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BANKING MODELS UNDER THE IMPACT OF THE POST-CRISIS ORGANIZATIONAL CHANGES APT TO CONFER SUSTAINABLE FINANCIAL STABILITY - ROMANIAN EXPERIENCE

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Abstract

The global financial crisis led to substantial changes in the operating environment of banks. Reforming the regulatory framework of financial and banking activity and the increase role of state in banking systems in many countries are important factors that involve major changes in the organizing of banking activity, the strategies adopted, the business models practiced, etc. Based on these considerations, the paper examines trends in banking models after the 2007 crisis. The analysis of the banking models is performed from the perspective of the deep organizational changes that affected the banking environment and sustainable financial stability.

The study focuses on the analysis of the banking sustainability and the business model in the Romanian banking system, in the context of the post-crisis organizational changes. The profound interdependence of the Romanian banking system with the banking systems of the European countries and the international tendencies in financial regulation are important factors that influence the business models of the Romanian banks. The banking model practiced in Romania continues to be the traditional one. Currently, the most important challenges of the Romanian banking system are the growth of the non-performing loans, the loans in foreign currency to unhedged borrowers, the pressure to meet the Basel III requirements, as well as the possibility that the exposure of foreign banks towards Romania to decrease.

Keywords: sustainable banking models, organizational change, sustainable financial stability, Romanian banking sector

JEL classification: G21, G28, O11

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Introduction

The global financial crisis has revealed some gaps in financial regulation, business models practiced by many banks in developed countries, corporate governance and compensation policy associated with these models, etc. All these shortcomings have had disastrous effects on global financial stability. Therefore, the state has intervened to assist financial institutions in difficulty in many countries. The global crisis has imposed the reforming of the regulatory framework of financial activity, which became more restrictive. In these circumstances, a series of organizational changes designed to adapt banks to the new environment in which they operate took place. All these organizational changes are taking place under the imperative of sustainable financial stability.

The global crisis has led to the reconsideration of business models practiced by banks. Starting with the 1980s, the traditional banking model based on deposits and loans suffered revolutionary changes. The “originate-to-distribute” model offered banks many advantages, but at the same time, increased the risk they took. The global financial crisis strongly demonstrated that, by increasing the complexity and opacity of structured products and under stressful conditions, this model can destabilize the financial system. The crisis has revealed a number of issues about the compensation system associated with the new banking model, which was characterized by the lack of correlation between bonuses and risks.

Although Romanian banks rely on traditional banking products, the crisis that triggered in 2007 in the United States affected the Romanian banking system, revealing a series of lending practices that had negative repercussions on future developments. By changing the regulatory framework, the new operating banking environment requires profound organizational changes and the improving of business model practiced in order to ensure sustainable financial stability.

Starting from these premises, the first section of the paper highlights the international trend in banking models. The second section underlines the post-crisis challenges for organizational change and banking sustainability. The business model and organizational changes in the Romanian banking system are analyzed in the last section.

1. Literature review

The global financial crisis has given rise to numerous publications on the causes that led to the crisis, the consequences that have followed, the lessons to be learned, and the financial regulatory reform. A key issue refers to the trend in the banking models after 2007. In this context, a lot of studies analyze the role of financial innovation, and the new banking models in the triggering of the crisis (see Llewellyn, 2010; Vitols, 2009; Duffie, 2008; Cuntz and Blind, 2010; ECB, 2008). Based on recent data, Vives (2010) examines trends in the banking sector, suggesting that 2007 marks the return to traditional banking. The same predictions are made by Llewellyn (2010). However, given the important role that securitization played in various lending activities, there are voices (González-Páramo, 2008; Llewellyn, 2010; Albertazzi et al, 2011) who believes that securitization remains a viable model.

The post-crises challenge for organizational changes and future of banks are underlined by CFO Research Services (2011). Miles (2009), IMF (2009), Llewellyn (2010) predict

diminishing the role of banks in financial intermediation. In the United Kingdom, the Independent Commission on Banking has proposed creation within banking organizations of ring-fenced banks (ICB, 2011). Schildback (2009) reveals the organizational changes involved by increased of state role. State and Popescu (2008) highlight the important role of change to achieve long-term performance.

