

# New Era of Risk Management Challenges

## Evolution and Challenges Presented by Regulatory Requirements

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CEO

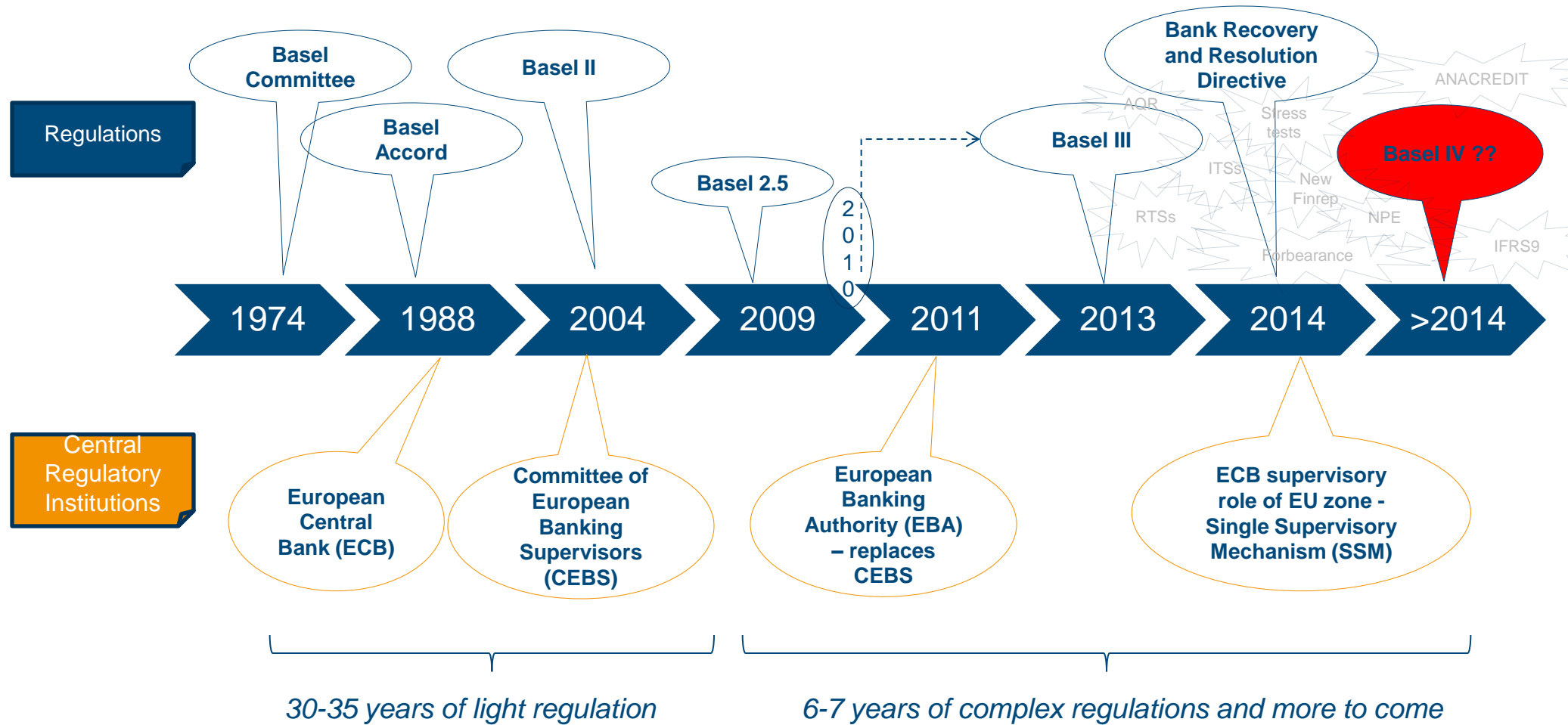
