
CREDIT RISK MANAGEMENT OF ING BANK

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Abstract

The banking system in Romania experienced an extremely rapid evolution and dynamics in the last decade and was not spared, at the end of the last decade, from syncope or crises whose economic, conjunctural, legal causes, etc. they were multiple. The positive evolution and the relatively safe business environment have determined the attraction of foreign banks on the Romanian banking market with positive effects on the development of the sector, contributing to the growth of the financial intermediation process. The diversification of banking activity, the generous offer of products and services offered to clients, however, raises the issue of exposing banks to a greater variety of risks that they must manage. In addition, the performance of the activity in an economic environment in transformation subject to the internationalization of financial flows, makes the problem of risk management acquire a new dimension.

Keywords: banking system, credits, risks, crises.

JEL classification: G20, G30

Introduction

ING Bank came into existence in the middle of the last century, in the Netherlands, when insurance and banking operations played an important role in the development of the financial sector in this country.

The group was created in 1991 by the merger of the largest Dutch insurance company, National Nederland, with one of the largest Dutch commercial banks, NMB Postbank Group, the resulting company being called Internationale Nederland Group, or ING for short. The formation of ING Group was the result of the first full merger in Europe between a bank and an insurance company. Later, the company changed its name, becoming ING Group NV.

Since 1991, the year in which the group was created, ING has evolved from a Dutch company with some international activities to a multinational

company of Dutch origin. This was achieved not only through organic growth, but also through numerous important acquisitions, the first of which took place in 1995, when ING took over Barings Bank. This acquisition led to the recognition of the ING brand worldwide and strengthened the presence of the corporate banking services division in emerging markets.

Currently, ING is an international financial institution that offers banking, insurance and asset management services to over 85 million individual clients, companies or institutions in over 60 countries. With a staff of over 130,000 employees, the group serves a wide range of clients such as individuals or families, small businesses or large corporations, institutions or governments.

ING's mission: At the center of our concerns are the needs of our customers. In everything we do, we strive to be the preferred financial services partner. Our success is based on the continuous improvement of our abilities to find innovative and effective solutions for the specific needs of our customers. Therefore, ING Bank's main concern is to offer its clients reliable, efficient and flexible services in an imperfect, often difficult market.

The main objective of the ING group is to offer all categories of clients, services at the highest standards of professionalism; the appreciation of the quality and prices of ING products by customers being considered the most precious reward.

The global strategy of the ING institution is based on its strong points, namely:

- Continuation of the process of innovation and inter-regional cooperation in order to respond to the needs of customers;
- Continuing the development of global capacities, regional and inter-regional distribution power in Europe, America and Asia-Pacific. The regional offices collaborate closely with the distribution channels;
- Consolidation of improved investment activity in America, Europe and Asia-Pacific.

Literature review

Credit risk management is a topic that has been addressed by several researchers concerned with financial-banking activity. In this sense, Anghelache, C., Anghelache, G.V., Anghel, M.G., Niță, G. (2016) analyze banking risks, their management methods and studied the fundamental elements related to operational risk. Cipovova, E., Dlaskova, G. (2016) are concerned with credit risk management methods. Geiger H. (2000) is concerned with the regulation and supervision of operational risk in the banking system, and Hakens, H., Schnabel, I. (2010) address the impact of

operational risks on financial services. Miller P.G. (2014) is concerned with the role of risk management in the banking system, and Peters, G.W. et al. (2009) analyze some aspects related to operational risk.

Data, Results and Discussion

ING Bank carries out its activity in several fields, at the center of its actions being customer orientation and solid business principles (prompt customer service, entrepreneurial spirit, professionalism, teamwork and integrity).

ING Group's main areas of activity:

- Insurance in Europe, America and the Asia/Pacific region - carries out insurance activities/operations and other important activities in several countries in Europe, North and South America and the Asia-Pacific region.
- Banking services for legal entities (Wholesale Banking) - carries out banking operations for companies on a global level. It has five divisions: Clients, Network, Products, Corporate Finance & Equity Markets and Financial Markets. This division offers a complete range of products and services for corporations and institutions.
- Banking services for individuals (Retail Banking) - carries out banking operations for individuals in Romania, the Netherlands, Belgium, Poland and India. This division offers private banking services in selected markets: not only in Romania, but also in the Netherlands, Belgium, Switzerland, Luxembourg and several countries in Asia.