The contribution of authors in this paper is the analysis of the banking sustainability and the business model practiced by the Romanian banks, under the impact of the post-crisis organizational changes and profound interdependencies with the financial systems of Western European developed countries which invested in Romania.

2. Methodology

The research method used in the performance of this study was the documentation on the following sources: documents issued by the most representative international and European organizations (Financial Stability Board, Basel Committee on Banking Supervision, International Monetary Fund, Bank for International Settlements, The World Bank, United Conference on Trade and Development, Organization for Economic Cooperation and Development, Institute of International Finance, European Commission, European Bank for Reconstruction and Development, European Central Bank); studies carried out by national organizations (Turner Review, Nestor Reports); publications issued by the National Bank of Romania; reports issued by the most important Romanian banks (in terms of assets); publications issued by the central bank of Austria (due to the fact that banks with Austrian capital held the largest market share in aggregate assets of the Romanian banking system); publications issued by the most important European banks that have subsidiaries in Romania (UniCredit, Raiffeisen Bank International AG). Several studies performed by renowned authors in the field were also consulted.

The analysis of banking sustainability, organizational changes and the business model developed within the Romanian banking sector was supported by an interview-based survey conducted with executives from the Romanian banking system (about 15 interviews which encompasses the largest 7 banks in terms of assets). We consider that the banks used in our survey are representative since the concentration in the Romanian banking system maintains at a high level (according to the National Bank of Romania data at end-2010, the top five banks in terms of assets size held 52.7 percent of total bank assets). The survey was performed during December 2011 and January 2012. A series of interviews were also conducted with academic personalities both from Romania and abroad.

3. From the traditional banking model to the *originate-to-distribute* model and reversion to the traditional one?

Traditionally, banks attract deposits from local customers and grant loans, which are supported by these deposits. Loans are considered illiquid assets, being monitored and kept in balance by the maturity. Banks assume the risk of default, and therefore, loans are granted after rigorous assessment of the debtor's solvency. Loans represent the largest part of bank assets and bank revenues derive mainly from the interest income. In order to meet prudential requirements, banks affect capital for loans they grant. All activities related to

lending are performed by a single bank: loan origination, provision of funding to the borrower, servicing, undertaking monitoring activity (Casu et al, 2006).

Since the 1980s, the domestic markets of many countries registered a decline in traditional banking both in terms of deposits and loans. The causes that led to the decline of traditional banking and development of the disintermediation process are many. These include a rising inflation, which reduced the attractiveness of bank deposits and determined clients to find more profitable investment alternatives, an increased firm capacity to directly finance by issuing securities (commercial paper, notes, bonds), and an increased appetite of investors to make investments in securities. All these factors have come amidst increasing competition in the financial system, deregulation, financial innovation and technological developments.

In these circumstances, to maintain and improve profitability, commercial banks were involved in off-balance sheet operations, which have been developed, diversified and refined. By use of these operations, the revenues collected by the banks no longer take the predominant form of interest, but also the form of fees and commissions, whose share began to grow, in many cases surpassing traditional income derived from interest.

Under the influence of the aforementioned factors, the traditional banking model underwent revolutionary changes, which occurred first in the United States, and subsequently, with different intensities, propagated to other countries:

- one development is the shift from an „originate to hold” model to an „originate to distribute” model;
- another innovation refers to the increasing role of banks as short-term traders of financial products;
- a third development is the involvement of banks in complex financial products, like derivatives;
- finally, the use of funding sources other than traditional deposits increased (wholesale commercial paper market, loans from other banks, etc.) (Vitols, 2009).

In line with these considerations, Vives (2010) underlines that before the crisis banking evolved from a traditional business to the provisions of services and proprietary trading.

Characteristic for the “originate-to-distribute” model is the fact that, through the process of securitization, loans are transformed into securities and traded on financial market. In this way, the loans are sold and bought like any other good and the myth of traditional banking, under which loans are illiquid assets, is shattered. Credit risk is transferred to the final investors only if the sale of assets is without recourse and the originating bank does not provide any guarantee regarding the securitization process.

Through securitization of loans, banks get new sources of funding for which, unlike the traditional deposits, they should not bear capital costs and insurance premiums. Besides, banks improve credit and liquidity risk, and revenues derived from operation are attractive. As Duffie (2008) shows, the most important benefits of banks resorting to credit risk transfer are the diversification and diminishing in the cost of raising external capital.