Banca Comerciala Romana

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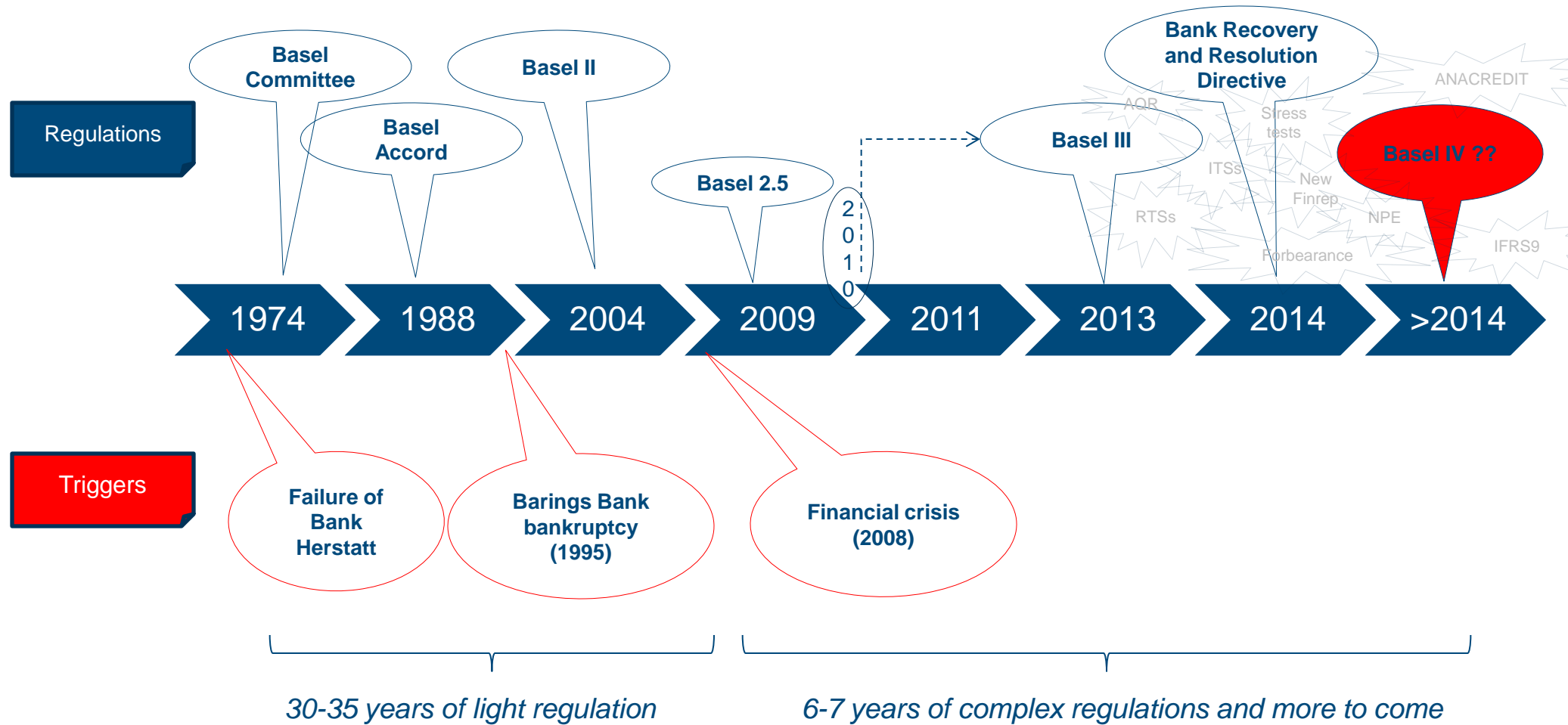
# EU Banking regulations and Regulatory institutions

