

PRUDENTIAL SUPERVISION OF NON-BANK FINANCIAL INSTITUTIONS (NBFIs)

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***Abstract:** The non-bank financial institutions have a complex activity: multiple lending activities, consumer and micro loans, financing of commercial transactions, factoring, mortgage and/ or real estate loans etc. The number of customers rose to 1,233,567 at the end of 2013. Analyzing the main indicators of the NBFIs, there is an interesting evolution attributed to the current economic context. It is necessary the restructuring the non-financial institutions in terms of their number and the main aggregate financial indicators. The prudential supervision of non-bank financial institutions is made by the National Bank of Romania.*

***Key words:** non-bank financial institutions, prudential supervision, economic context, indicators*

***JED Classification:** G21, G28*

INTRODUCTION

Non-bank financial institutions (NBFIs) are financial entities, other than credit institutions, performing crediting actions on professional basis. In terms of legal form, they are set up as limited liability companies, the same as credit institutions (commercial banks).

In Romania, non-bank financial institutions are established and functioning under the regulations of Law no. 93/ 2009 regarding non-bank financial institutions. Depending on the nature of their activity, they have the obligation to enroll in one of the registries of the National Bank of Romania, namely:

- Special Register;
- General Register;
- Registry Records.

Non-bank financial institutions enrolled in the Special and General registers are required to be constituted as joint stock companies and are supervised by the National Bank of Romania.

The importance of these non-bank financial institutions increased in the Romanian market along with their increase of their number and the share of granted loans. Usually, non-bank loans are more expensive than bank loans and have a reduced repayment period. Their effective annual interest rate can reach up to 80- 90%. However, the specific clientele of these non-bank financial institutions appreciate the rapidity, flexibility and accessibility of non-bank loans granted by them.

Non-bank financial institutions may carry out, in accordance with the law, the following lending activities:

- granting consumer credits, mortgages, real estate, micro credits and others;
- financial leasing;
- issuing guarantees, funding pledges;
- granting credits in exchange for goods as collateral, respectively pawning through pawnshops;
- granting credits to non-profit associations;
- other funding forms that provide credits.

Within the conduct of the lending activity, non-bank financial institutions can perform financial advisory services to their customers.

This research aims to analyze the role and importance of prudential supervision of non-bank financial institutions, as well as the priorities of this activity.

Based on the numerical distribution by types of activities and key financial indicators aggregated, it is necessary to continue the process of restructuring the sector of non-bank financial institutions (NBFIs). Its importance in the financial system requires strong oversight and monitoring activities of the National Bank of Romania.

MATERIALS AND METHODS

The research methods used are: analysis, synthesis, induction and deduction.

The numerical distribution by types of activities and key financial indicators aggregated, it is necessary to continue the process of restructuring the sector of non-bank financial institutions are the ones monitored and reported by the National Bank of Romania.

In the prudential supervision of non-bank financial institutions, the National Bank of Romania has imposed them a series of reports that concern:

- Accounting and prudence report, namely:
 - Annual and periodic financial statements;
 - NBFIs exposure situation;
 - Situation regarding the level of own funds;
 - The situation of indicators on the criteria for enrollment in the Special Register;
 - Situation on credit exposures classification;
 - Semiannual accounting reporting;
 - The situation on the sources attracted in the foreign market.
- Statistical reports, namely:
 - Financial Statistics;
 - Balance of Payments Statistics;
 - Statistics of external private debt.

According to Law no. 93/2009 regarding non-bank financial institutions, National Bank of Romania (NBR) issued a series of prudential regulations for them. For example, the situation on non-bank financial institutions exposures is reported to NBR, according to NBR Regulation no. 20/2009 regarding non-bank financial institutions, with subsequent amendments and completions.

Compared to the foregoing, it appears that the regulatory framework is extremely dense and incoherent, with amendments to amendments and completions, which creates real difficulties to NBFIs. Moreover, it does not include any way the financial discipline and does not combat the abuse of NBFIs in the lending activity to their customers.