Another variant of the non-traditional banking model is the model in which banks use credit derivatives contracts, a relatively new form of financial innovation (since 1993), which

allows banks to transfer the credit risk to another entity without transferring the underlying asset. The most common form of a credit derivative contract is the credit default swap (CDS). By buying a CDS contract, a bank will receive compensation in the event of a loan default. To this end, the buyer of protection makes regular payments to the seller of protection. It is important to note that by using modern instruments of credit risk transfer – securitization and credit derivative contracts – the new banking models were perceived by banks as ways to reduce capital requirements and improve revenues.

As Vitols (2009) mentions, the new banking model was attractive in many respects:

- unlike traditional banking products, securitization and derivatives promised a higher growth rate;
- the new banking model offered higher returns during good times;
- wholesale financial markets were a quicker way to increase funding than traditional deposits.

With all these advantages, the new banking model requires banks to take greater risks. In accordance with the above, Cuntz and Blind (2010) highlight that such innovative business model imposes a larger operational risk on banks, which could affect the stability of national and international financial systems.

A fundamental problem associated with non-traditional banking models is related to asymmetric information between the originating bank, on the one hand, and investors in bank's asset-backed securities along with the seller of protection, on the other hand. The global financial crisis revealed this weakness acutely. By use of securitization and credit derivatives contracts, the banks no longer assume credit risk, and therefore, are not interested to carry out a rigorous assessment of the debtor's ability to repay loans. Their only concern is to grant as much credit as possible in the interest of obtaining more revenues. This practice, however, has negative repercussions on lending standards and quality of loans, which ultimately can lead to the destabilization of the financial system.

Initially, one of the virtues of the new banking model was considered to be the risk dispersion over a large mass of investors, and hence, the positive impact on financial stability. However, the recent financial innovation – securitization of structured products – increased the opacity and complexity of the new financial instruments, which determined hidden risks, with negative consequences for financial stability. In accordance with the above, ECB (2008) emphasizes some lessons of the financial crisis, among which the negative impact that complexity and opacity of such products could have in periods of turbulence.

The compensation policy practiced in the financial field – deemed one of the causes that triggered the global financial crisis – is closely related to the new banking model. As Mauri and Baicu (2010) mention, the design of commissions in the U.S. sub-prime market created strong incentive for banks to grant loans without a strict assessment of the debtor's solvency and dynamic of collateral.

The global financial crisis has raised questions about the new banking model. These questions become more relevant given that Canada and South Africa – two countries where banks maintained traditional business model - were less hit by the crisis (Llewellyn, 2010). Other examples of institutions that have kept the traditional banking model and have been

less affected by the crisis were cooperative banks in Europe (Ayadi, 2010 cited by Llewellyn, 2010).

Statistics on the real growth of financial assets in the U.S. suggest that 2007 marks the return to traditional banking (Vives, 2010). In line with these considerations, Beck et al (2010) state that although it is difficult to predict the global trend in bank business models, the financial crisis and recent observations suggest the return to traditional financial intermediation based on deposits and loans. However, given the important role that securitization played in various lending activities, there are voices (González-Páramo, 2008; Llewellyn, 2010; Albertazzi et al, 2011) who believe that securitization remains a viable model. It is necessary to develop a more durable version that could include greater transparency, less complex techniques and the requirement that banks keep some of the credit risks on their balance sheets (Llewellyn, 2010). Consistent with this observation, Albertazzi et al (2011) suggest that banks could counter the negative effects of asymmetric information related to securitization by using different method: they could sell less opaque loans or retain a share of the equity tranche of the asset-backed-securities.

4. Organizational change and sustainable banking: challenges post-crisis

The profound changes that have occurred in the operating environment of banks in the context of the global crisis imposed organizational changes and new strategies, adapted to the new conditions. One of the fundamental factors of change is the adoption of more severe financial and banking regulations, which takes into account both the trends in financial markets and technological developments, and the gaps that have emerged during the crisis.

State and Popescu (2008) agree that only the cultures that facilitate change and adaptation to environment produce long-term performance. By referring to the book „Business, Ethics, and the Environment: Imagining a Sustainable Future” (author Joseph R. DesJardins), Holban (Oncioiu) I. (2010) underline that, in the author’s view, „sustainable development” is a tool for long-term growth.