## Two distinct ages



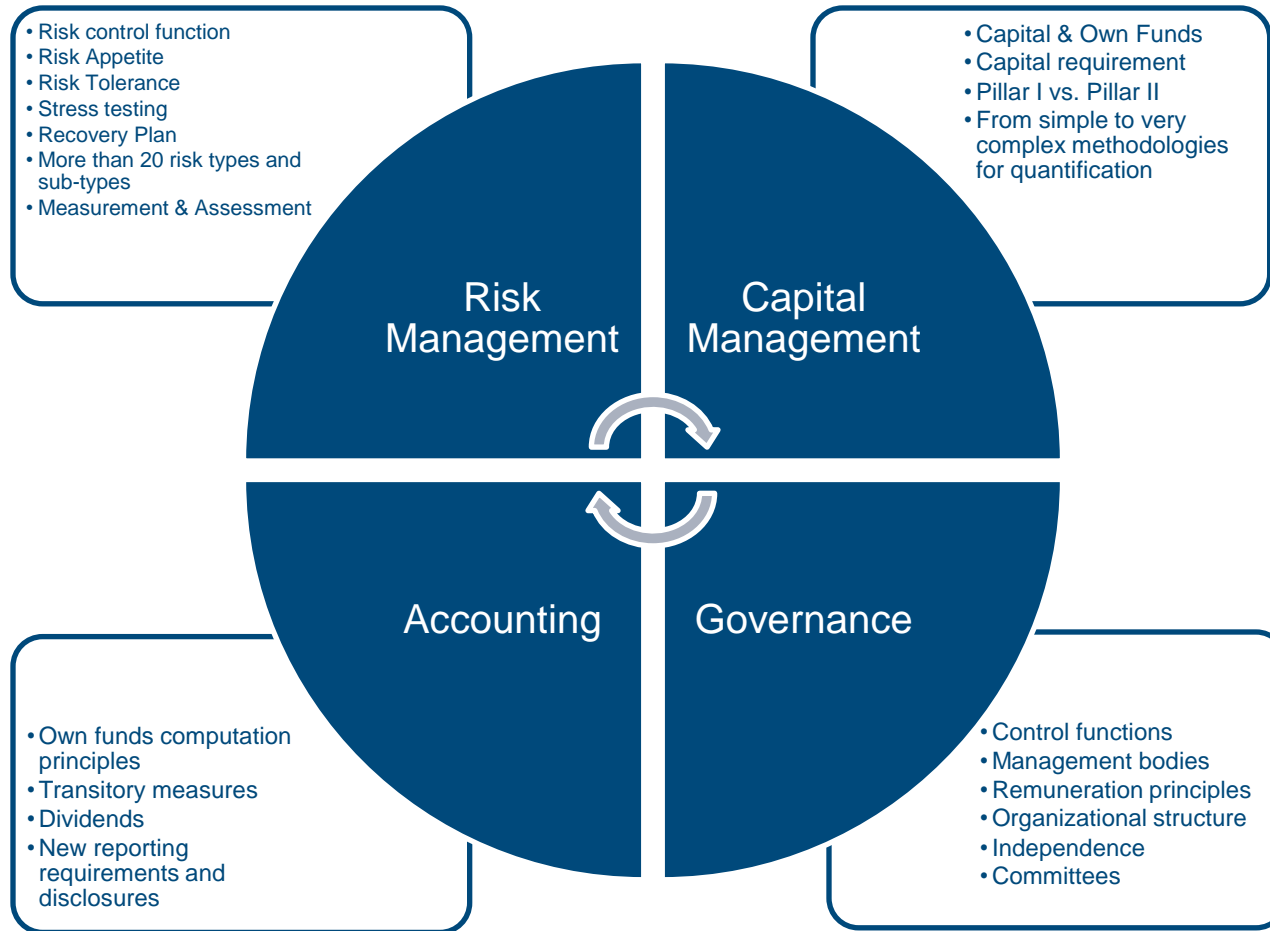
# EU Banking regulations vs. Crises

Regulations are reactive and acts as “lessons learned”



# Purpose of the new regulations

## *Acting as safeguards*



# Managing the risk in banking with complex regulations

## *Main Pros and Cons*

- Assure stability over the entire **EU** banking system
- Assure common risk management language, tools and systems for measurement for all **EU** countries
- Financial solidity and stability of the **EU** banking system
  