The history of ING in Romania began in 1994, when ING Bank opened the first branch of a foreign bank in Romania after 1989. Currently, ING Romania offers a full range of financial services for all categories of clients, such as : companies, financial institutions and private clients. ING Romania has over 1000 employees in the 36 cities where over 200 branches are open for companies and ING Self 'Bank units, for individuals. ING Romania also benefits from the largest sales force for insurance products: 2,600 consultants in 61 cities. ING holds a very solid position in all the segments in which it operates: leader on the brokerage market and on the primary and secondary financial market; is the largest custodian bank and is the leader of the life insurance market. In addition, ING was the first banking institution to offer companies and individuals a full range of electronic services: ING Online, Self 'Bank and Home 'Bank. Also, ING Bank is the only bank on the Romanian market that benefits from the AA rating, granted by the international agency Standard & Poor's. It gives ING Bank the status of a financial institution that provides clients with excellent financial security.

In addition to the banking division, ING Group is present in Romania through the following divisions: ING Life Insurance; ING Pensions; ING Lease; ING Commercial Finance; ING Real Estate Investment Management.

ING Group is ranked 7th in the ranking of the most powerful companies in the world, according to the 2020 Fortune Global 500 ranking.

Credit is the basis of the survival of the vast majority of banks. The risk it involves can be limited by reducing the credits granted to the involved parties and the high exposure to related parties.

Credit risk can be defined as the risk that occurs when a bank client, party to the contract, will not fulfill its obligations in accordance with the terms and conditions of the contract, thus the asset holder suffering losses. Thus, the real determination of the debtor's creditworthiness is an element of great importance in the bank's lending activity. In undesirable cases, it may happen that payments are delayed or not made at all in the last resort, which would implicitly cause cash flow problems and affect the bank's liquidity. Despite innovation in the financial services sector, credit risk is still the single leading cause of bank failure.

A good lending policy should not be too restrictive, but allow the presentation to the board of loans that the officers consider worthy of consideration, but do not fall within the parameters of the written instructions. The credit risk management philosophy includes several policies including:

- policies to limit exposure or reduce credit risk;
- asset classification policies;
- policies regarding the creation of the necessary provisions.

Based on strategy, strengths and weaknesses; based on the opportunities and threats from the relationship with the environment (results from the SWOT analysis), each bank creates a lending policy. The greater the risk that the institution is willing to assume, the greater the profit will be.

When structuring the lending policy, it is important to examine the advantages obtained from the assumed risk, the management having to establish interest rates that reflect this aspect.

• Credit risk management at ING Bank

Risk-taking is an integral part of ING Bank's business. As a financial services company active in the banking and investment sector, ING Bank is naturally exposed to a variety of risks. However, in order to measure risks, ING Bank resorted to both risk management methods in its day-to-day business activities and strategic planning.

Banking risk management plays a vital role in our disciplined investment management processes. We evaluate and monitor the implications of all our investment decisions.

ING Bank's credit risks are divided into five main risk categories, namely:

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- credit risk (including guarantees and letters of credit);
 - investment risk;
 - pre-settlement risk (derivative financial instruments, securities and financing of foreign exchange transactions);
 - money market risk;
 - settlement risk.

In the case of ING, credit risk occurs when the institution grants a loan to a client, or when it grants guarantees on behalf of clients. This is the most common risk category, and includes long-term loans, mortgages, revolving loans, overdrafts, guarantees, letters of credit, etc.

The investment risk of ING bank is represented by the risk of acquiring its bonds, commercial papers, securitizations, and other similar publicly traded securities. Moreover, the investment risk occurs when ING buys a bond (synthetic), with the intention of keeping it for as long as possible (generally, until maturity). Bonds that are purchased with the intention of being resold in a short period of time are considered to be trading risks, being thus measured and monitored by the Risk Management Department. The investment risk is assessed at the initial cost (purchase price).

Pre-settlement risk occurs when a transaction is carried out before the settlement deadline and ING must thus replace the commercial contract at the prevailing market price at that time (possibly unfavorable). The pre-settlement risk (potential or expected risk) is the cost of replacement by ING of the commercial contracts on the market. This category of credit risks includes activities specific to the capital market, such as options, swaps, securities and transaction financing.

