THE STABILITY, RISK AND PERFORMANCE OF COOPERATIVE BANKS

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Abstract: *In a market economy, tradition, stability and performance of cooperative banks, namely science and art of leadership, management, organization and their administration become major facets in promoting and improving cooperative banks, at the microeconomic level, to which we provide a coherent set of concepts, principles, methods and management techniques, their knowledge contributing to the viability and practical implementation, modernization and development of cooperative banks to increase their profitability and competitiveness in heightened risk conditions on local, national and even global markets. In the context of major changes in Romanian society, the action of the forces inside the contemporary market triggers a specific attitude that is characterized by the competition for resources and customers, competition in which performance plays a critical role.*
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1. Introduction

In the context of major changes in Romanian society, the action of the forces inside the contemporary market triggers a specific attitude that is characterized by the competition for resources and customers, competition in which performance plays a critical role.

The management of cooperative banks and especially the successful management of the cooperative banks is an issue of particular importance

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regarding the dynamic development of this sector, the need for a scientific analysis of the management of cooperative banks being justified. This is an urgent requirement in the context of competitive market economy of the banking and financial institutions.

In modern economies, cooperative banks can make a profit and their competitors can compete only by proving that they can master all the risks and promote transparent policies to prevent operational risks. Therefore, cooperative banks should understand the meaning of the risks and control them in an optimal manner.

2. Stability and performance in cooperative banks

According to the above, financial stability is the state in which economic mechanisms for evaluation, allocation and financial risk management work well enough to help increase economic performance.

The concept of stability, as defined above, includes markets, institutions and financial infrastructure. Any imbalance in the functioning of either dynamic links cup undermines the functioning of the entire system, positive externalities resulting from financial market stability induce an increase in welfare (as a result of efficient allocation of resources), while negative externalities help reduce aggregate economic welfare.

International Monetary Fund (IMF) has defined key indicators of financial stability in accordance with Basel II. Indicators are part of a set of indicators that consider overall financial situation of a country, including all entities involved in any way in the financial condition of a country.

Synthetically these indicators are expressed as follows:

1. Capital adequacy;
2. Asset quality;
3. Profitability;
4. Liquidity;
5. Sensitivity to market risk.

Vulnerabilities that could threaten financial stability related to the three basic endogenous components: institutions; market; infrastructure and the economic environment as exogenous source (Figure no. 1)

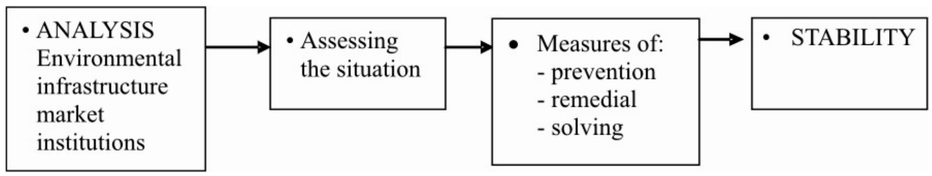

Figure no. 1. Components of financial stability

An institution may be exposed to risks facing vulnerability that if it is not fixed, it can spread throughout the system, in the financial flows developed in the system.

Traditional risks faced by credit institutions are:

- credit;
- market;
- liquidity;
- interest rate;
- currency.

The second source of vulnerability is the market, most well known being the risks of:

- counterparty;
- price.

The vulnerabilities resulted from infrastructure relate to the progress payments, the risks are specific to the mode of settlement.

Environmental risks may occur due to disturbances caused by technological innovation, instability, politics, etc.

The financial system is able to prevent the development of economic processes in order to obtain desired performance in an endogenous manner, even in the absence of shocks.

Financial stability means preventing imbalances that could affect the financial system or the economic processes.

Creating a representative framework for achieving financial stability aims to identify potential vulnerabilities, promoting remedial measures to avoid instability and solving unstable situations when preventive measures have failed.

We mention a number of policy tools able to prevent and remove vulnerabilities generating risks:

- stimulate market mechanisms to discipline financial activity including the introduction of targeting measures;

- introduce self-regulatory mechanisms;
- rebalancing techniques through the insurance of deposits and restoring confidence in the financial system;
- transparency in decision making and communication;
- improving the supervision of credit institutions;
- macroeconomic policies, etc..

3. Risk management – important component of the strategy of cooperative banks

In Romania, according to the Statute of the National Bank, the central bank supports the general economic policy of the State, without prejudice to its primary objective of ensuring and maintaining price stability. The powers of National Bank of Romania contained in the Act on the National Bank of Romania Status (Law 312/28 June 2004) and Government Emergency Ordinance 99/2006 amended and approved by Law 227/2007 amended and supplemented at later dates.

Central Bank of Romania for the viability and functioning of the banking system is entitled to:

- issue regulations (laws and regulations to ensure a healthy banking system in financial terms);
- take steps to enforce regulations issued;
- apply legal sanctions for non-compliance of regulations;
- supervise credit institutions (based on reports received through site inspections).

Given the significant risks that may occur in the banking system, The Supervisory Special Committee of the National Bank issued for banking purposes and for preventing serious systemic banking cases obligatory prudential rules.

For this purpose, in accordance with the schedule that was sent to the International Monetary Fund, National Bank fixes the following issues:

- examines the situation of each credit institution;
- establishes criteria on basis which credit institutions will be classified as viable or non-viable institutions;
- I.A.S. standards whose results are reported to the IMF as a condition for the completion of the first review under stand-by arrangement.

Without prejudice to the powers conferred on the National Bank of Romania regarding supervision of the cooperative credit organizations, the major role of the Central Bank CREDITCOOP conferred by Government Emergency Ordinance no. 99 of 2006 on credit cooperative organizations, approved and amended by Law nr. 227/2007, amended and supplemented at later dates, is to prevent risks with significant impact on the economic situation and/ or reputational credit cooperative network by promoting effective supervision, to ensure stability and viability of the entire network

4. Conclusions

In the modern economy, marked by numerous risks and crises, the problem of the financial stability becomes particularly acute. International institutions, among that we mention - the International Monetary Fund, Bank for International Settlements, etc. just as the national authorities have become particularly concerned with financial stability issuing up efforts to strengthen market surveillance and building a set of indicators to report as soon as possible the arising vulnerabilities.

Creating a representative framework for achieving financial stability aims to identify potential vulnerabilities, promoting remedial measures to avoid instability and solving unstable situations when preventive measures have failed.

Financial stability can be seen as cooperative banks' ability to efficiently allocate resources in space and time and to assess and manage financial risk through their own self-revising mechanisms.

Credit institutions are free to act according to their own policies and strategies, but some sensitive aspects of their work (liquidity especially) need regulation, monitoring and supervising the work of each credit institution.

The main objectives studied through banking and financial supervision are:

- compliance with laws and regulations related to the financial and banking activity;
- maintain customer confidence in the banking system;
- protect available funds, setting prudential standards to ensure a degree of safety;
- development of a viable and stable banking system.

For maintaining the performance of cooperative banks given the current economic and financial crisis and increasingly complex risks, it is required a multidisciplinary approach and good training of professionals in this field.

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