- Not all EU countries are mature in terms of tax collection, “black economy”, financial education
- The new regulations become more and more complex, large (as volume) and sophisticated
- Trigger huge consumption of resources
- Trigger the need of more experienced and skilled human resources

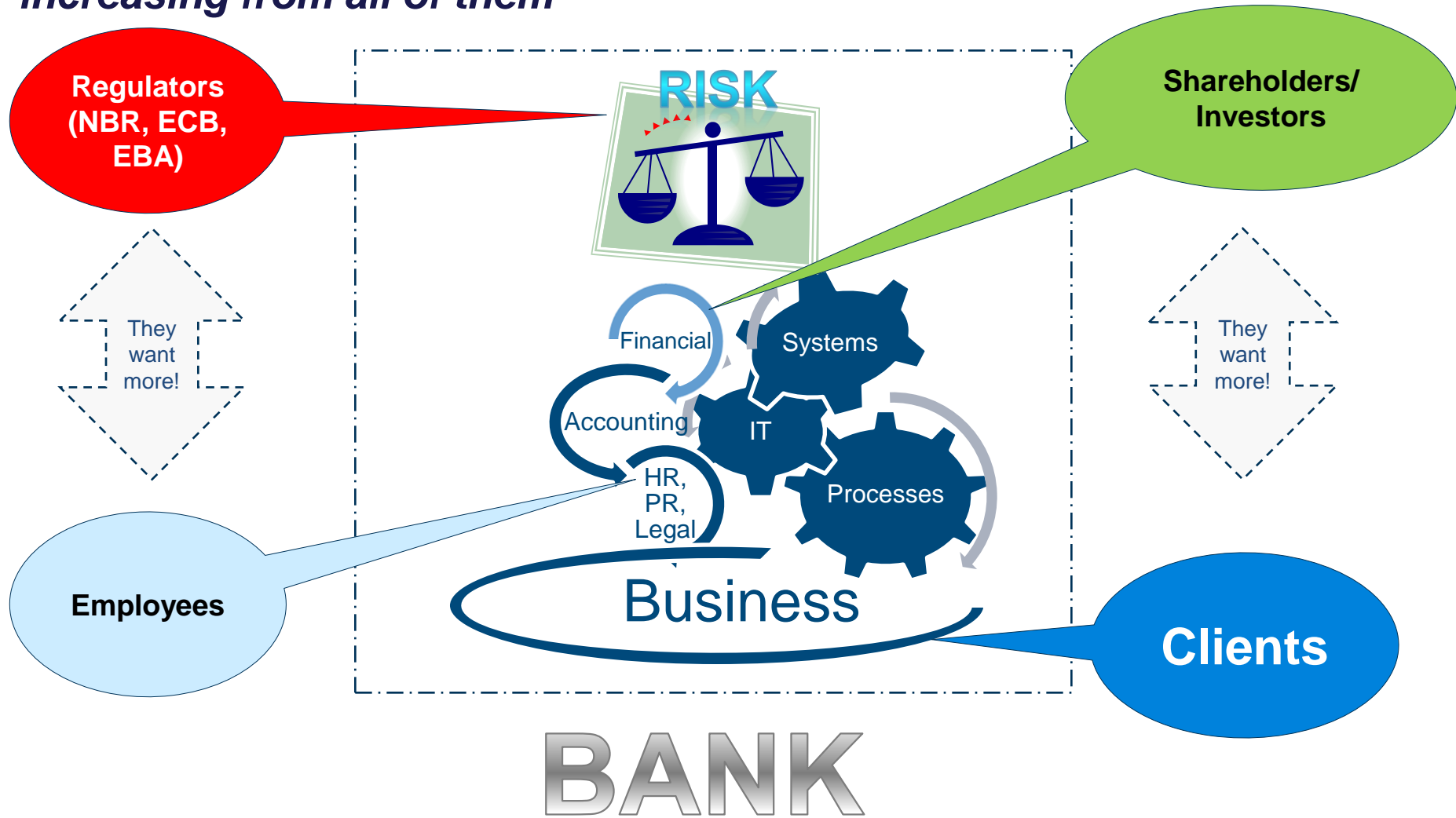
# Romania as part of EU

## *Is Romanian Banking System ready to cope with the new requirements?*



# The banks still have to satisfy their counterparties

*And this becomes more and more challenging as the requirements are increasing from all of them*



