ANNALS of the ORADEA UNIVERSITY.

Fascicle of Management and Technological Engineering, Volume VI (XVI), 2007

CREDITING RISK MANAGEMENT IN BRD – GROUP SOCIÉTÉ GÉNÉRALE PRACTICE

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Key words: credit, risk, bank, competition

The protection against the general credit risk might be approached, within the banking system, as a problem as important as the normal crediting process, especially because it represents the central area of bank activity.

When contracting a credit, banks supervise the applicants to show credibility, in order to reimburse the credit in time. So, although the requirements are unitary, all banks analyze applicants` reliability and solicit credit guarantees under the conditions established through crediting norms.

The banking risk is an important strategic objective for the bank BRD – GSG; that is why is represents an independent chapter within the strategic conception adopted by the Bank Council of Administration.

1. GENERAL PROBLEMS CONCERNING CREDITING RISK

Credit operations may intervene into a large range of relationships between individuals, from simple personal agreements to formal transactions carried out within well-developed financial or monetary markets, formulated in complex contracts. The reimbursement promise, an essential element of the credit report, implies risks into the crediting activity.

The crediting risk, also named **debtor insolvability risk**, represents the possibility that debtors will not liquidate their payment obligations until the term of payment; this needs specific risk guarantees or provisions, and also the conformation to the bank norms concerning risk limitation.

In order to minimize the exposure to risk, the most important step of the crediting process is represented by the selection of credit requests and their analysis. According to the calculated indicators, the bank obtains information concerning the debtor's capacity of payment and it may conclude if the probability of credit and interest reimbursement overtakes the probability of non-reimbursement.

Whatever the risk level is, the losses in credit portfolio may be minimized if the crediting operations are organized and administrated with professionalism. The administration of such risk is represented by the assembly of administrative instruments, techniques and devices necessary to control, remove and finance the crediting risk and plays an essential role in bank's strategy.

Risk exerts upon bank or financial institution value an **independent impact** (usually expressed through directly stand losses) and also an **induced impact**, caused by the effects upon clients, human staff, partners and even upon bank authority.

At the same time with the development and diversification of the banking system and of each bank's activity, **the problem of crediting risks** achieves new dimensions, imposing to put the risk management preoccupations on the first place as an absolutely necessary guarantee for us, to enjoy the advantages provided by the crediting system.

The most important bank activity generating credit risk is the **financing**, but any other bank activity may be a potential generator of credit risk (extra-audit commitments and book debts, deposits and other inter-banking transactions, covering operations on the stock-exchange market, etc.).

The credit risk, the first among the banking risks confronting a financial institution, expresses the debtors or underwriters` possibility to not liquidate their obligations in payment term.

For debtor, the credit risks mean its financial degradation. A large variety of reasons related to the general economic situation or to the debtor's business conditions, among which many are unpredictable and affect its financial situation, may contribute to the crediting risk.

The crediting risk represents one of the oldest risks confronting the bank. A statistics concerning bank bankruptcy in the U.S.A. shows **the main causes** related to crediting risk:

- inadequate crediting norms;
- non-conformation between the internal credit norms and the bank human staff;
- too generous crediting norms;
- credit concentration on some markets or sectors;
- bad or inexistent systems for the detection of low-quality credits;
- excessive increase of the credit portfolio value over the reasonable limits of risk covering.

2. STUDY OF CASE – BRD GROUP SOCIÉTÉ GÉNÉRALE

BRD - Group Société Générale is the most important private bank and the second bank from Romania, having the second capitalization at the Stock Exchange Bucuresti (more than 2 milliard € - March 2005). The main shareholder is the Société Générale, one of the biggest bank groups within the euro region.

BRD-GSG considers that the banking risk is an important objective of its strategy; that is why it represents an independent chapter within the strategic conception adopted by the Bank Council of Administration.

According to this conception, bank is aware that the exposure to risk is a condition to be profitable on banking market. Under such conditions, the bank will act with all means in order to reduce this exposure to risk to minimum, in order to maintain a profitability which should assure a good position on the competitive market.

