Accounting Aspects of Banking Risk Management

~ *Ph. D. Lecturer* **Izabella Krájnik** *(University of Babeş-Bolyai Cluj-Napoca, Faculty of Economics and Business Administration, Romania)*

E-mail: izabella.krajnik@econ.ubbcluj.ro

~ *Ph. D. Lecturer* **Monika Fosztó** *(University of Babeş-Bolyai Cluj-Napoca, Faculty of Economics and Business Administration, Romania)*

E-mail: monika.foszto@econ.ubbcluj.ro

~ *Ph. D. Lecturer* **Antonia Izabella Kelemen** *(University of Babeş-Bolyai Cluj-Napoca, Faculty of Economics and Business Administration, Romania)*

E-mail: antonia.kelemen@econ.ubbcluj.ro

Abstract: *Recognizing that banking accounting risks are a field of uncertainty, regulatory bodies in the accounting field have taken their views on the obligation to present the main assumptions of valuation. This information is designed to allow users of financial statements to assess whether companies are prudent or not in establishing their values.*

Over the past decades, banking services have expanded considerably. Newly emerging financial services institutions have become competitors to commercial banks.Institutional investors, with various investments, often promising higher returns on bank deposits and providing greater flexibility, attracted a growing pool of savings and offered alternatives to those seeking funds.

Keywords*:* risk management, accounting, bank risk, financial stability

JEL Classification: F33, G21

1.Introduction

In general, both at the individual and at the company level, it is accepted that the risk may exist anywhere and at any time. People can accept higher volunteer risks on a voluntary basis and are much more reluctant to reject involuntary risks, even at lower levels, because they do not have sufficient knowledge about them or have no control.

It is characteristic for our country that after a relatively long period of standardized accounting, understanding the need for alignment to accounting regulations in the community space, accounting normalization knows a reform process both in institutional and in accounting terms. In a market economy, the objective of accounting normalization is to organize the functioning of the accounting information market in such a way as to enable financial communication to be optimized. Accounting, as business language, needs to adapt to the new requirements of the international landscape, solving this problem is currently one of the key concerns of the accounting profession.

Due to the fact that in all countries of the world, the adopted accounting system is in a relationship of total dependence on the created legal framework, a significant contribution to the research of the results was recorded by Frigo M., in 2002, joining the opinion many of the specialists in the field, that in our country, the reform of the accounting system was constantly correlated with the development of the profession, with the evolution of the specific legislation of the market economy related to the property, the establishment, functioning and liquidation of the commercial companies and other legal companies, the development of the capital market and the business environment in general.

It can be said that risk is the exposure to undesirable situations due to the lack of appreciation of facts and phenomena with negative consequences.

The term risk is currently used in several areas: economic, financial-banking, social, political etc. Risk can have distinct ways of calculating only when the target to be known and the factors that can influence it. Understanding that we can deepen the multiple aspects of risk and how to calculate it, we will look more closely at some concrete aspect of bank risk.

In the field of banking activities, risk can be defined as a phenomenon that may arise during the course of the operations of the banking companies and which causes a negative aspect of those activities by deteriorating the quality of the business, diminishing the profit or even recording the losses.

In banking, risk is actually a probability of a loss. This probability is not purely mathematical, but rather depends on the bank's transactions with its clients, the credit granted to them, and last but not least, the bank's placements and the payment systems used.

The mathematical approach is applied in the credit risk assessment and consists in measuring, with the help of a necessary algorithm, both banking specialists as a material for improving the practical dimension of their activity based on theoretical and practical considerations.

Conscious awareness of a risk involves the adoption of prudent and calculated actions, taking into account the following factors:

- compliance with prudential measures imposed by the national regulatory authority;
- profit expected loss to justify the

respective exposure to risk;

- any losses can be covered from provisions and profit;
- the risk must be sized so that future losses do not affect the image of the credit institution;
- accepting only those risks that have a due date and can be quantifiable. Unfortunately, because of a fierce competition, some bankers and some banks tend to lose sight of the risks they are exposed to, and the basic risk question ("What is the client's ability to pay?") Is no longer set, the likelihood of losing enormously.

