

RISK MANAGEMENT STRATEGIES IN THE CENTRAL COOPERATIVE BANK “CREDITCOOP”

DANIELA HARANGUŞ

” AUREL VLAICU” UNIVERSITY OF ARAD

d_harangus@yahoo.com

Abstract:

Risk management involves the prevention, monitoring and limitation of the exposures of cooperative credit organizations to risks, as well as the determination of the level of assumption of certain risks. In order to implement the strategy for credit risk, the Central Cooperative Bank CREDITCOOP has established a series of limits: on specific banking products, on economic sectors, on geographical areas, on types of customers and limits related to residual risk. In this research, the characteristics of the main risk categories are analyzed. The elements determined in the credit risk management are: ability to pay; the debtor's desire to make the payment; capital; warranty (real or personal); environmental conditions.

Key words: *risk management, strategy, cooperative bank, risk categories, level of capital*

JEL classification: *G 21, G 23*

INTRODUCTION

Starting with the year 2000, the Romanian credit cooperation has benefited from a European legislation following the publication of the Government Emergency Ordinance No. 97/ 2000 regarding the credit cooperative organizations. The traditional credit cooperatives in Romania, organized within the CREDITCOOP network, have started an extensive process of reorganization, restructuring and placement on a modern basis of the credit cooperation, the activity getting closer and closer to that of a universal bank.

The entry of cooperative banks, starting with 2002, under the direct regulation and supervision of the National Bank of Romania, has been a milestone in the evolution of cooperative banks, which are moving further and further away from the self-help character, being forced to approach the activity on the principle of increased profitability.

As a result of the legislative changes, important organizational changes and extensive mergers took place in the system. Out of 565 credit cooperatives existing in 2002, 47 remained, most of them operating at the level of an entire county as real regional banks.

Since 2006, the Emergency Ordinance no. 99 on credit institutions and capital adequacy, regulates the conditions of access to banking activity and according to the provisions, credit cooperatives become cooperative banks established in the CREDITCOOP network and affiliated to the CREDITCOOP Central Cooperative Bank.

Risk management strategies in cooperative banks are influenced by the specifics of the activity and organization of these banks. The specificities of cooperative banks mainly concern the following relevant aspects:

- are constituted as autonomous associations of natural persons, united voluntarily to fulfill their common aspirations;
- their activities are carried out mainly in the interest of the associate members, and the decisions are taken democratically, based on the principle one man - one vote;
- are organized within a territorial operating range of its own, established by the constitutive act, in which they can set up branches, agencies and work points;
- associate members are natural persons who have their domicile/ residence/ place of work within the territorial area of operation of the cooperative bank and have subscribed and paid to its capital at least the number of shares prescribed in the constitutive act;
- the share capital of a cooperative bank is variable and consists of shares of equal value;
- the cooperative bank is a legal person, registered in the Trade Register and in the Register of credit institutions, existing at the National Bank of Romania, and the territorial ranges of the cooperative banks affiliated to the Central Cooperative Bank cannot intertwine.

The specific features that consolidate the characterization of cooperative banks is that they constitute a special world through personalized and friendly relations with most customers. These banks cultivate relationships in the spirit of mutual respect, relations that justify this collaboration by the fact that most customers also have the status of shareholders.

The characteristics of the main risk categories are analyzed in this research.

Risk management strategies and processes in the CREDITCOOP Central Cooperative Bank

Risk management strategies and processes are based on the provisions aiming at: Regulation no. 5/ 20.12.2013 on prudential requirements for credit institutions and EU Regulation no. 575/ 26.06.2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment companies.

The risk management function is actively involved in the development of CREDITCOOP Central Cooperative Bank's strategies for managing significant risks and in all its management decisions, providing a complete picture of the entire range of risks to which the credit institution is exposed.¹

Risk management of cooperative credit organizations requires:

- prevention,
- monitoring,
- limiting risk exposures,
- determining the level of assuming certain risks, so that, at the time of their occurrence, credit cooperative organizations have the capacity to overcome the negative financial impact that they may determine.