In order to avoid the risk of the non-integer and in time reimbursement of the credit and/or of the afferent interests, the bank follows the accomplishment of the next steps:

1) – analysis upon credit request;
2) – credit documentation;
3) – analysis upon client's reliability;
4) – decision of crediting.

1) Analysis upon credit request. This step means the documentation and information concerning the application for credit. The most frequent modality is the preliminary negotiation, consisting of the informative contact between the credit applicant and the institution representative.

Concerning the bank representative, its interest is focused upon the following aspects;

- applicant identity;
- the type of activity for which the credit is solicited;
- the identification of credit's objective and level (credit utilization must correspond to the banking legislative requirements and to the bank credit norms);

- the financial possibility for reimbursement; this relies upon the certitude of some future encashment from the contracts with business partners, the major source being represented by the liquidity surplus resulted successive to some activities carried out by the debtor;

- identification of the type and volume of the guarantees which might be offered;

- other elements necessary for the bank representative to form of an opinion.

2) Credit documentation. This step implies the verification by the inspector of the aspects concerning the necessary documents, among which:

- company status, company contract, fiscal code and the certificate of enrollment at the Office of Trade Register;

- income and expense budgets for that year and in perspective until credit expiration;

- the credit application form;

- the accounting audit for the last three years, certified by the fiscal authorities;

- the last verification audits and the one completed one year before, for a comparative study;

- the cash-flow for the last year and the one predicted for the entire credit period;

- the fiscal certification which shows that this client does not have outstanding debts to the governmental budget or to other budgets;

- the request for consulting the data base belonging to the Bank Risk Centre, signed and stamped;

- patrimony situation, documentation concerning the material guarantees which should certify their existence, property, age, quality and condition;

- the assessment of the guarantee offered to the bank, of all movable or immovable goods, through the assessment report carried out by assessors certified by CECCAR (Corpul Expertilor Contabili si a Contabililor Autorizati din Romania – representing the accounting profession in Romania) or by assessors employed by the bank;

- study of feasibility of the investment subject of the credit;

- copy of import-export license, if case.

3) Analysis upon client's reliability. This step may be carried out relying upon the documents presented by the client and through which the bank must become sure that the client has the possibility to support this debt, namely to reimburse the credit in term.

This is similar to the background analysis, which consists in the calculation and interpretation of some economic-financial indices (of liquidity, solvability, indebtness, profitability, etc.) leading to the determination of the reliability group to which the company belongs.

Successive to the carrying out of these two analyses, financial and non-financial, according to the conclusions drawn, the bank may assess the credits that can be offered to the applicant company. Then it establishes the maximal credit volume, the interest rate, the terms for reimbursement and payment of interests, the guarantees and the methods of insurance, and also other stipulations established within the credit contract.

4) The decision of crediting. Within this step, we must take into consideration the correlation with the resources available. The restriction of crediting is available for all banks and it is imposed by the limited character of bank resources and of those provided by the internal and external market.

After the completion of the analysis concerning the crediting conditions and the verification of the client's reliability, the analysis report carried out by the credit inspector and certified by the supervisor of the crediting department, together with the entire documentation annexed at the crediting dossier will be presented to the Credit Committee for approval or refusal. In most banks, the decision for credit approval or refusal has a collective character, meaning that it is made by the Credit Committee.

Successive to decision making, it is communicated to the applicant who, together with the BRD-GSG branch, completes the credit contract, including the signing of the guarantee contract.

During credit utilization, the bank analyzes debtor's economic and financial status: the evolution of the assets volume (turn-over, yield level), the evolution of the financial results, the improvement of the competitive position on the market, priorities of restructuring (effects and efficiency, investment volume, financial sources).

The supervision and control upon the credits offered by the bank may be carried out by the accomplishment of the following objectives:

- credit utilization for the objective for which it has been solicited;
- the permanent an integer existence of the bank guarantees (physical and functional integrity, their maintenance and preservation under the best conditions);
- renewal of the insurance contract for the goods guaranteed, when the reimbursement period is longer than the insurance one;
- maintenance of the money liquidness achieved within a bank account;
- communications to the bank concerning all changes occurred within the organizational structure and the activity carried out.