We can talk about risk in case of realistic decision alternatives, the possible outcomes of an event represent the risk. When a coin is thrown, two results are possible: head or writing. Depending on what we have received, it may be beneficial and may be counterproductive to the outcome of the game. This also implies that taking the risk does not unilaterally include the possibility of expected loss, but also the expected return. In banking practice, however, the focus is on determining and assessing expected losses. The concept of risk, danger and uncertainty is closely related to risk. The problem lies in the task to be solved; the danger of circumstances is

2. Literature review

Starting from the premise that the foundation of any scientific research consists of a thorough knowledge of the specialized literature, at this incipient stage of the scientific approach we focused on presenting the current state of the research in the field of banking risk and highlighting the importance that the researchers consecrated have given it to this area.

This methodological research project tends to identify with a single central method of investigation.

As such, it is called for a corroboration, the purpose of which is to assure researchers that their results will be seen by others as credible (Stainback L., 1988). One of the processes used in the conjunction is the triangulation method, which allows the combination of methods to obtain the most credible data, involving the convergence of multiple information sources (Denzin J., 1978).

It should be noted that it originally originated from the premise of a qualitative research, but it was concluded that such research has the disadvantage of making it difficult to determine the relevance and validity of the approaches and information provided, as well as to detect the extent to which the subjectivity of the researcher influences the results research.

For these reasons, we have chosen to extend the research methods, which determines us to classify the present paper as a qualitative research with quantitative elements, often used to test authors' hypotheses.

Also, the motivation for choosing qualitative research lies in the fact that the type of research is the best able to produce consistent information needed to thoroughly understand the banking risks and the overall context.

In addition, this type of research uses subjective information and participatory observation to describe the context, the variable environmental conditions under consideration, and the interactions between these variables in the specified context. And while quantitative research can be presented in mathematical terms, qualitative research is not measurable or comparable in indisputable terms.

In fact, the authors of this paper do not consider these types to be opposing but complementary: research will give the proof of time an optimal combination of research methods in order to achieve the proposed objectives.

In the present paper we have only approached the issue of risk accounting, providing an analysis of 150 selected articles from 50 international journals, considered by the academic community to be the most representative journals in the accounting sphere.

Given that the subject of our research is at the intersection of accounting with finance and management to deepen academic debates on this topic, we have analyzed the scientific papers published in international journals considered by the academic community to be the most representative journals in the field of accounting, finance and management.

For the selection of these journals we considered the classifications made by various scholars of prestigious universities in the world.

For the accounting field, we mention that we were guided by the studies elaborated by Hoffjan A., Plagge J. and Weide G. (2006) A meta-analysis of international journal rankings in accounting, Working Paper, Germany and the study by the Australian National University (2007) on Journal Rankings.

Also, for the field of management we have as reference the study prepared by the School of Management, Cranfield University (2009) Journal Recommendation for academic publication. All articles analyzed were written in English.

Of particular interest in risk accounting, we can see from prestigious professional and education bodies: AICPA, ICAEW, ACCA, who have published a series of reports and studies that are considered a reference in the literature and as such have been included in the our study.

Besides, a number of books and legislative regulations have been used to make the study, but which, given the nature of this study, have not been taken into account.

3. Research Methodology

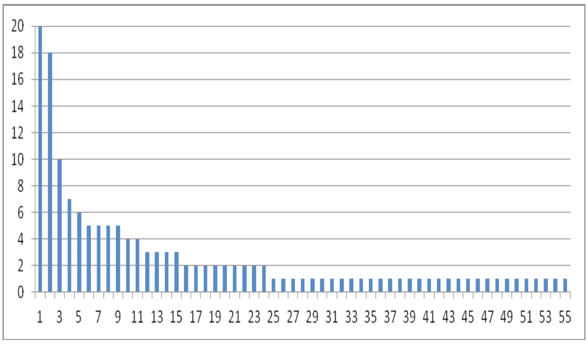
The 150 analyzed papers were selected from 55 main accounting journals but also from finance, management and interdisciplinary journals published by US, European and Australian research and development bodies in English that treated as a primary or secondary topic the field of risk accounting.

