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HYPOTHESES AND PERSPECTIVES IN BANK RISK MANAGEMENT

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ABSTRACT: Nowadays, we are witnessing a revolution of global proportions in the financial and banking sector, which due to globalization has shown a strong cross-border character. In this sense, we can observe profound mutilations of the world's economy, influenced by the scarcity of resources, political changes, the migration of production factors, and the impact of the high level of risk the banks have taken in the previous years. All these have been influencing the worldwide economy welfare and the nations' sustainable development. Due to the events happening since 2007 until today, namely the history of bailouts all over the world, the "too big to fail" banks do not have the incentive to prudentially manage systemic risk. This leads to creation of contingent liabilities for the governments and therefore threatens their own sustainability. Consequently, such tendencies weaken the public trust in a system that privatizes the gains but socializes the losses.

Keywords: systemic risk, prudential approach,"too big to fail", transparency of the banking system, bank resposibility

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Introduction

We have eyewitnessed a revolution of worldwide proportions within financial and banking sector, which received an intense transboundary nature due to globalization. On this line, we have witnessed serious mutations in the global economy influenced by resource depletion, political changes, migration of factors of production and of the impact of banks' high appetite for risk on economic welfare and durable evolution of nations.

Evolutions that were registered recently in the activity of banks around the world brink up the problems of some transboundary expansions

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determined more by the desire to win by all means, breaking the limits of a rational investment behavior.

Well-known theoreticians and practitioners claim that we witness essential changes within the banking system, changes that come mainly from the way system risks are managed. On this line, in the book "Freefall" (Stiglitz, J.E., 2010, pp.18) there is pointed out the fact that nowadays the idea of the "infantile market fundamentalism" (according to which an absolute market ensures anyway economic performance) is no longer valid and that market participants cannot longer be certain that everything goes on, banking on "investors' rational behavior in their own interest". The experience of years after 2008 contradicts the polemic according to which "bankers did nothing wrong".

Research Methodology

The segment of economic and social reality integrates the total remarks to be organized epistemologically approached according to the constructivist current. This segment would be based on the social rationality besides observation, documentation and analyzing studied phenomena. On this basis one would try to find some hypotheses, rational explanations for the way of approaching risks within the banking system. This would represent the starting point in identifying perspectives for the ample problems of managing bank risks.

International Bank Concentration

In specialty literature there can be found divergent opinions regarding the importance and role of banks and financial markets in economic development. On one hand, the countries where there exist banks with private equity (which provide the private sector with credits and which have capital markets with a high degree of liquidity) have the tendency to develop themselves more rapidly (Demirgüç-Kunt, A., Levine, R., 2008).

On the other hand, starting from 1990s until nowadays, the most powerful banks at a worldwide level have consolidated their balance-sheets; their assets registered a bigger rising as against the gross domestic product (GDP) of the originating countries.

Therefore, these banks are this "big" that the possibility to collapse endangers the whole worldwide financial and banking system. This aspect questions directly the economic development at an international level from the sustainability point of view (Sorkin, A.R., 2009 and Goldstein, M., 2011).

In that directions there is eloquent the ascendant level of banking concentration from assets point of view, compared with GDP, which appears in 1990, 2006 and 2009 in the 9 developed countries as Table 1 shows:

Table 1

Banking concentration from assets point of view compared with the GDP (%)

Country	Top of first three banks			Top of first five banks		
	1990	2006	2009	1990	2006	2009
Germany	38	117	118	55	161	151
Great Britain	68	226	336	87	301	466
France	70	212	250	95	277	344
Italy	29	110	121	44	127	138
Spain	45	155	189	66	179	220
Holland	154	538	406	159	594	464
Sweden	89	254	334	120	312	409
Japan	36	76	92	59	96	115
United States	8	35	43	11	45	58

Source: Bank for International Settlements

"Too Big to Fail"

Since 2007 the notion of "too big to fail" has become an institutionalized concept to describe the strategy followed by a small group of important banks from the systemic risk point of view (Thomson, J., 2009).

The banks in question have been noticeable for governments and central banks in those countries in the sense that they have become such big and interconnected that their bankruptcy would have disastrous consequences both on a national and on an international level.

