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THE BANKING RISKS: ECONOMIC MAINTENANCE, CLASSIFICATION AND THEIR IMPACT ON THE MANAGEMENT OF COMMERCIAL BANKS

RISCURILE BANCARE: ÎNTREȚINEREA ECONOMICĂ, CLASIFICAREA ȘI IMPACTUL ACESTORA ASUPRA MANAGEMENTULUI BĂNCILOR COMERCIALE

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Annotation: *The development of market relations is always associated with a certain degree of instability of different market indicators, which generates various kinds of uncertainty and danger in any commercial activity. In this regard, commercial banks dealing with a specific transaction cannot be completely confident in the results of their outcome and that is why in the Republic of Moldova, as in most other countries, this type of economic activity is the most regulated one. In addition, this is due to the very essence of the bank, which has the right to use, performing its activity, up to 90% of funds from legal entities and individuals.*

Adnotare: *Dezvoltarea relațiilor de piață este întotdeauna asociată cu un anumit grad de instabilitate a unor indicatori de piață, care generează diverse tipuri de incertitudini și pericole în orice activitate comercială. În acest sens, băncile comerciale care se ocupă de o tranzacție specifică nu pot fi pe deplin încrezătoare în rezultatele activității lor și, de aceea, în Republica Moldova, ca în multe alte țări, acest tip de activitate economică este cel mai reglementat. În plus, acest lucru se datorează însăși esenței băncii, care are dreptul de a utiliza până la 90% din depozitele persoanelor juridice și fizice în activitatea sa.*

Keywords: *bank, banking system, risk, bank risk, management, management of a commercial bank.*

Cuvinte-cheie: *bancă, sistem bancar, risc, risc bancar, management, managementului băncii comerciale.*

Introduction

The commercial bank as a commercial organization, in a market-based economy builds its relations with partners like usual market activities, ie based on profitability and risk. However, the bank must always correlate its profitability with liquidity.

Under circumstances of continuous market relations development, banks have been known to be one of the central elements of the financial system of any state. The development of the banking sector is a necessary condition for the creation of an effective market mechanism. During the period of the administrative-command system of economic management, banks were governmental institutions of the financial system. However, due to the transition to the market relation system and the change of the ownership forms, the importance of banks in the economy has increased considerably.

Materials and methods of research

The transition to a market economy was considered the most difficult period in terms of management. However, the emergence of a new kind of ownership does not imply the rejection of state management of economy. On the contrary, exactly during the transition period and financial crisis, it is very important, more than ever, to monitor the progress of reform, of risk prevention measures and the reduction and elimination of crisis' consequences during the most difficult periods, when the "old" laws are not applicable any more but the "new" ones do not give results yet.

The American economists E.J. Dolan, K.D. Campbell treat the commercial bank as an institution that provides a wide range of financial services, in particular the opening of accounts and offering loans [2, p. 47].

Another representative of modern economic science O.I. Lavrushin defines the bank as a monetary institution that regulates the payment transactions in cash and cashless forms [3, p. 17].

Based on the interpretations, it should be noted that the stability of the banking sector is a necessary condition for the development of the national economy, since the state's monetary and credit policy are implemented, namely, through the banking sector.

It also helps to increase the share of non-cash payments in the total money turnover, as well as the integration of the Republic of Moldova's economy in the international financial system through the implementation of international payments and participation in the international redistribution of capital.

Performing its activities, commercial banks face different risks and because of this the primary task of the bank's managers - is to identify these risks and to assure their appropriate management (Figura 1).

A.N. Azriliyan defines the bank's risk,as the inherent possibility of the banking activity, characteristic for credit institution, to incur losses or liquidity deterioration, due to the adverse events caused by internal factors (complexity of the organizational structure, the level of qualification of employees, organizational changes, employee turnover, etc.) or external factors (change economic conditions of the credit institution, applied technologies, etc.) [1, p.47].

The economist O.I. Lavrushin considers that the banking risk - is primarily, a special kind of activity. The risk – does not represent the uncertainty per se but the functioning of economic entities in conditions of uncertainty [4, p.153].

Based on the foregoing statements, the author determines the banking risks as a specific type of activity of bank managers under atypical conditions, of both internal and external environment, focused on the achievement of goals at a minimum cost and maximum effect.

As shown in Fig. 1 (risk classification), the author defines the external risks as unmanageable (uncontrollable), therefore, bank managers cannot manage them; their task is the smoothing the adverse effects on the Bank's activities during the occurrence of these risks.

The author believes that the adjustable risks and their management is the primary problem to be faced by the bank managers in order to ensure the stability and efficient functioning of the banking institution.

The author believes that the management of the business activities under the market conditions should be, above all, anti-crisis oriented even in the absence of the crisis, there is always some uncertainty (eg, the emergence of a new product on the market and, as a consequence, loss of competitive advantage - market risk) requiring permanent monitoring of risks.