By trying to synthesize what the scientific method is common to all sciences, it is found that there are indeed some obvious requirements:

- an attitude of impartiality;
- the decision to consider all reasonable possibilities;
- the desire to make every effort to be exactly wherever possible;
- the need to avoid the influence of preconceived ideas.

In the following table, we present the dispersion of articles in the 55 journals analyzed, from a maximum of 20 articles selected from a journal to a minimum of 1 article.

Figure 1. Dispersion of articles by publications, during the period: 1998-2018



Source: Processed by authors

Out of the total of 55 publications taken in the study, which totals 150 articles, out of 24 journals more than one article on banking risks was selected for the analyzed period, representing 80% of the total number of articles (119 articles).

The following 3 journals accounting for more than 32% of the total of the analyzed articles, namely 48 articles: Accounting Review with 20 articles, Accounting Accounting with 18 articles and Journal of Accounting and Economics with 10 articles.

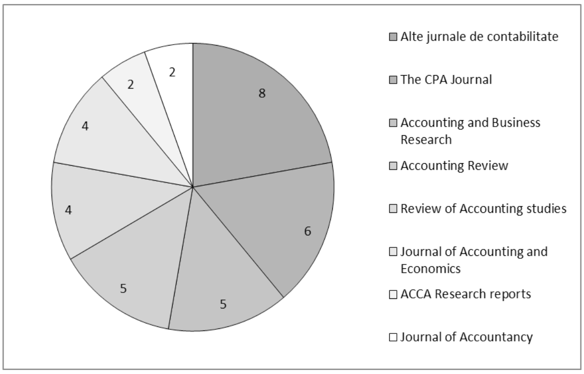
In the second echelon there is a number of 6 journals showing a moderate interest towards the subject under review and having published a total of 33 articles with a frequency of 5 to 7 items: Accounting Horizons 7 articles, CPA Journal with 6 articles, and five articles in the following journals: Accounting and Business Research, Financial Analysts, Journal of Accounting Research Journal, and Review of Accounting Studies.

The next level is for logs of relatively low interest for the Employee Benefits Accounting topic, with a reduced number of items between 4 and 2, which are presented in descending order of interest: Contemporary Accounting Research, Journal of Accounting, Auditing and Finance, Accountancy Magazine, Accounting , Organizations and Society, Journal of Business Finance and Accounting, Strategic Finance, ACCA Research Reports, Human Resource Management Review, Journal of Accountancy, Journal of Accounting and Public Policy, Journal of Financial Economics, Journal of Management, Operations Research Proceedings, Pensions & Investments, Quarterly Journal of Economics.

Analyzing the selected journals in terms of scientific reputation, we find that they can be grouped into 3 major categories. In the first category, 17 of the selected journals are considered to be the best in the field of business research, respectively the accounting, finance and management sub-domain. These logs are ISIs with impact factor. In the second category we include a total of 33 journals found in indexed databases such as: ScienceDirect, Springer, Taylor and Francis, EBSCO - Academic Search Premier. And the third category, which includes 5 publications, refers to professional articles for professionals, practitioners, and researchers in the field, which are available free of charge on the magazine websites of professional organizations' websites as seen in the figure next.

The distribution of accounting books for this period is as follows: in other accounting journals (8), The CPA Journal (6), Accounting and Business Research (5), Accounting Review (5), Review of Accounting Studies (4) in the Journal of Accounting and Economics (4), and in ACCA Research reports 2 and in the Journal of Accountancy.

Figure 2. Distribution in Accounting Logs



Source: Processed by authors

Banks that have managed to control the risks to which they are exposed have inferred that this process is in close correlation with their profitability. To get higher incomes, a bank has to take greater risks or increase its exposure to risk, or reduce its operating costs (which also leads to increased risks).

