in other European Union countries, SMEs having a very important role in economic growth.

Another challenge is represented by the European Union economic funds for Romania, each market segment should contribute to the transformation of these funds from potential to real investment.