According to Choudhry and Landuyt (2010), the first step of a bank in formulating a coherent strategy is the clear understanding of its operating environment. In this respect, banks have to take into account the post-crisis regulatory environment and its implications. Another priority of banks is to establish a realistic ROE target. One of the key lessons of the crisis is that many banks did not understand their risks exposures. Therefore, in the authors’ opinion, banks have to focus on core competencies.

Consistent with these observations is the report on the future of banking conducted by CFO Research Services. This report is based on interviews of executives of financial institutions and rating agencies worldwide. The report highlights that banks will give importance to: the risk management, the core competence, technological developments, the organizational changes to implement the new regulations (CFO Research Services, 2011).

The starting point in reforming the existing regulatory framework of international financial activity is Basel III. The more stringent measures adopted within the new regulatory framework by increasing capital and introducing liquidity standards will have several effects on banking organizations. One of the consequences will be the increase of capital cost, with negative impact on bank profitability. As a result, a widely shared view is that

changes in the operating environment of banks will lead to diminishing the role of banks in financial intermediation (Miles, 2009; IMF, 2009, Llewellyn, 2010). The spread between lending and borrowing rates might be bigger, which might imply less saving, less investment and less credit to households through banks (Miles, 2009).

The recovery and resolution plans (“living wills”) might reduce the complexity of business structures (Llewellyn, 2010). One of the most important lessons of the crisis was that, because of the increasing complexity and sophistication of some financial instruments, many times, banks did not realise the risks they were exposed to. Therefore, in the future, banking organizations, business models, instruments and banking portfolios will be less complex and more transparent (CFO Research Services, 2011).

An interesting proposal for the structural reform of the banking system was made in the UK by the Independent Commission on Banking in September 2011. The Commission proposes the creation of ring-fenced banks within banking organizations. The aim of these ring-fenced banks is the provision of traditional banking operations. The isolation of the vital banking services from the rest of the operations will allow financial institutions to provide them continuously, without the taxpayers' intervention, if the financial institutions are in difficulty (ICB, 2011). Moreover, the opponents of the Basel Accords proposed return to the principles of Glass-Steagall Act, namely the strict separation of commercial banks from investment banks (De Grauwe, 2008). The “Volcker rule” in the U.S. prohibits commercial banks to engage in some speculative investments in order to limit the risks taken.

The crisis also led to increase the role of state in the banking system of many countries. State involvement in the banking systems in Europe and America (including as owner) may lead to increased risk aversion and geographic concentration on domestic markets, mainly in terms of consolidation and lending (Schilbach, 2009).

5. The business model and organizational changes in the Romanian banking system. Financial sustainability

Since the Romanian banking system was restructured and reorganized only after 1990, the banking activity in Romania is based on traditional products and services. The general principles on securitization were established relatively late, in 2006, by Law no. 31 of March 1, 2006 (Monitorul Oficial n. 225 / March 13, 2006) and have not found practical application. For this reason, unlike banks in the United States or other developed countries in Western Europe, “toxic assets” have not been found in Romanian banks' balance sheets. Therefore, in Romania, there were no failing banks.

However, the crisis has not spared the Romanian banking system, which was hit by indirect channels. One of the most serious consequences of the crisis triggered by the U.S. sub-prime mortgage market was liquidity crisis, which revealed a number of risks associated with lending practiced in the years preceding the outbreak of the crisis.

These practices were closely related to the business model practiced by foreign banks that have invested in Romania, being known that one of the key features of the Romanian banking system, as well as other banking systems in Central and Eastern Europe (CEE), is the important presence of foreign banks on their territory. Moreover, it should be mentioned that foreign banks which come from the initial European Union (EU) member states (before

the 2004 enlargement) are prevalent. In 2010, in Romania, banks with foreign capital held 85.0% of total assets. Banks with Austrian capital had the largest market share in aggregate assets (38.8 percent), being followed by banks with Greek capital (15.5 percent) (NBR, 2011, p. 21).