Typically, profitability varies directly with the degree of risk of bank activity. Some risks can be avoided or diminished, others are inherent in the economic environment that the bank serves.

Today, we see that banks deserve very complex activities, and therefore risk management tends to be "cross-checked", both on the types of transactions conducted and on the bank's deposit and loan portfolios. This risk approach is addressed both to regional or national banks and to internationally-performing banks.

Banks assess the credit risk they are exposed to by answering 3 questions:

1. What is the rate of non-performing loans based on past data?

2. What are the expected losses in the future?

3. How is the bank ready to cover and face the losses?

In order to cope with the losses resulting from bad loans, the bank has to set up a series of reserves that are imposed on a percentage of the total loans granted.from the competitive pressure, unfortunately the analyzes related to the creditworthiness of the debtors are made quickly and negligently, which leads to the increase of loans granted by banks.

Some banks grant credits to governments, government agencies, or foreign economic entities. If the country risk is not properly and carefully assessed, these credits can be considered as loss from the start, as the refusal to pay may occur at any time, often on economic grounds.

Table no 1: Represent the degree of severity (impact) on the business

The impact of several factors (Y)	High(III)	**3**	**6**	**9**
	Medium(II)	**2**	**4**	**6**
	Low (I)	**1**	**2**	**3**
		Low (I)	Medium (II)	High (III)
		PROBABILITY (X)		

Balance of liquidity depends on how the market perceives the bank's financial situation.

Due to the importance of banks for any economy, their work is subject to strict supervision also by the central bank of that country. Although some banking companies are vehemently protesting against the supervisory measures imposed by the central authorities, they are designed to avoid risks throughout the banking system and to create the necessary procedures for action if the negative effects of risk arise.

Conclusions.

It can be said that the bank risk identification and management operation is particularly important in economic and financial activity. At the same time, the risks represent the cooperation between banks and the economic structure units of a country. Of particular interest are the loans granted by the bank, which raise an approximately similar risk for both the creditor and the debtor.

Consequently, each science has its own notions, its specific methods, the fruit of evolution and historical accumulations; all sciences have in common what is called the scientific approach to research.

Although the conception of the method changes with science itself, there are a set of permanent principles, which are the basis of any scientific method. All sciences are based on a series of facts, data, "evidences", perceived from the real world, to be explained and confronted by various theories.

These data are in a series of relationships, as an expression of interdependencies between data, which are interpreted in some models, as a first step towards the elaboration of comprehensive theories. Confusion and ambiguity occurs when the succession is broken

data - relationships - models. This is a serious deviation from the scientific method.

Given that the subject of our research is at the intersection of accounting with finance and management to deepen academic debates on this topic, we have analyzed the scientific papers published in international journals considered by the academic community to be the most representative journals in the field of accounting, finance and management. For the selection of these journals I have considered the classifications made by different scholars of prestigious universities in the world.

REFERENCES:

1. **Agoraki, M.E., Delis, M.D., Pasiouras, F.** (2011). *Regulations, competition and bank risk-taking in transition countries*, Journal of Financial Stability, 7, 38–48
2. **Aikaterini-Foteini, V., Girardone, C**. (2008). *Efficiency across alternative financial structures,* Bank types and size classes: a comparison of the OECD countries. International Journal of Banking, Accounting and Finance, 1 (2), 168-188
3. **Albort-Morant, G. and Ribeiro-Soriano, D.** (2016). *A bibliometric analysis of international impact of business incubators.* Journal of Business Research, 69 (5), 1775-1779
4. **Anghel, M.G., Sfetcu, M**., (2017). *Bank Risk Management.* Romanian Statistical Review, Supplement, 11, 87-94
5. **Anghel, M.G**. (2016). *Elements of significance concerning the interest rate and its role in the banking activity.* Romanian Statistical Review Supplement, 4, 99-106
6. **Anghelache, C., Bodo, G**. (2017). *Model for Analyzing the Sensitivity of the Bank's Risk Indicators to the Interest Rate Variation*.Romanian Statistical Review, Supplement, 12, 64-75
7. **Anghelache, C., Sfetcu, M** (2017). *Analysis of Banking Risks in theContext of The Basel Agreements.* Romanian Statistical Review, Supplement, 12, 83-89
8. **Anghelache, G.V., Anghel, M.G** (2016). *General Notions on banking Risks.* Romanian Statistical Review Supplement, 5, 13-18