The risk management strategies in the CREDITCOOP Central Cooperative Bank aim at:

¹ Banca Centrală Cooperatistă CREDITCOOP – *Raport privind cerințele de transparență și de publicare a informațiilor 2019*, pp. 14 – 24), <https://noul.creditcoop.ro/ro/node/392> (CREDITCOOP Central Cooperative Bank - Report on transparency and information publication requirements 2019, pp. 14 - 24), <https://noul.creditcoop.ro/ro/node/392>

- Credit risk management strategy and process,
- Market risk management strategy and process,
- Liquidity risk management strategy and process,
- Operational risk management strategy and process,
- Management strategies and processes regarding reputational risk, strategic risk, settlement-delivery risk, and inter-concentration risk.

Risk management is approached in an integrated manner that involves preventive activities and operational management activities, which are undertaken during the manifestation of risks. Cooperative banks monitor several early warning indicators to assist in the emergency identification process, increased risk, or vulnerabilities in terms of liquidity position or potential financing needs.

Credit risk management in cooperative banks

Credit risk is a complex concept, widely debated in the literature. The assessment and prevention of this risk are regulated by norms, orders, and regulations of the National Bank of Romania.

The correct dimensioning of credit risk is of major importance, given that the main function of a bank is to grant loans.

The elements determined in the management of credit risk are:

- ▶ payment capacity (otherwise the most important factor);
- ▶ the debtor's desire to make the payment;
- ▶ the debtor's capital and wealth;
- ▶ guarantee (whether real or personal);
- ▶ environmental conditions.

To minimize risk exposure, the most important stage of the lending process is the demanding selection of credit applications. A credit is granted only if it can be estimated that the probability of repayment exceeds that of non-repayment, and in the credit risk management process, the credit analysis is of particular importance.

The Bank expects to achieve through lending earnings that can be direct or indirect.

Direct earnings are immediate and quantifiable. In general, this category includes interest, commission, and minimum credit balance of the customer's account (which constitutes a credit guarantee).

Indirect earnings are more uncertain and much more difficult to measure. Granting a credit may lead to the initiation or maintenance of a relationship, to an increase in deposits and to an increase in demand for other services.

In order to carry out the credit risk strategy, the Central Cooperative Bank CREDITCOOP established a series of limits: on specific banking products, by economic sectors, by geographical areas, on types of customers and limits related to residual risk.

The main categories of credit risks in the CREDITCOOP network according to its own regulations are presented in the following table:

The main categories of credit risk

Table 1.

Creditworthiness risk (non-repayment)	It represents the general risk of not recovering the interest and capital offered.
- firm risk	It refers to the legal nature of economic operators, their listing or not on the stock exchange, quality of the accounting records, the organizational structure, management, etc.
- product risk	It manifests in accordance with the nature of the product, price volatility, demand and supply or the absorption capacity of the market.
Concentration risk	It is due to the inadequate distribution of credits, by multiplying the credits granted to a single beneficiary, in a single economic branch or in a single region.
Guarantee risk	It occurs when the guarantees submitted have legal deficiencies or are subject to strong value fluctuations.
Special default risk:	
- political or country risk	It is the result of political events that make it impossible for the importer to fulfill his contractual obligations.
- commercial risk	Concerns trade relations between exporters and importers in terms of fictitious cash flows.

Source: CREDITCOOP's own Rules and Procedures

For the management of credit risk, attributions and responsibilities have been established at different organizational levels, respectively starting from the level of the credit department, the Risk Management Division, the Audit and Risk Management Committee, of the bodies with management function and ending with the responsibilities of the supervisory bodies.

In order to ensure the recovery of credits if the borrower does not comply with its contractual obligations to repay outstanding installments, interest payments and other obligations resulting from the contract, for reasons that could not be foreseen when the credit was for granted, CREDITCOOP Central Cooperative Bank requests borrowers to take precautionary guarantees. The main guarantees required by cooperative banks are:

- *real guarantees* (real estate guarantees - rank 1 mortgage, securities),
- *personal guarantees* (personal trustees - guarantors, personal guarantors, insurance of the risk of non-payment or other risks, assignment on the obtained income, bank guarantee), the latter being the predominant category.