Given the potential for credit growth and the desire of banks to get bigger profits, in the period before the outbreak of the crisis (including the first three quarters of 2008), in Romania, foreign banks have contributed to excessive and aggressive growth of credit, especially the non-government credit. For example, claims on households increased from 2.3 percent of total assets in 2001 to 27.6 percent in 2007 (NBR, 2008, p.21). Among the factors that have stimulated the credit growth were the fierce competition between foreign banks present in Romania and the relaxation of some prudential provisions on loans to individuals. It is important to note that sometimes the credit growth was largely based on interbank resources. The share of interbank funds in total liabilities raised from 22.3 percent in 2006 to 28 percent in 2007 (NBR, 2008, p. 40).

The massive presence of foreign banks in Romania raised several concerns about the possibility that they suddenly stop lending. As stated by McCauley et al (2010), the risk posed by creditors to debtor countries lies in a sudden withdrawal of credit, which depends on the creditor's business model. This model depends on the currency in which loans are granted (foreign currency or local currency), sources of funding (positions funded locally or across borders and currencies) or type of operations (wholesale or retail).

Loans or transfers of capital from the parent bank had been an important mean of funding the Romanian subsidiaries. At end 2007 foreign resources coming from parent banks accounted for roughly 70 percent of total interbank resources used by credit institutions in Romania (NBR, 2008, p. 40). Under these circumstances, in the early outbreak of the crisis, the reduction of global liquidity and problems recorded by the parent banks created problems in external funding. As a result, there has been a dramatic decrease in domestic credit.

External funding contributed to the increase in domestic credit denominated in foreign currency (Euro, Swiss Franc, Dollar etc.), which increased the currency risk and put additional pressure on the depreciation of the national currency *leu*. Credit growth has meant an increased foreign debt for Romania. In this context, foreign banks might be one of the channels to increase the vulnerability of Romania.

Foreign banks have taken a number of measures in order to reduce liquidity risk. The authorities in the countries of origin of Romania's foreign banks pumped capital into their financial institutions. In some cases (The Netherlands, France) these amounts have increased the financial resources of Romanian banks' subsidiaries. In other cases (Greece, Austria), both the own capital and external liabilities decreased (according to data provided by the National Bank of Romania for the period September 2008 - March 2009; NBR, 2009, p. 12).

Subsidiaries of foreign banks have increased efforts to fund their activity by attracting local deposits. However, in June 2011, corporate and household deposits accounted for 45.2% in total liabilities, compared to 57.5% in 2005. The tendency to reduce the deposits is caused by lower incomes, companies' financial problems, as well as the development of disintermediation process, by increasing interest in buying government securities. In the same period foreign liabilities held 27.2 percent of total liabilities. Resources attracted from

parent banks held the largest share of external financing – 84.3 percent (NBR, 2011, p. 26-27). The significant presence of external financing remains a potential source of instability.

In 2009, an agreement was signed in Vienna between the NBR and the parent institutions of the nine largest foreign-owned credit institutions incorporated in Romania. Through this agreement the nine banks committed to maintaining their exposure to Romania during the stand-by arrangement with the IMF. In March 2011, a new phase of the Vienna initiative was launched – „Vienna Plus”. The key issues addressed by the „Vienna Plus” initiative are the impact on emerging Europe of the global regulatory standards adopted under the Basel III framework and the challenges this part of Europe faces in managing non-performing loans (EBRD, 2011a). In Romania, the non-performing loan ratio increased from 2.8 percent in December 2008 to 10.2 percent in June 2010 (NBR, 2010, p. 10).

In this context, the EBRD issued a report on local currency and capital market development. This report contains a series of recommendations aimed at reducing the region’s dependence on foreign currency lending to unhedged borrowers, that can become a source of systemic risk. Mitigation of these vulnerabilities is considered an important element of sustainable post-crisis growth. Foreign currency lending to unhedged borrowers in Swiss franc or Japanese yen are discouraged; also foreign exchange consumer loans should be limit only to the individuals with highest creditworthiness (EBRD, 2011b).

Similar to this initiative taken internationally, in 2010, the Austrian central bank (OeNB) and the Austrian Financial Market Authority (FMA) published some principles in order to limit new foreign currency lending by Austrian banks’ subsidiaries in Central, Eastern and Southeastern Europe. These principles are consisted with those established within Vienna Initiative (OeNB, 2011a, p. 45).