# Special focus and requirements on risk management

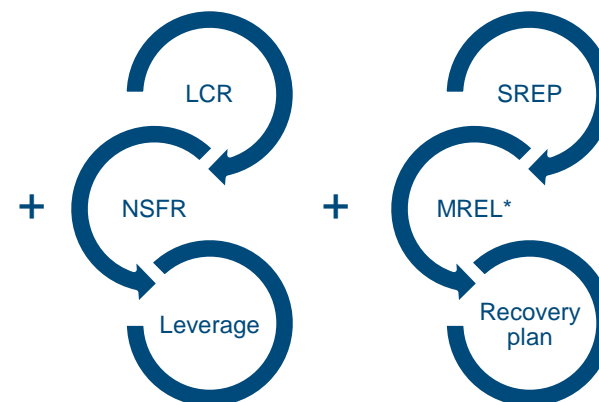
## Capital and Other ratios to be managed

Before 2014

$$\text{Total Capital Ratio} = \frac{\text{Capital}}{\text{RWA (Credit +Market +Operational)}} > 8\%$$

After 2014

	2014	2015	2016	2017
Common Equity Tier 1 Ratio	min 4.5%	min 4.5%	min 4.5%	min 4.5%
Tier 1 Capital Ratio ( CET1 + Add T1 )	min 6 %	min 6 %	min 6 %	min 6 %
Total Capital Ratio	min 8%	min 8%	min 8%	min 8%
Capital Conservation Buffer	not applicable	not applicable	0.625%	1.25%
Countercyclical Buffer	not applicable	not applicable	(0% - 0.625%)	(0% - 1.25%)
Other Systemically Important Institutions Buffer	not applicable	not applicable	(0% - 2%)	(0% - 2%)
Systemic Risk Buffer	0%	( 0% - 5%)	( 0% - 5%)	( 0% - 5%)



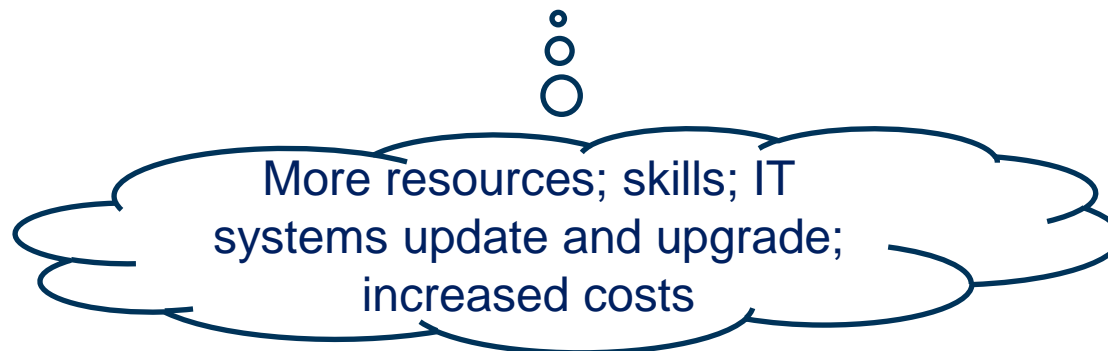


# Skills and resources on risk management

## *Last two years – continuously increased pressure*

Just to count some external and internal actions and exercises where risk management functions had to respond in a short time and a prompt manner:

- AQR
- EBA Stress Test
- Annual NBR controls
- 3-5 external audit actions
- Adaptation to new Basel III requirements
- Adaptation to new FINREP reporting requirements
- Ad-hoc reporting and answers towards regulators (local and group)\*
- Implement new and advanced measures and models to manage risk
- Prepare and launch new projects in order to accommodate future requirements like IFRS9, AnaCredit, AMA changes; new Liquidity reporting requirements



