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The gestion of semnificative risks in banking societies

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Abstract:

The activity of bank institutions is subjected to a range of risks, and therefore these institutions are supposed to deal with their administration to the highest possible. An efficient administration of risks of the credit institutions supposes, among others, identification of considerable risks of the activity developed and the elaboration of some politics and efficient administration procedures of these. The banks must also create functional special structures in order to assure this administration and to establish adequate responsibilities on different hierarchical levels. An extremely important role in the administration of significant risks is given to committees of administration the risks which have to function in every bank institution.

Key words: bank institution, risk , great risk, gestion of semnificative risks

JEL classification: G30, G32, G38

1. The semnificative risks and their gestion in a credit institution

An essential objective of each credit institution represents the adoption of the necessary measures which must lead to an efficient administration of major risks generated by the development of the activity. The considerable risks are those specific to the activity of the banking societies which can lead to an important affecting of their activity, in the conditions of non-assurance for their healthy administration. Due to the importance and impact of risks, generally speaking, and to those as considered significant specially, the defining of these risks and administration politics are major objectives of the management of each credit institution.

From the need to ensure stability and normal functioning of the banking market in Romania and to avoid unpleasant experiences of shocks produced previously on the local banking market caused of some bankruptcies in the banking consolidation of the (1995-1999), but also to connect fully with the English practice of European and international regarding the management of significant risks, the competent authority, namely the National Bank of Romania, established the obligations of the credit institutions in matters of administration of significant risks, including in this range: credit risk, market risk, liquidation risk, operative risk and reputation risk.

Therefore, the responsibility of the way of assurance an adequate administration of significant risks inside a credit institution, belongs to its board of directors. In matters of administration of significant risks, the board of directors of a banking society has at least the following *responsibilities*:

- The approval of risk profile of the institution and its reappraisal any time it is necessary;
- The approval of politics regarding the administration of risks which the banking society is exposed to, their periodical analysis, at least yearly and the disposal of their revision,

when it is appreciated as necessary; The assurance on the fact that the management of the institution has adopted and taken the necessary measures for the identification, evaluation, monitoring and control of risks, including for external activities;

- The approval for establishment procedures and for responsibilities in the field of risks administration;
- The fundamented approval for some external activities;
- Approval of politics for staff education.

Operational responsibilities in the field of administration of significant risks inside a banking society revert to its leaders. One can remind among the responsibilities which revert to these, tied to the administration of significant risks: assurance of implementing the strategies approved by the boards of directors and their communication to the staff involved with their putting in application; ensuring the communication of politics and procedures for the identification, evaluation, monitoring and control of the risks of the staff involved and the assurance of their putting in application; implementation of some reference systems corresponding for the exposure to risks; the maintainance of some adequate limits regarding the exposure to risks, including for conditions of crisis, according to the size, complexity and financial situation of the credit institution; the maintainance of the efficiency and efficacy of the system of internal control; the analysis of the opportunity for some external activities due to risks involved in their external; ensuring a qualified staff and its suitable training; assurance of a concordance between the payment politics of staff and the strategy of the banking society as regarding the risks.

The efficient administration of significant risks imposes on the adoption by the banking societies of some **proper own strategies**, which have to be based on the report between risk and profit which each institution considers as being acceptable in the conditions of ensuring a continuity of its activity, on healthy and careful bases. The banking societies have to establish the types of risks which they believe they are ready to assume and administer efficiently, as well as the threshold from which a risk tends to become considerable. The significance thresholds of the assumed risks are determined by each banking society in accordance with a series of elements, such as: nature, dimension and complexity of the activity; internal systems of identification of the risks and their administration; warning on risks systems on which dispose and their fiability; internal reactivity to warning referring to risks; the necessary staff for risks administration etc.

2. Politics of administration of significant risks

An efficient administration of risks inside a banking society imposes on the necessity that this one should dispose on a range of politics of administration of significant risks adopted by the board of directors. These politics must correspond to the general strategies of this one, to be tied to the level of proper funds and to the experience in the administration of risks. The administration politics for significant risks are implemented inside a banking society by means of internal rules, procedures, including by books and behaviour codes of staff.