Given the large Austrian banks’ exposure to this part of Europe, in November 2011, the Austrian supervisors presented a set of measures designed to strengthen the sustainability of the business models of the three largest internationally active Austrian banking groups:

- these banking groups must strengthen their capital base;
- the foreign banking subsidiaries of the banking groups concerned have to strengthen the independence and the stability of their funding base;
- the banking groups have to draw up recovery and resolution schemes for potential crisis situations (OeNB, 2011a, p. 47-48).

A possible threat to the Romania banking sector is the important share of assets owned by Greek banks. Problems faced by parent banks in Greece may affect subsidiaries in Romania, which can cause panic in the Romanian banking sector, and ultimately, can destabilize it. According to the IMF (2011), banks in Greece (and Ireland) are facing huge problems caused by the level of sovereign stress, concerns about loans and high marginal wholesale funding costs. The same concern regarding the Romania’s vulnerability to the sovereign debt crisis in Europe is revealed by the World Bank (2010).

The survey conducted with executives from the first 7 Romanian banks in order to shape the organizational changes and the crisis impact on the business model, included a series of questions related to: the business model used both before and after the crisis; the crisis effects on the banking activity; the role of foreign banks in the Romanian banking system; the organizational changes that affect the Romanian banking system in the context of post-

crisis changes; the compensation policy practiced in the banking system; concerns about the banking activity in Romania; the impact of the new regulations on the banking activity; liquidity issues; banking sustainability.

The questions included in the survey and the summary of the respondents' responses and comments are presented in the table below (table no. 1).

Table no. 1: Synthetic results of the survey on Romanian banking system

QUESTION	SUMMARY OF RESPONSES AND COMMENTS
<i>Business Model:</i> What type of business model is practiced by banks in Romania (before and after the triggering of the crisis)?	The unanimous opinion of respondents is that both before the crisis and beyond, banks operating in Romania have adopted the traditional business model, based on attracting resources and making placements (especially loans), as well as providing payments services. But the global financial crisis led to some changes in banks' strategy. Firstly, banks focused less on lending and paid more attention to deposit-taking. Therefore, currently, the situation is more balanced. Also, there is increasing efforts to improve customer relations and marketing department has an important role in this respect. At the same time there are efforts to reduce dependence on external financing.
<i>The effects of crisis:</i> What were the effects of crisis on banks and banking system?	In Romania, the banking system problems were caused primarily by very virulent manifestation of the economic crisis that has led to reduced production and exports, financial problems in businesses, reducing households income, etc. In this context, the quality of bank assets has deteriorated and the non-performing loans have increased, especially loans to individuals. Lending activity has declined, banks have become more prudent and selective in the granting of credits. The most affected were personal loans, because the most eligible persons have exhausted their financial availabilities in the pre-crisis period. All these have led to the decrease of banks profits.
<i>The role of foreign banks:</i> What is the role of foreign banks and how they influence the business model in the Romanian banking sector?	Respondents recognized the important role that foreign banks have had in increasing Romanian banking system efficiency, economic growth and improving living standards, in the integration of Romanian banking system with the banking system in developed countries. The main problem that involves the presence of foreign banks within a country refers to the possibility that they withdraw quickly from the host-country if changes occur in the operating environment of the host-country or home country. In this respect, there are concerns about the drastic reduction of credit whether, in order to reduce exposure to the Central and Eastern Europe, the regulations adopted in the origin countries of foreign banks restrict the financing of the subsidiaries in Romania by their parent banks. The concerns are related mainly to the regulations adopted by the Austrian authorities concerning