# Governance of risk management (1/2)

*Need to be organized as part of internal control system*



# Governance of risk management (2/2)

*To be a second line of defense*

## THE THREE LINES OF DEFENSE MODEL

### FIRST LINE

Risk management  
as performed at each  
**Business  
Unit/Operational level**

### SECOND LINE

#### Primary ICS functions

- a. **Risk Management**
- b. **Compliance**

Develop and maintain the systems which ensure: effective and efficient activities, adequate risk control, prudent activities and compliance with internal and external regulations. Oversight over First Line

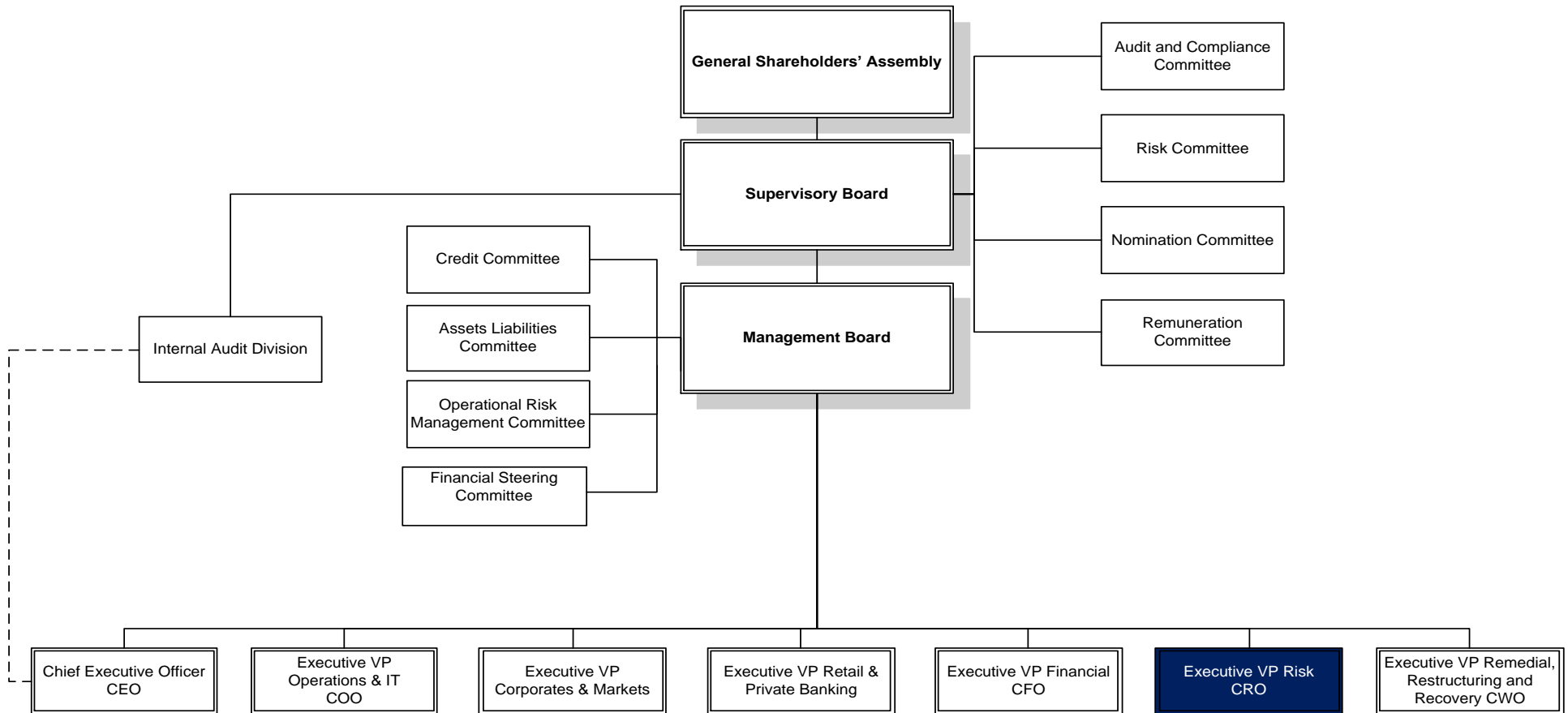
### THIRD LINE

#### **Internal audit**

Ensures an independent review / oversight of the first two lines of defense

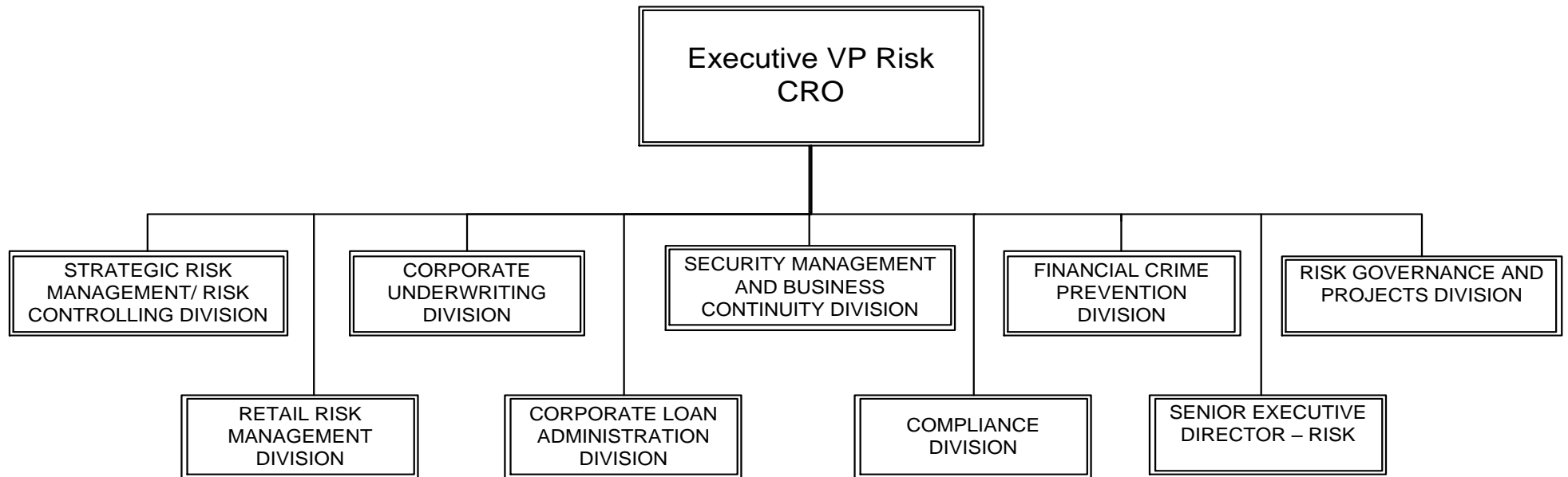
# BCR Risk Management Organization (1/2)

*Fit into the overall structure*



# BCR Risk Management Organization (2/2)

*A modern structure, regulatory compliant and aligned with market practice*



# Couple of questions and uncertainties

## *Will the near future offer us answers to all of these?*

- ❖ Are we able to manage the future risks (and mainly unknown risks) when the *regulations are reactive and acts as “lessons learned”*?
- ❖ Will both banks and regulators be able to deal with the new challenges in terms of human resources (number and skills) and IT infrastructure changes?
- ❖ Will the banks be an engine for the economic growth when they are mainly focused on assuring regulatory compliance, instead of concentrating the resources on managing a healthy and profitable business?
- ❖ What is the actual level of independence of a financial institution in managing its own operations?
- ❖ Is Romanian Banking System ready to be part of the unique and common EU banking system, including complexity, common risk and regulatory language and competition?

# Thank you!