The money market risk, in the case of ING bank, appears when it attracts short-term deposits in return, in order to manage excess liquidity. In case of non-repayment by counterparties, ING may lose the deposits attracted, thus the market risk arises. Market risk is therefore simply measured as the value of the deposit, excluding any accrued and unpaid interest.

The settlement risk of ING bank is associated with transactions with primary or derivative financial instruments on international markets, and occurs if the delivery of the instruments takes place before the payment is made.

• *ING Bank's loan portfolio*

The structure of the loan portfolio of ING bank essentially includes: consumer loans, mortgage loans and corporate loans.

ING Bank Romania reported record operating revenues for 2022, up 30% compared to 2021, but a 20% decrease in profit due to provisions.

The share of non-performing loans reached 3% of the corporate financing portfolio, while in the area of retail loans guaranteed by mortgage it is only 0.5%. In the corporate sector, approximately 10 loans are being restructured; while in the retail sector, hundreds of loans were restructured. ING tried in the fall of 2022 to execute the guarantees for a 17 million euro loan granted to the retailer Flamingo, but the company opened the insolvency procedure, which generated a third of the bank's total provisions. In the retail area, the restructured loans have accumulated several million euros, given that the total portfolio includes real estate financing of 500 million euros and consumer financing of 300 million euros.

Credit risk analysis of ING bank for the period 2020-2022

Table no. 1.

Risk classes - ING Bank

	2020	2021	2022
Credit risk (including Transfer risk)	7,503	8,686	9,991
Market risk	7,407	10,349	8,435
Business risk	1,004	1,221	2,581
Operational risk	2,013	2,151	2,074
Total banking operations	17,927	22,407	23,081

Source: ING

As can be seen from the adjacent table, ING Bank records during 2020 a credit risk value of 7.503, and the year 2021 reflects a credit risk value of approximately 8.686. These financial values highlight the effect of global economic growth in this time frame, the effect of increased market volatility and the improvement of economic and financial instruments. Therefore, during these 2 years, the categories of risks to which the company could have been exposed were permanently kept under control, being carefully monitored within the specialized departments of the bank. During 2022, ING Bank registers a credit risk weight of around 9.991, a value that strongly reflects the effects of the international financial economic crisis, therefore, the effects of the difficult economic situation.

The following table reflects the risk values recorded separately for each business sector of ING bank:

Sectoral risk analysis of ING bank

Table no. 2

	2020	2021	2022
Commercial Banking	8,646	9,849	8,662
Retail Banking	5,36	6,169	7,166
ING Direct	2,831	4,05	4,466
Corporate Line Bank	1,09	2,339	2,787
Total banking operations	17,927	22,407	23,081

Source: ING

As can be seen from table no. 2, the Commercial Banking sector of the ING Bank institution registers the highest risks in banking activities and operations, a phenomenon explained mainly by the migration of the bank's credits.

The measures adopted by the BNR in 2022 (flexibility of banking prudence rules regarding the creation of credit risk provisions, granting the possibility to include interim profit in the calculation of own funds, reducing to zero the minimum reserve ratio for foreign currency liabilities with residual maturity high of two years) contributes to the improvement of the financial and prudential situation of ING bank, with beneficial effects on the relaunch of non-governmental credit and, implicitly, on the real economy.

• *ING Bank's risk exposure profile*

In order to protect the interests of its shareholders, depositors and other clients, ING bank has an average risk exposure profile, which is reflected through the entire activity carried out and through the objectives, policies and exposure to each significant risk, including in relation to outsourced activities.

The credit risk profile of ING bank is medium, a situation reflected by the following elements:

- Increasing the efficiency of the selection process of eligible clients; contracting loans by: improving/updating/implementing statistically validated scores, ratings and financial analysis applications;
- Increasing the efficiency of the selection process of the industries/sub-industries/customer segments to which the bank is exposed by identifying the areas affected / which will be affected by the crisis;
- Maintaining appropriate levels of collateralization of exposures;
- Improving the loan portfolio monitoring process by using an early warning system, as well as a system for monitoring the deterioration of the economic and financial performance of corporate and retail clients;

- Determination and analysis of consolidated exposures, both at the individual ING level and for the ING group;

A financial institution of the size of the ING group cannot have any other policy than maintaining a diversified national and international lending portfolio, together with avoiding the major risks it imposes. General information systems as well as internal methodologies for establishing the level of risk assumed by a debtor were brought to the aid of the managers dealing with this sector. These internal procedures also include a monitoring scale with values from 1 to 22 covering the risk classes.