	the subsidiaries in Romania of Erste Group Bank, UniCredit Bank Austria and Raiffeisen Bank International. In addition, there is the concern of a coordinated behavior: the authorities of other countries whose banks invested in Romania might adopt similar regulations that negatively affect the lending capacity of their subsidiaries in Romania. The adverse effects on lending and economic development will be accompanied by the diminishing of the number of branches and employees.
Organizational change: What are the organizational changes that affected the bank and the banking system as a whole?	Sometimes, in the pre-crisis years, increased lending was accompanied by excessive growth in the number of branches and employees without proper training. The crisis has prompted reconsideration of both the number of branches and employees. The activity will continue to focus on traditional business lines, but credits to households will have a more modest share. An important cause is the reduce wages of persons paid from budget, that hold the largest share of loans to households. Moreover, the costs of credits have become bigger and the access to credit has become more restrictive. The risks management, the technology developments and the organizational changes required by the reporting process in the context of the new regulations will benefit from special attention.
Compensation policy: There were problems in compensation policy similar with those in developed countries, in the pre-crisis period?	In Romania there were no problems with executive pay, as was the case with developed countries. The Romanian subsidiaries of foreign banks apply the corporate governance principles adopted by their parent banks, tailored to the local context. From the responses received, the variable component of compensation has a relatively small share of total compensation, which is in accordance with the regulatory trends in financial compensation.
Concerns: What are your concerns about banking activity in Romania?	One of the major concerns highlighted by respondents refers to the economic developments both in Romania and internationally. Recession, the problems that persist in economy inevitably adversely affect the activity and profits of banks. Another concern is the rapid growth of the non-performing loans. The new banking regulations under the Basel III create additional pressure in organization and performance of activity. Sovereign debt crisis and the diminishing of the exposure of foreign banks are other concerns.
Regulation: What will be the main implications of the Basel III requirements for banking activity?	The more stringent measures of the regulatory framework Basel III will have profound implications on the banking activity in Romania. The new requirements of capital and liquidity adequacy have intensified the efforts of banks to raise capital. At the same time some activities and, implicitly, risks might be reduced. These constraints will

	lead to increase the cost of loans and restriction of some activities. SMEs and individuals will be among the most affected segments of customers.
Liquidity problems: To what extent there is the risk of liquidity problems?	The lack of confidence among banks worldwide might create problems in terms of liquidity in Romania too. There is the concern that European banks will withdraw their exposure towards Romania under the Basel III pressure and because of sovereign debt crisis (especially banks in countries that are highly exposed towards Romania). In this case is desirable that the exposures withdrawal to be gradual and possibly reversible.
Sustainability: To what extent the global financial crisis has affected the image and reputation of banks in Romania, their relations with the environment, community, etc.?	Respondents consider that the image and reputation of the Romanian banks have not been affected by the global financial and economic crisis. In Romania there were no failing banks and there was no need for state intervention to rescue banks. Banks are still involved in financing projects aimed at sustainable development (financial education, entrepreneurship, environment, etc.). An important dimension of corporate social responsibility is the social solidarity.

Conclusions

The global financial crisis has caused significant changes in the operating environment of banks. The main drivers of change are the new financial regulations and deeper involvement of state in banking system in many countries. In this context, a series of organizational changes designed to allow banks to adapt to the new operating environment have place. The focus on core competence, on traditional banking business in which banks have the best expertise seems to be the trend in the banking organization. This type of organization allows better understanding and assessment of risks. The disastrous consequences of the global crisis on the financial stability have imposed the reconsideration of the business models adopted by many banks before the 2007 crisis. The international trend is the return to traditional banking, based on deposits and loans. The new measures proposed by regulators and the need to reduce the complexity of organizational structures to ensure sustainable financial stability are very important factors in shaping this trend.

Banks in Romania maintained the traditional business model but were affected by crisis through indirect channels. With the intensification of financial globalization, foreign banks in Western Europe have expanded in Central and Eastern Europe through subsidiaries and branches implantation. Generally accepted view is that foreign banks in Romania have played an important role in increasing efficiency of the local banking sector. However, in the years before the crisis, great part of the credit growth was funded with volatile resources attracted from the interbank market. The external resources from parent banks represented the most part of the total resources attracted from the interbank market. Since the financial crisis has affected the parent banks in developed countries, this practice had a negative impact on subsidiaries and branches in Romania, causing liquidity problems and restriction

of credit. Another problem was the growth of foreign currency lending to unhedged borrowers. Deterioration of assets portfolio of Romanian banks is another negative consequence of the crisis.

In these conditions, banks and regulators should take steps to reorganize the activity and improve the business model to ensure a sustainable financial stability. These measures involve more stable sources of funding, through increased efforts to attract deposits from local market. Currently, banks in Romania are fully compliant with the capital adequacy requirements, but in the future with the more restrictive provisions of the Basel III framework, banks should increase their capital base. A better correlation between the maturities of resources and placements is another priority. To increase the quality of assets, it should increase the rigor in the assessment of potential debtors. Strengthening the financial stability involves the mitigation of the currency risk associated to lending in foreign currency.

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