# BANKING STRATEGIES IN THE CONTEXT OF THE INTERNATIONAL FINANCIAL CRISIS

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***Abstract:***
*Commercial banks have approached various strategies in the context of this financial crisis. Temporary liquidity crisis turned into a systemic crisis. This led to the lack of stability and credibility for the whole banking system. Financial institutions have counted on the support of central banks as lenders of last resort. Central banks and the governments have counted on the support of international financial institutions (International Monetary Fund and World Bank) as lenders of last resort of the world. Interconnections in the banking system are a necessity. The extension of the activity of financial institutions at international level, made them too big and too interconnected to fail. Deterioration of the loan portfolio and the mistakes in liquidity management has created big problems for banks.*

***Keywords:*** *banking strategies, international financial crisis, commercial banks, financial institution, liquidity management*

***JEL classification:*** *G01, G21*

## 1. INTERNATIONAL FINANCIAL CRISIS AND GLOBALIZATION

The current international financial crisis, which started in 2008, should be seen in the context of international economic and financial globalization. The term – globalization – relates to several concepts, such as the development of global financial markets and increases the role of transnational corporations and their growing importance in relation to national economies. Globalization determined capital mobility and increased companies and states dependence to international capital and money markets. The free movement of capital at European and global scale creates new challenges for banking entities.

The globalization phenomenon has brought significant changes in the structure and dynamics of commercial banks, as well as in the competitive environment in which they operate. Globalization of the world economy, a new challenge faced by humanity at the beginning of this millennium, led to significant changes in the organization, size and management of banks. Globalization requires changing the principles governing the political and financial banking institutions, which lead to a planetary scale the globalization process (IMF, World Bank, and others) and their approach of some universally applicable principles that provide the guarantee of development.

The globalization is more pronounced and rapid in the financial sphere, being achieved:

- *geographically*, at regional level, continental or worldwide;
- *structurally*, through major international financial groups which include, in addition to banks and insurance-reinsurance companies, investment and pension funds, capital market activities, leasing and integrated financial services.

The current international financial crisis has its origins in the dramatic decrease in U.S. housing prices and the collapse of the housing credit market. Economic and financial analysts consider that at the bases of the current financial crisis are the fundamental causes of macro and microeconomic nature. The main causes of the crisis concern:

- lack of liquidity;
- use of sophisticated financial instruments and difficult to understand by some investors;
- appetite for high winnings with high risk;
- increased international competition for deregulations;
- emergence of a gap between maturity assets and liabilities of banks;
- lack of transparency in the financial market, and so on.

Each financial crisis is unique and is actually a historical accident, caused by specific factors in a particular social, economic and political conjuncture.

Financial and economic crises are cyclical, being actually related to the two phases of the economic cycles: expansion and recession.

The present international financial crisis has transformed from a temporary liquidity crisis to a systemic crisis. Financial institutions have relied on the support of central banks as last resort creditors. Central banks and governments have relied on the support of international organizations as creditors of last resort of the world. Thus, there was a phenomenon of moral hazard and the international financial institutions became the first, last and only resort creditors of the financial system.

## 2. BANKING STRATEGIES IN THE CONTEXT OF THE INTERNATIONAL FINANCIAL CRISIS

Banks are major financial intermediaries in the economy. They attract temporary funds available in the economy in the form of deposits, and then place them in the form of credits in the economy. In the banking system interconnections are a necessity. But the international banking business's extension has made too big and too interconnected to fail. Also, from the point of view of supervisory authorities, banks are too important to be left to collapse. Banks were highly vulnerable to the events that occurred in the market together with the financial crisis in 2008. This vulnerability was mainly caused by the deterioration of the loan portfolio quality due to the economic downturn and poor liquidity management. The dependence of subsidiaries to financings from the parent bank increased the vulnerability of European banks. All these led to the aggravation of the euro zone crisis.

Due to globalization and technological innovation, the banking industry has oriented towards new strategies for the development of banking activities. These are:

- introducing into the portfolio some new sophisticated and complex banking products and services offered on the internet. They have intensified global competition and led to consolidation and convergence in the banking field.
- increase the use of derivatives, acquisitions in the banking and financial sector and outsourcing, which brought major changes in the banking world;
- a new control policy and approach regarding banking and financial fraud;
- deregulation of financial markets and institutions, triggered by the British "Big Bang" launched by the entry into force of the financial reforms, which created a turning point in the global economy evolution;
- significant risk management, aimed at ensuring the achievement of capital adequacy to risk profile and the achievement of forecasted indicators in controlled risk conditions. These will ensure the continuity in conducting a sound activity, as well as protect the interests of shareholders and bank customers.