For loans of high, significant values, are chosen those guarantees that retain their value over time, that do not require too much processing/ preparation, whose cost is high, and which are easily marketable. These are the real guarantees (real estate, securities and financial).

CONCLUSIONS

In the networks of European credit cooperative banks there is an increase in risks as the banking network grows, but this increase is relative, depending on the way and strategy of the bank's management. In the practice of cooperative banks there is also an approach which considers that, as the size of networks increases, risk decreases and diversification increases, risk protection policies are developed and internal regulations on risk are strengthened. The networks of cooperative banks, which are well structured, provide cooperative banks with components that provide a favorable environment for them to develop in their own market niche.

The Central Cooperative Bank CREDITCOOP, through the issued regulations, created the general regulatory framework, but also undertakes control and supervision actions over the cooperative banks in the system to develop and maintain them in the banking market.

Banks in "this special cooperative world" that is developing in Romania, face various risks, with complex processes that need to be solved, with new banking products and services that need to be implemented.

The strategic objective for the cooperative bank is to permanently evaluate and maintain the level of capital structure and distribution, to cover all the risks to which the cooperative bank could be exposed. The actions to be taken to permanently maintain the level and structure of capital are:

- Periodic review of the capital adequacy assessment processes;
- Identifying risk factors and maintaining an additional level of capital compared to the minimum limits resulting from the regulations in force;
- Adopt measures to prevent the reduction of capital from the minimum limits resulting from regulations.

To improve credit risk management, the directions for action are as follows:

- Periodic analysis and review of the loan portfolio;
- Continuous improvement of mechanisms for dealing with non-performing loans;
- Collaborate with debtors to assess problems and identify solutions to improve repayment capacity;
- Reanalyzing all debts for non-performing loans to find credit recovery solutions;
- Staff training to ensure the rigorous and uniform application of working rules.

Risk management strategies in the CREDITCOOP Central Cooperative Bank are rigorously regulated and applied in the entire activity of the cooperative banks within this system.

REFERENCES

1. Cimon D., Garriott C., (2019), *Banking regulation and market making*, in Journal of Banking & Finance, Volume 109, December 2019, 105653;
2. Gordon J. A., Baptista A.M, Shu Yan, (2014), *Bank regulation and international financial stability: A case against the 2006 Basel framework for controlling tail risk in trading books*, in Journal of International Money and Finance, No.43/2014, pp. 107–130;
3. Haranguş Daniela, (2019), *The evolution of the bank credit structure by activity of borrower and risk categories*, in Scientific Works, Series I, Agricultural

- Management, USAMVB, Timisoara, VOL. XXI (2)/2019, Agroprint Publishing House, Timisoara, pp. 161 – 165;
4. Haranguș Daniela, (2017), *Organizarea și operațiunile instituțiilor de credit*, Editura Eurobit, Timișoara, 2017; (Haranguș Daniela, *Organization and operations of credit institutions*, Eurobit Publishing House, Timisoara, 2017);
 5. Imbierowicz B., Rauch C., (2014), *The relationship between liquidity risk and credit risk in banks*, Journal of Banking & Finance, No. 40 /2014, pp. 242–256;
 6. Moinescu B., Codirlaşu A. (2009), *Strategii și instrumente de administrare a riscurilor bancare*, Editura ASE, București, 2009; (Moinescu B., Codirlaşu A., *Strategies and tools for banking risk management*, ASE Publishing House, Bucuresti, 2009);
 7. Banca Centrală Cooperatistă CREDITCOOP (2019), *Raport privind cerințele de transparență și de publicare a informațiilor 2019*, pp. 14 – 24, <https://noul.creditcoop.ro/ro/node/392> (CREDITCOOP Central Cooperative Bank, *Report on transparency and information publication requirements 2019*, pp. 14 - 24, <https://noul.creditcoop.ro/ro/node/392>);
 8. www.bnr.ro
 9. www.ecb.europa.eu