If under conditions of economic growth, the top managers are paying more attention to profit indicators, the bank management strategy is going to be focused mostly, on sustainable growth and development, during the crisis the primary concern is the preservation of financial stability and business activity of the bank.

However, to save the business and its market position, the commercial bank must finance customers (providing loans) providing more profitable conditions for borrowers taking in consideration the fact that they have already problems with sales, the increased receivables, a reduction in production volumes, and others. All this gives the bank grounds to consider this operation as the most risky.

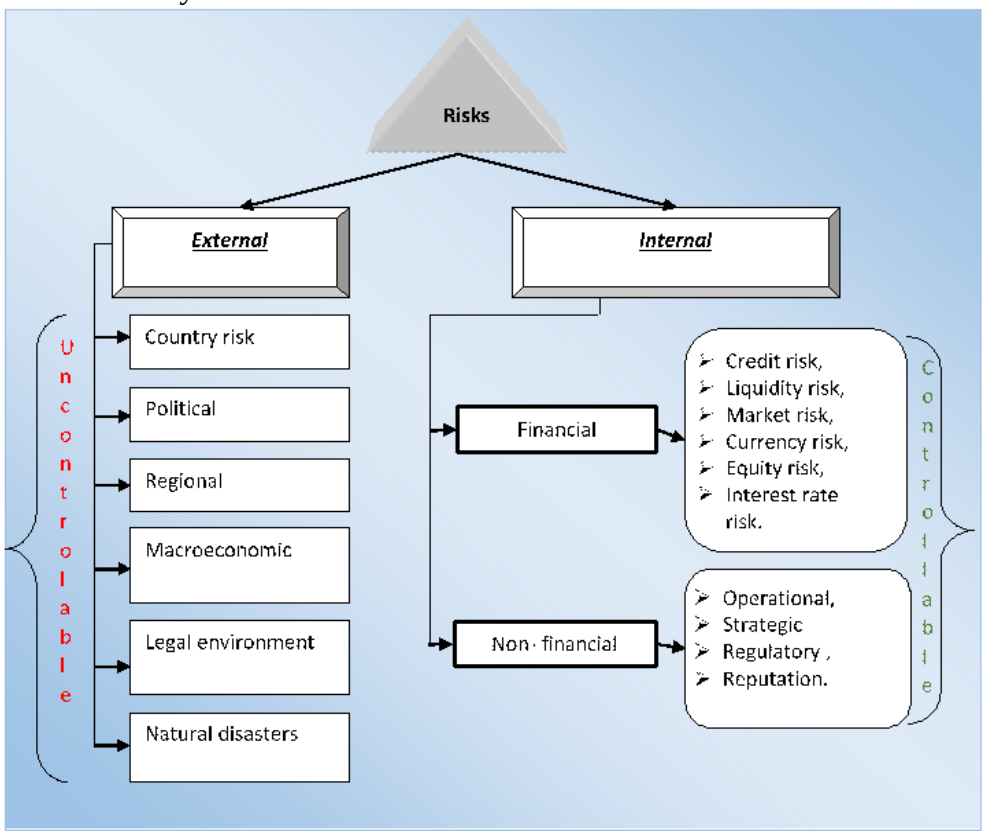

Figura 1. The classification of the risks to which banks are exposed [developed by the author]

At the same time, the higher the risk, the more profitable the operation must be to cover all costs. But the increase in interest rate and the tougher conditions for loans will lead to the situation that the borrowers will fail to fulfillment their obligations towards the bank.

Therefore, the management strategy of banking institutions facing the crisis is characterized by a decrease in interest to keep the high level of profitability of banking operations in order to preserve the financial stability of customers, ie, oriented to obtain high revenues in the long term, provided the effective functioning of client companies in terms of economic growth.

At the same time, the necessary conditions for the effective management of the bank is to maintain the bank's financial stability, which is achieved through competent management of the loan portfolio, and by keeping the right standards in the analysis of the credited transaction.

According to the author, can be noticed a positive effect of the risk on the economic system because it represents the starting point for the modernization, growth and development through the use of new, more effective model of management; as well as preventing the negative effect of the risk - the emergence of crisis.

The banking crisis is a form of expression or an element of financial instability in the state [6].

There are various factors that induce the emergence of the crisis - an event or a set trend, indicating the probability of an emerging crisis, which can be subdivided into internal and external (Fig. 2.).

The reasons for the crisis - it is an event or phenomena, as a result of which, the crisis and risk factors may appear. They have a direct impact on the emergence and development of the crisis, and it is characterized by a time frame.

The reasons causing the crisis can also be divided into external (common for the entire banking sector) and internal (specific to each individual bank).

The most important external factors that can lead to a crisis of the entire banking system include [5]:

- macroeconomic instability;
- inadequate macroeconomic policies of the state;
- default on government obligations held by banks;
- a sharp change in commodity and financial assets prices;
- stagnation of production, increase in the number of unprofitable enterprises;
- decline in real income of population, and non-compliance with their credit obligations;
- a sharp change of the national currency exchange rate;
- global financial crisis;
- a large outflow of foreign capital from the country;
- the undermined confidence of customers for banks and other.