Most NBFIs require minimal eligibility conditions to access a non-bank credit, conditions that relate mainly to the age of the applicant, permanent residence in Romania and evidence of a permanent minimum income. These relaxed access conditions to non-bank credits increased the number of customers and hence the number of NBFIs.

The numerical distribution of non-bank financial institutions by types of activities at 31 December 2013 is presented in the following table:

Table no.1
Distribution of non-bank financial institutions by types of activity

Activity	Special Register		General Register	
	No.	%	No.	%
Multiple lending activities	41	82.0	127	73.4
Financial leases	7	14.0	33	19.1
Issuing of guarantees and assuming commitments, including credit guarantees	1	2.0	5	2.9
Consumer loans	1	2.0	4	2.3
Micro loans	0	0.0	2	1.2
Financing of commercial transactions	0	0.0	1	0.6
Factoring	0	0.0	1	0.6
Mortgage and/ or real-estate loans	0	0.0	0	0.0
Discount	0	0.0	0	0.0
Forfeiting	0	0.0	0	0.0
Other financing means in the form of loans	0	0.0	0	0.0
Total	50	100.0	173	100.0

Source: BNR – Annual Report 2013, pg. 82

Of the 173 non-bank financial institutions registered on 31 December 2013 in the General Register, the largest share, respectively 73.4% were those with multiple lending activities. These are followed by NBFIs with financial leasing activities that occupy a share of only 19.1% of the total.

The focus on these types of activities is also given by the difficulties encountered by NBFIs in procuring funding resources.

In the prudential supervision of NBFIs, in addition to the numerical distribution of these types of activities another important aspect is the distribution of their share capital according to country of origin.

The weight of share capital according to its country of origin, for the 50 non-bank financial institutions enrolled in the Special Register on 31 December 2013 is shown in the following table:

Table no. 2
Distribution of share capital based on the country of origin - % -

Country of origin	Share capital	
	in total capital	in total foreign capital
Romania	56.94	-
The Netherlands	12.82	29.76
France	6.69	15.53
Sweden	4.08	9.47
Germany	3.74	8.68
Italy	3.46	8.04
Austria	2.82	6.55
Cyprus	2.02	4.70
Greece	1.76	4.10
USA	1.52	3.53
Belgium	1.29	2.99
Luxembourg	1.22	2.83
United Kingdom	0.92	2.15
Poland	0.72	1.67

Source: BNR – Annual Report 2013, pg. 84.

Compared to the end of 2012, there was a strong increase in Romanian capital share from 40.5% to 56.9% at the end of 2013. In the total foreign capital, the Netherlands, France and Sweden hold together more than half, respectively 54.8%. The other 10 countries, mentioned in the table above, hold together 45.2%.

The total amount of foreign capital held by non-bank financial institutions raises at the end of 2013 to 239.1 million Euros, respectively 1072.3 million Lei.

RESULTS AND DISCUSSION

The efficiency of prudential supervision of non-bank financial institutions is also reflected in the evolution of their main financial indicators performed.

Given the current financial crisis and together with the depreciation of the economic environment in general, NFBIs face financing difficulties and a strong increase in market competition. Those that do not belong or are not connected to a banking group have financing problems; hence their continuation of the work is endangered.

The regulatory framework issued by the National Bank of Romania for non-bank financial institutions considers the following elements:

- inclusion of lending activities in the category of those carried out on a professional basis;
- conducting the lending activity as an independent activity;
- orientation of non-bank crediting towards obtaining revenues on a continuing basis;
- existence of internal structures specialized in the crediting field that manage and analyze these activities separately.

This legal framework encouraged during 2013, the continuation of the restructuring process of non-bank financial institutions, both numerical and in terms of the main aggregated financial indicators.

