

RISKS OF CORPORATIVE MANAGEMENT IN BANKING SPHERE

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The article views the problem of possible financial loss in the context of risks management due to improper corporative management.

The interest of researchers in the problem of separation of property from control and practice of corporative management in banks strengthened in 1970-s - the beginning of 1980-s.

In September 1999 Basel Committee on Banking Control published special document "Improvement of corporative management in credit organizations" that concretized the principles of corporative management developed by the Organization of Economic Cooperation and Development. According to this document corporative management in banking organizations means control over their activities by boards of directors and top managers and defining of methods with the help of which banks:

- ◆ establish their goals;
- ◆ make daily financial operations;
- ◆ take into consideration positions of interested parts;
- ◆ carry out financial activities in accordance with the rules of banking business reliability provision;
- ◆ protect the interests of investors.

According to the documents of Basel Committee effective system of corporative management in a modern competitive bank is based on a number of principles the essence of which is in:

- ◆ corporative culture;
- ◆ clearly formulated development strategy;
- ◆ distinct distribution of rights and responsibilities;
- ◆ effective management of interrelation and co-operation;
- ◆ reliable system of internal control;
- ◆ constant monitoring of risks;
- ◆ totality of financial and carrier stimulus;
- ◆ system of information flows.

For banking business it is extremely important to provide the functioning of corporative management structures on the basis of the principle of checks and balances.

Firstly, the fundamental interrelation of principal and agent in banking business is much more complicated than in the spheres of trade and production.

Secondly, to fulfill the function of a financial mediator banks can have lower share of own money

means in liabilities in comparison with non-financial companies.

Risk management is the most important thing in banking business. It is the key element of the system of internal control.

Difficult situation with risk management in the banks of countries with forming markets can be explained first of all by the low level of corporative management: serious conflicts of interests and their ineffective regulation within the frames of undeveloped legislation, inadequate approach of the board of directors to the problem of risk management within the system of internal control, drawbacks in disclosure of information and small number of companies able to make qualified and independent audit.

Close interrelation of these factors is revealed also in the influence of corporative management quality on the estimation of risk given by potential investors.

The increase of the level of corporative management will allow banks to solve the problem of low-quality credits and to strengthen the trust of potential counteragents. The creation of good system of corporative management will be useful for all interested parts:

- ◆ banks will work more effectively;
- ◆ banking system in general will attract new clients;
- ◆ shareholders will get guarantee of protection and increase of profitability of their investments;
- ◆ state will have support of banking sector in strengthening of competitiveness of national economy and struggle with fraud and corruption;
- ◆ society in general will win from the increase of social wealth.

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