There are also a series of strategic risks that can be addresses based on the following quality elements:

- risk management practices are an integral part of strategic planning;
- strategic risk exposure reflects the strategic objectives that are not overly aggressive and are compatible with the developed business strategies;
- business initiatives are well designed and supported by communication channels, operating systems and adequate delivery networks.

The main development objectives of any commercial bank mainly aim the following:

- Continuous monitoring costs;
- Maximize the efficiency of allocated capital;
- Increase efficiency by keeping the same resources;
- Increase market share;
- Adequate risk management;
- Maintaining an optimal current liquidity;
- Sustainable growth of assets under management and number of customers;
- Expanding the offer of products and services addressed to customers and diversify the revenue base;
- Improving information systems;
- Diversifying and making efficient the distribution channels used.

As a result of the banking strategies addresses by the major commercial banks in Romania, in the current financial crisis, there can be noticed an evolution of the market shares of the top ten banks, during the period 2010-2012, as follows:

Competition analysis - market share

| | | Market share 2010 | | Market share 2011 | | Market share S12012 |
|---|---|---|---|---|---|---|
| 1 | BCR | 19.8% | ↗ | 20.1% | ↘ | 20.0% |
| 2 | BRD | 13.9% | ↘ | 13.6% | ↘ | 13.0% |
| 3 | CEC Bank | 6.4% | ↗ | 7.0% | ↗ | 7.9% |
| 4 | Banca Transilvania | 6.2% | ↗ | 7.3% | ↗ | 7.8% |
| 5 | Raiffeisen Bank | 6.5% | ↗ | 6.7% | ↗ | 6.8% |
| 6 | UniCredit Tiriac Bank | 6.0% | ↗ | 6.3% | ↘ | 6.0% |
| 7 | Volksbank | 5.8% | ↘ | 5.0% | → | 5.0% |
| 8 | Alpha Bank | 6.2% | ↘ | 4.7% | ↘ | 4.5% |
| 9 | ING Bank | 3.6% | ↗ | 4.0% | ↗ | 4.5% |
| 10 | Bancpost | 3.9% | ↘ | 3.5% | ↘ | 3.2% |
| | Total Top 10 | 78.3% | | 78.2% | | 78.6% |

It is observed a significant increase of the market share in 2012 compared to 2010, in the case of CEC Bank and Banca Transilvania. However, Alpha Bank registers a dramatic decrease of the market share, from 6.2% in 2010 to 4.5% in 2012, followed by Volksbank and Bancpost. During the period 2010-2012, the Romanian Commercial Bank (BCR) maintains its leading position in the market share, considerably detaching from the rest banks from the top 10 market leaders.

## 3. CONCLUSIONS

The commercial banks' approach of some successful strategies resulted in keeping them on the market and obtaining some financial performances. The fierce competition on the banking market forced banks to modernize their portfolio of banking products and services. They addressed global banking products, modern, complex and sophisticated.

Global products and global communications allowed banks fast connection and interaction in business, as well as unlimited contact opportunities between banks and their customers, unrestricted by distances or borders. Also, in the current financial crisis, banks have reassesses risk exposures and have defined a new policy of control and prevention of financial banking frauds.

The development of successful strategies by banks, to achieve financial performance, mainly aims:

- rationalization of multiple distribution channels, a specific strategy of European banks, which aim to strengthen and reduce then network banking units;
- outsourcing some support activities to diminish the exploitation costs. The outsourced support activities are mainly: IT activities, bank archive management, activities relating to securities' transport, security and bank safety, legal activities and so on;
- efficient management of banking risks, in particular the credit risk. European banks aim to develop some databases to manage historical credit losses and proper provisioning of credits.

Banks also address international penetration strategies. These strategies cover four development stages, namely: entry, expansion, consolidation and restructuring. Each stage depends on events that occur in the bank business (mergers, acquisitions and so on).

The implications of the current financial crisis and globalization on the banking activity are particularly extensive and complex.

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