From a historical point of view, the problem of bailouts starts in March, 2008 along with the save of Bear Sterns Bank and continues in September, 2008 when American authorities decide to let Lehman Brothers Bank collapse. After this event, the finance ministries and the central banks governors of G7 countries confirm officially what just an assumption was: they would approve the use of any instruments towards supporting important financial institutions in case they face insolvency.

The problem of "too big to fail" addresses challenges to regulation and supervision authorities at a global level from three main perspectives. First of all, given that these financial institutions received the confirmation from previous similar cases that authorities would act as a saving hand, they have the tendency to exaggerate regarding the assumption of the systemic risk they are exposed to and not to adopt a prudential politics when managing risks.

Secondly, comparable smaller banks claim the competitive advantage of big financial institutions which can finance themselves with till 70 basic percentage points cheaper (Gup, B.E., 2004).

Thirdly, the preferential treatment given to these banks leads to the decreasing of public opinion trust in the correctness of the system and at the same time in the political factor.

Through the actions carried on during the last 4 years by public authorities, actions which tend to advantage "too big to fail" banks, there is stated the question of trust within the capitalist system of all present market economies; this system privatizes earnings, but socializes loses.

In this context, there cannot be ignored the debate on the transparency of banking system; this can be seen and appreciated both from the spontaneous, and from the conventional transparency. Appealing to the laws of Physics, to temporal symmetry which existed in the past and which consequently would recur in future, it is very important that the lessons of the past be considered hypotheses in establishing a procedural and applicable frame; this frame should temperate investors' appetite for risk till a level considered to be acceptable in order to avoid turbulences within economic activity.

There is taken up the topic of the efficacy of the internal control of banking reportings, its role in ensuring a trustful image of banking activities, of banking position and performances. Obtaining the efficacy of financial reportings processes imply methods, techniques, systems adequately conceived and applied for accounting identification and acknowledgement, registration of activities, of proceedings and people who have a variety of execution and control roles on different organizational levels of the banking system, respectively persons responsible with different functions within banks.

A faithful presentation of the financial position, the performances and banking treasury flows according to the International Financial reporting Standards introduces the adoption and assumption of a set of accounting politics applicable within risks' acknowledgment, evaluation and presentation in bank financial statements by the corporative respondents.

In 2011, within the European Union there exist assiduous concerns about the implementation of Basel III Accord. The importance of these regulations is given by the fact that there is taken into consideration banks' strengthening in front of a future financial crisis on the strength of the stipulated previsions. The accord should have an impact on bank risk management and on managerial decision process through: the reinforcement of minimal capital requests, measures to be instituted in order to reduce the systemic risk and the introduction of measuring the liquidity risk. Adopting Basel III Accord within the banking system would have as immediate consequences the fact that banks would have to take care first of all of consolidating their own capital.

In 2010, in the United States there was introduced the Dodd-Frank Act which deals exactly the problem of "too big to fail" credit institutions by establishing the level of legal capital, of liquidity standards level applicable to these "problem banks".

In Great Britain, at the instance of the govern, as a result of the latest events, in May, 2010, there was named The Independent Commission on Banking moderated by John Vickers, the governor of Central Bank of Great Britain. The commission has the mission to establish strategies materialized in intercessions regarding risk decrease for Britain contributors. This independent organism is expected to propose in no long time a strategic regulation about the systemic risk and the "too big to fail" problem.

Conclusions

Exaggerating about the systemic risk, "too big to fail" banks do not have anymore the impulse to adopt and implement a prudential politics. This fact leads to the accumulation of contingent debts and implicitly to a significant indebtedness with consequences on financial stability and sustainability. This is mainly due to the tendencies towards the maximization of profit which determine different reactions, specific approaches, sometimes contradictory of one system risks. Practice demonstrated a more striking assertion of informational risk too; it is given by the insufficiency, the inaccuracy of generating and disseminating financial, accounting information.

The informational vector managed by accountancy with all processes of generating and operating the information becomes a strategic resource, which underlies the decisional tree whose effects depend on a certain behavior towards risk.

The effect of the appetite in regard to risk of financial markets actors conduced to an excessive level of public and private debts accumulated until now. Nouriel Roubini's prevision for the future, asserted in an interview given in June, 2011 in Singapore, refers to the fact that 2013 could be the moment in which "the perfect storm" could strongly shock the global economy.

Even if maybe the measures that have been taken within the bank system do not offer a final solution in regard to risk management in future, they are worthy to be continued and to remain in the attention of regulation and supervision organism in the next period.

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