



Investigation of Causes of Bank Failures

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“Dealing with Parties at Fault of Bank Failures and Fraud in Deposit Insurance”

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Why?

It should be fair to distinguish among two main roots of the bank failure:

- 1. The causes due to the poor management of the bank and the non-compliance of the capital adequacy to the insolvency risk*
- 2. The sudden changes in economic and monetary policy as result of voluntary cyclical policies accompanying the downturn cycle of the economy*

The in-house disorder

- 1. The roots of malfunctioning of local banks are linked to:**
 - ❖ their rigidity in taking decisions based on market forecast instead of search for market quota
 - ❖ their slow capacity in adjusting the offer to the clients' payment capacity;
- 2. Hence, they fall short in adjusting credit prudence before orderly decisions taken by market supervisors; this is being recorded into the increased number of non-performing loans;**
- 3. It is a well known fact that credit risk is at the root of bank failure, the mismatch between the term of deposits and the credit length**

The wrong partner

1. Disequilibria of the real economy and postponed enterprise restructuring;
2. Macro stabilization sought through excessive intervention on the leading interest rate and currency exchange rate;
3. Volatility of prices and incomes;
4. Undercapitalization of banks and their red carpet practice for selected clientele.

1997-2002: the market adjustment

- 1. Not less than *10 credit institutions* fell victim in Romania to poor management and irresponsible lending policies;**
- 2. Since 1999, FGDB has assumed the position of creditor or liquidator to *7 failed banks*;**
- 3. FGDB has paid compensations to *327.5* thousand covered depositors for an amount of *512.24 mil. Ron*, fulfilling 98.8 p.c. of its obligation;**
- 4. The overall recuperation of claims to failed banks stood at *35.08* p.c. at end 2012.**

Procedures, step by step

- *The Prudential Supervisory Authority imposes to credit institutions the insolvency prevention measures;*
- *The sole institution authorised in Romania to conduct the authorisation, regulation and prudential supervision of credit institutions **is the central bank - the National Bank of Romania;***
- *The credit institution bankruptcy proceeding is subject to a special law which contains specific provisions concerning the commencement of the proceeding and the creditors hierarchy.*

Prerequisites

- The bankruptcy proceeding shall commence when a credit institution is in an insolvency state;
- Insolvency is the state of the credit institution undergoing one of the following predicaments:
 - ❖ *the obvious inability to pay its due debt by resorting to its liquid assets;*
 - ❖ *the solvency ratio of the credit institution falls below 2 percent;*
 - ❖ *where the credit institution's authorization was withdrawn, pursuant to the law, following to the failure to restore to viability the credit institution.*

The file of the petition

The bankruptcy proceeding shall commence by the submission to the Court of a petition by :

1. the insolvent debtor credit institution, who is bound to file the petition within 30 days from the date the credit institution is declared insolvent.

Previously the credit institution must obtain the authorization of the NBR to file the petition.



The file of the petition (cont.)

2. any creditor in possession of a firm, liquid and enforceable claim may file a petition against a debtor credit institution which has not fully honored such a claim within at least 30 working days from the due date in the case of central bodies of credit cooperatives including their affiliates or within at least 7 working days from the due date in the case of other credit institutions.

Previously the creditor must obtain the authorization of the NBR to file the petition.



The file of the petition (cont.)

3. the National Bank of Romania in its capacity as banking supervision authority shall file a petition to open the procedure against the credit institution.

The petition of the NBR should be accompanied by the decision of the NBR Board to withdraw the authorization to the respective credit institution.

Thank you for your attention!

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