In the Romanian regulamentary practice, **Politics of administration for the significant risks** must assure a functional viable mechanism, made up of at least the following components:

- One system of procedures of authorization for the operations affected by the risks considered as being significant;
- A system to establish the limits of the exposure to risk and their monitoring, which reflects the chosen profile of risk and that should be in accordance with the legislation and

rules in force; the limits established at the level of activities, departments and secondary headquarters must be correlated with the ones established at a broad level of banking societies

- A system of reference of exposures to risks to the corresponding leading levels;
- A system of procedures for unforeseen exceptional situations;
- An administration system adequate for the „e-banking” type;
- A system of procedures for the security of the information;
- Criteria of staff recruitment and payment, which have to establish high standards for its preparation, experience and integrity;
- A schedule for staff preparation.

This components must be regarded as a whole, functioning and interacting with each other in order to ensure the coherency and the efficiency when managing significant risks.

3. Committee for risks administration

In order to ensure an efficient administration of risks, a committee for risks administration must function inside each, banking society in some established conditions. This is a permanent committee whose functioning is regulated by the central Bank authority as well as internal rules of every banking society. The committee for risk administration is constituted by a decision of board of directors, disposes of a functioning rule where its attributions are also established. Depending on the size and complexity of the activity of a banking society, the committee for risks administration set up in the framework of this one, can also work in subcommittees, designedly defined by means of the functioning rule. The board of directors analyzes and revises at certain times the functioning rule of committee for risks administration. The administration council establishes at the same time the way of reporting of the committee of administration of risks to this, the periodicity and form of references.

The committee of risks administration is made up of leaders of the banking society and departments whose activity is affected by significant risks, persons having experience compatible with the responsibilities received inside the committee. The competence of the committee of risks administration is being established by the board of directors.

One can remind among the *attributions of the committee for risks administration* inside a banking society:

- ensuring the information for the board of directors on the problems and considerable evolutions that may influence the profile of risk of the banking society;
- the development of policies and adequate procedures for the identification, evaluation, monitorize and control of the significant risks;
- approval of the methodologies and adequate models for risks evaluation and the limitation of exposures;
- establishment of the proper limits regarding the exposure to risks as well as the necessary procedures for the approval of exceptions from those limits;
- approval for the hire of the credit institution in new activities, on the basis of significant risks belonging to these.
- analysis of the alternative plans which the bank disposes of for unforeseen situations the bank could face with;
- presentation of some fairly timely detailed information by the board of directors, that should allow to this to know and evaluate the performance of the management in

- monitorizing and control of the significant risks, as well as the average performance of the banking society;
- informing regularly the board of directors on the situation of exposure of the banking societies to risks and immediately, in case that considerable changes occur in the current or future exposure of the credit institution to the respective risks;
 - establishing the corresponding reporting systems of the aspects tied to risks; establishing the competences and responsibilities for the administration and control the exposures to risks.

All the measures taken by the board of directors and the managers of a banking society with a view to administer rigorously and efficiently the risks as a whole and the significant ones, particularly, are meant to lead to efficiency and rentability of this one activity, in conditions of carefulness and assurance of statutory conformation. The better the risks the activity of a banking society is subject to are administrated, the more its activity is safe from possible difficult situations and rentability situations below the expectations of the shareholders, with all the consequences coming out from here. The board of directors and the operative management are responsible for the assurance of an adequate administration of all risks, but also the significant, particularly.

4. Conclusions

A main objective in management and govern a banking society is not only to ensure an efficient gestion of significant risks, but also of all categories of risks.

A proper gestion means, on the one hand, strategies, policies to identify and assess risks and on the other hand finding qualified personnel able to ensure their implementation , their monitorization and their control.

The raport taken into account between risks and profit must be the central element in elaborating and implementing of further strategies and policies when gestionating semnificative risks by the banking societies.

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