Like in most banks from Romania, in the case of BRD-GSG, too, the permanent responsibility for risk administration belongs to the executive management, at central level and also at branch level, as well.

The success of risk management depends upon the way in which the risk responsibility is designed. We consider that the best results in risk management, at central level and branch level as well, in BRD-GSG, are determined especially by the internal infrastructure designed for the coordination of the banking risk management.

This infrastructure comprises:

- **the Credit Committee**, constituted for the management of crediting risk, which aims at the directing of the portfolio policies, strategy and structure, concomitantly with the analysis, respectively sanctioning of the big exposures;
- **Management Committee for Assets and Liabilities**, constituted for the administration of the liquidity risk, and also for the administration of the interest rate risk;
- **Management Committee for Operational Risks**, aiming at the methodological uniformization and reporting of the situations recorded towards the Council of Administration;
- **Supervisor of the Financial Department**, dealing with the banking risk management, planning and management of the bank's own capital. With these, the supervisor of the financial department becomes directly responsible with the solvability risk management;
- **Risk Management Committee**. This committee has appeared due to the fact that numerous risk categories do not occur isolated, but within a tight relationship, in many different situations these risks generating chain reactions. For example, the liquidity risk and the interest rate risk are in a tight relationship, and the operational activities may generate credit, liquidity or even solvability risks. This committee has the responsibility to supervise the activity of the other organizational structures and, in such a way, to assure a single interface with bank's management.

Schematically, this organizational structure concerning risk supervision and control may be presented as following:

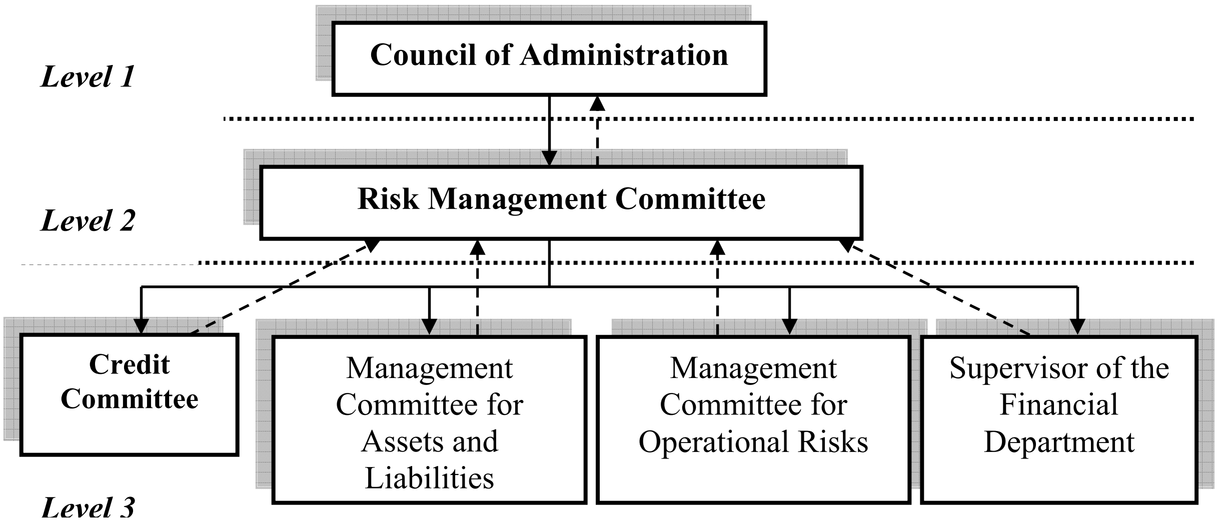

Figure 1. Organizational structure for risk supervision and prevention in BRD – GSG

This structural delimitation of responsibilities related to risk management in BRD – GSG leads to a permanent awareness concerning the problems confronting the bank, the size of the risks assumed and, implicitly, to a resolution of the potential capitalizations of the risk assumed in true time.

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