The main indicators of the non-banking financial institutions sector at the end of 2013 are shown in the following table:

Table no. 3
Main indicators of the NBFIs sector at the end of 2013

- Million Lei -

Indicator	Special Register	General Register
Share capital	2459.4	3054.2
Total assets (net)	23853.4	25927.3
Total loans and commitments, <i>of which:</i>	35510.7	36767.8
- financial leases	9872.9	10040.5
- other loans	9129.6	10066.0
- commitments	16508.1	16661.3
Doubtful and past-due claims (net), <i>of which:</i>	919.4	1038.6
- doubtful and overdue loans	391.5	447.7
Provisions (for doubtful and past-due claims), <i>of which:</i>	3821.0	4565.4
- provisions for doubtful and overdue loans	3487.0	3972.9
Non-performing loans and commitments	4993.2	5429.0
Profit/ loss, <i>of which:</i>	-392.7	-572.8
- retained loss	-371.6	-478.0
- loss for 2013	-21.1	-94.8
Number of contracts	1183787.0	1845982.0
Number of customers, <i>of which:</i>	1053086.0	1233567.0
- individuals	962404.0	1135177.0
- legal entities	90682.0	98390.0

Source: BNR – Annual Report 2013, pg. 83.

At the end of 2013, a number of 173 non-bank financial institutions were registered in the General Register, with a share capital of 3054.2 million Lei. The declining level of share capital by 23.3% compared to that registered at the end of 2012 was due to reductions of share capital operated by some institutions and deregistration from the General Registry.

According to the table above, the aggregate level of loans and commitments is 36767.8 million Lei. Within these a significant share is held by the funding granted in the form of loans (financial leasing and other types of loans) totaling 20106.5 million Lei, respectively 54.7% of total loans and commitments. The remaining 16,661.3 Lei, respectively 45.3% is the balance of commitments given.

The doubtful and past-due claims of NBFIs are amounting to 1038.6 Lei, representing 2.82% of total loans and commitments.

From the total number of NBFIs' customers of 1233567, by the end of 2013, the overwhelming share is represented by individual clients, respectively 92%. Given that this type of clientele is less instructed professionally with a lower level of financial and banking culture and civilization, it is absolutely necessary to strengthen the supervision and monitoring of NBFIs by the National Bank of Romania.

Prudential supervision and monitoring of non-bank financial institutions is performed by the National Bank of Romania by:

- following up the preparation and submission of periodic reports thereof;
- inspections and controls on the premises of NBFIs by specialized personnel from the NBR.

Following the prudential supervision and monitoring of these institutions, the National Bank of Romania elaborates off-site inspection reports, concretized in the application of sanctions.

The verification of the current activity of NBFIs is performed through on-site inspections carried out under the annual inspection program.

Prudential supervision of non-bank financial institutions is extremely complex, aiming not only the monitoring and reporting of financial performance indicators, but also the compliance with regulations issued by the National Bank of Romania.

CONCLUSIONS

Prudential supervision of non-bank financial institutions should be a priority of the regulatory body, namely the National Bank of Romania.

The limitation of activities in which non-bank financial institutions can engage, at a time and in a context where they struggle for survival, can bring them to bankruptcy. But any bankruptcy is not desirable and can have a negative effect on the economy in general.

Also, it is necessary to avoid image and reputational risk induced by the confusion of defining in common, under the term of NBFIs, all categories of financial services supervision or not, from large institutions that are part of financial and banking groups, up to pawnshops.

If banking entities are considered the most disciplined financial entities in the economy, not the same thing can be said about NBFIs. They are accused of "usury with legal papers", are lost in abuses and escalating interest rates from 90% to 5000% per year on loans granted to their customers (as reported by the National Authority for Consumer Protection). The biggest problems on unfair contract terms are not found in large credit institutions in the banking system, but in non-bank financial institutions. What can be done in this situation?

Following the conducted research is considered that the only solution for getting out of the impasse is to standardize the supervision of non-bank financial institutions by the National Bank of Romania. The regulation of standardized supervision must

primarily focus on non-bank credit portfolio, managed by these financial entities and their sources of funding. Another aspect that should be considered is the monitoring of the legality of clauses stipulated in contracts concluded with customers. This aspect of the legality of clauses in contracts for non-bank credits should not be left solely to judiciary courts. He should be regulated and monitored by the National Bank of Romania.

In the context of the current financial crisis, strong measures are required for prudential supervision and financial discipline of non-bank financial institutions.

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