9. **Anghelache, C., Marinescu, R.T. et al.** (2016). *Banking Risk evaluation Model based on BASEL Committee.* Romanian Statistical Review Supplement, 5, 150- 158
10. **Awdeh, A. et al.** (2011). *The Effect of Capital Requirements on Banking Risk.* International Research Journal of Finance and Economics, 66, 133-146
11. **Baba M.** (2009). *Quality management of the accounting services.* Bulletin of the Transilvania University of Brasov. Economic Sciences. Series V 45-67
12. **Bushman, R. and Williams, C.** (2012). *Accounting discretion, loan loss provisioning, and discipline of Banks' risk-taking.* Journal of Accounting and Economics, 54 (1), 1-18
13. **Chen, G. and Wu, Y.** (2014). *Bank Ownership and Credit Growth in Emerging Markets During and After the 2008-2009 Financial Crisis* A Cross-Regional Comparison. International Monetary Fund in its series IMF Working Papers
14. **Crété, E**. (2012). A*nalysis of banking activity by business line*, Quarterly selection of articles - bulletin de la Banque de France, 26, Summer, 53-64
15. **Delis, M. and Kouretas, G**. (2011). *Interest rates and bank risk-taking*. Journal of Banking & Finance, 35 (4), 840-855
16. **Elsinger, H., Lehar,** (2006). *Risk Assessment for Banking Systems.* Management Science, 52 (9), 1301 - 1314
17. **Fulop MT, A Tiron-Tudor** (2019). A*udit education role in decreasing the expectation gap*, Journal of Education for Business 94 (5), 306-313
18. **Gavrila-Paven I, EM Dobrescu,** (2014) *Sustainable development through entrepreneurial initiatives in Center Region*, Romania, Procedia Economics and Finance 15, 1065-1070
19. **Hakens, H. and Schnabel, I.** (2010). *Credit Risk Transfer and Bank Competition*. Journal of Financial Intermediation, 19 (3), 308-332
20. **Hernández-C, G. and Martínez-S, P**. (2010). *Relationship lending and SME financing in the continental European bank-based system*. Small Business Economics, 34 (4), 465-482
21. **Ippolito, F., Peydrób, J.L** (2016). D*ouble bank runs and liquidity risk management.* Journal of Financial Economics, 122 (1), 135-154
22. **Jimenez, G., Lopez, J.** (2013). *How does competition aff ect bank risk-taking?.* Journal of Financial Stability, 9 (2), 185-195
23. **Krájnik, I., Olteanu, L**., (2010), *Pensions Accounting In Romania Under International Financial Reporting Standards*, Studia Universitatis Vasile Goldiş Arad, Seria Ştiinţe Economice Anul 20/2010 Partea I, P.337 – 347
24. **Krájnik, I., Fosztó M.,** (2010), *Economic aspects of social security*. Pension system, Conferinţă Ştiinţifică – Relevanţa educaţiei şi cercetării în dezvoltarea afacerilor şi protecţiei mediului, Presa Universitară Clujeană
25. **Ly, K.C.** (2015). *Liquidity Risk, Regulation and Bank Performance: Evidence from European Banks.* Global Economy and Finance Journal, 8 (1), 11 – 33
26. **Marinescu P**. (2018), *Future management: from creativity to rigour,* Manager 27, 5-6
27. **Pasiouras, F. and Kosmidou, K**. (2007). *Factors influencing the profi tability of domestic and foreign commercial banks in the European Union*. Research in International Business and Finance, 21 (2), 222-237
28. **Tiron-Tudor A**.(2019). *Public Sector Accounting, Auditing and Control in Romania,* Public Sector Accounting, Auditing and Control in South Eastern Europe 1, 61-102