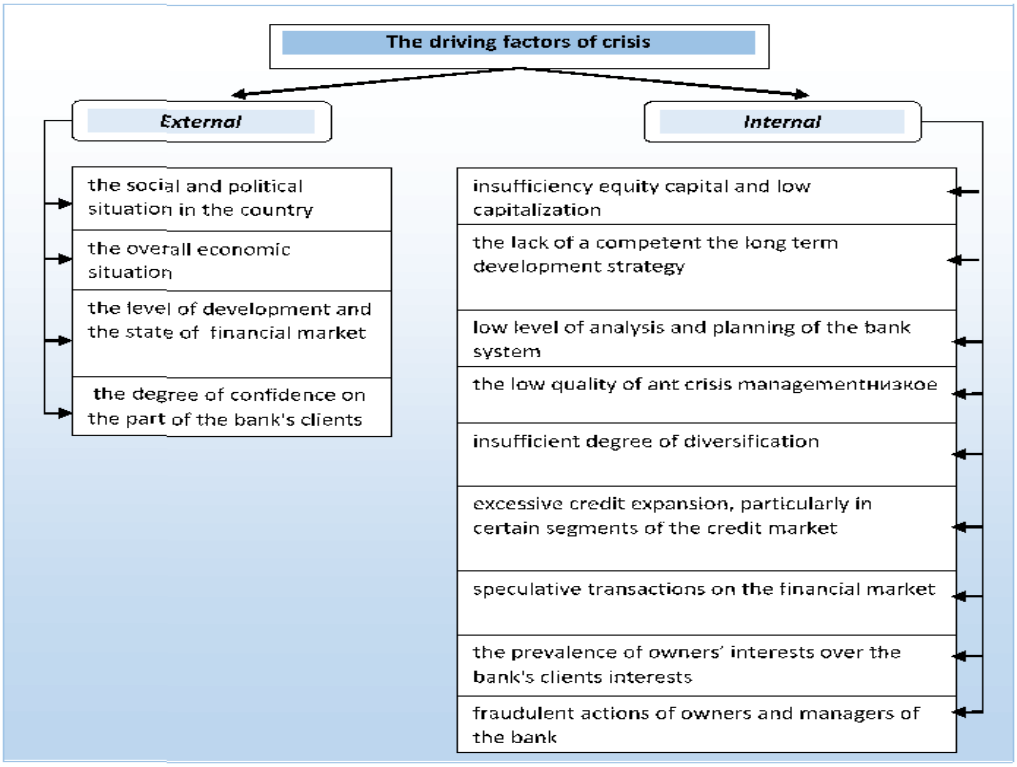

Figura 2. Classification of driving factors of banking crises [developed by the author]

The internal causes are conditioned by [5]:

- the risky management policy of equity, assets and liabilities of the bank;
- the shortcomings in the organization of the bank's activities and technologies;
- the aggressive lending and investment policy;
- the imbalance of assets and liabilities;
- the deteriorating quality of loan portfolio;

- the low diversification of assets;
- the adoption of the increased risks and weak control over them;
- the poor quality of customer service;
- the speculative operations on the stock and currency markets;
- the development of new markets and technologies in the absence of experience and highly qualified specialists;
- the mass withdrawal of deposits and other.

Knowledge of the factors and causes of banking crises in the presence of an effective administrative staff allows, based on the forecast of crisis probability, to take precautionary measures, to develop an anti-crisis policies and minimize the consequences of the banking crisis when it occurs.

Results and discussion

Thus, the author defines the crisis as a situation that arises during the risk.

The crises in the banking sector jeopardize the effective functioning not only of banks, but also creates a crisis in the redistribution of temporarily available resources, thus threatening the economic stability of the state and the development of all sectors of the economy.

The risk is present in any performed operation, but it can take different sizes. Therefore, for the banking activities it is important not to avoid risk, in general, but its timely identification and implementation of measures to minimize its effects.

The importanat conditions for the effective bank management is to maintain the bank's financial stability, which is achieved through competent management of the loan portfolio, and by keeping the right standards in the analysis of the credited transaction.

Conclusions

The banking activity is one of the most risky activities, as in addition to all related risks, to which are exposed all economic agents operating in the same environment, they also are exposed to the risks associated with the solvency and creditworthiness of their clients (80-90% of the resources of commercial banks is represented by borrowed and raised capital, therefore, the risk of non-repayment of loans may destabilize the situation in the bank and lead to the bankruptcy of the bank). That is why, the crisis management in modern conditions (in the context of the global financial crisis) is fundamental for commercial bank management system.

The crisis management is a complex management of all elements of commercial banks' activities in order to minimize the risks and their impact, both in the short and long term.

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