In other words, ING bank's exposure to lending operations is mainly related to traditional lending to individuals and legal entities, followed by investments in bonds and other securitized assets. The restructuring of ING's lending operations takes into account the management of customer relations, the improvement of the borrower's risk profile, as well as the maximization of collection possibilities. In this sense, the restructuring activities for business debtors are organized as I mentioned before, based on a list, a scale for monitoring the status/level of credit risks (minimum, medium or high risk). The credit risk status monitoring list includes: a restructuring level with values of (1-17: minimal risk; and 18-19: medium risk) or even a recovery level (20-22: high risk). For customers, the monitoring list of the loan status - potential problem is usually caused by payment arrears (more than 1 month), which are subsequently reflected in the risk rating with values of 18-19 (or comparable level based on a high probability of risk). Following analyzes regarding the management of restructuring relationships, the outstanding amounts are periodically transferred to the commercial banking departments.

ING continues to adopt a proactive attitude in partnership with its business clients. The latter facing financial difficulties in restructuring their loans, especially in 2022. The year 2022 is characterized by significant increases in outstanding loans, which is due to the effects of the pandemic and the economic and financial crisis.

Bonds and debt securities effectively carry a credit risk related to the issuer, which can be calculated based on the issuer's solvency rating. Bonds and debt securities issued by entities with a low rating are generally considered to present a higher credit risk and probability of issuer default than those issued by issuers with a high rating. If the issuer of the bonds or debt securities enters into financial or economic difficulties, the value of the bonds or debt securities (which may become void) and the payments made on account of these bonds or debt securities (which may become void) may be affected. The use of debt-based OTC derivatives, provided that this is mentioned in the investment policy of the sub-fund, may involve assuming a credit risk.

ING Bank registered a considerable decrease in risk category ratings, largely as a result of the pressures exerted, pressures related to the securitization tranches held by ING Direct and as a result of the deterioration of the solvency of the economy in general.

• *Measures to reduce and prevent credit risk – ING Bank*

The lending activity is carried out in such a way as to respond to the principle of prudence in the process of approving credit requests and to ensure the control and conscious assumption of all risks arising from the bank's relationship with its customers. Credit risk encompasses both the risk in the actual lending activity and in other transactions initiated for the bank's customers, such as: issuing letters of guarantee, opening/confirming letters of credit, analyzing, discounting trade effects presented by customers, investments in shares and other securities, other facilities granted to clients.

In order to assess and limit the risk in lending activity, ING bank promotes general, specific and sectoral policies.

The general policies are aimed at reducing the credit risk that refers both to legal entity clients and to natural persons or persons in special relations with the bank, and mainly concern the volume and structure of loans (lei/currency, maturities), determined in turn them, by the volume and structure of the lending resources attracted from the clientele, it being forbidden to grant credits for a term of more than 90 days on account of sight resources more than about 30% of the permanent average balance of these availabilities.

To prevent risk, ING bank does not grant loans:

- economic agents that register losses and have no recovery perspective, except for cases where it was regulated in this way by normative acts;

- economic agents that do not contribute their own capital to the financing of working capital or to the realization of development projects (investments);

- economic agents with debts to the bank, passed by it off the balance sheet and which do not present viable recovery programs, in a position to ensure the recovery of debts in the shortest possible term;

- economic units for which the reorganization or bankruptcy procedure was instituted in accordance with the provisions of Law no. 64/1995 regarding the reorganization and bankruptcy procedure, except in cases where the court decides that credits can be granted in order to reorganize and rehabilitate the debtor's activity;

- economic agents whose debts were handed over for capitalization to A.V.A.B. and they did not regulate the payment method of the respective debts.

When granting bank credits, the principle that the first source of credit repayment should be considered the borrower's ability to generate liquidity is always taken into account, and material guarantees must always be the last source of credit repayment and related interest payments. ING Bank requires borrowers to insure the assets admitted as a guarantee with approved insurance-reinsurance companies.

The specific risk reduction policies are established depending on the general evolution of the economy, the guidelines established by government programs, etc., and take into account the following:

- supporting small and medium-sized enterprises and the private sector in general through loans, aiming to correlate the structure of loans by ownership with the contribution of the two sectors to the realization of the gross domestic product;

- promoting a policy of supporting production for export and the export of products through credits, including through the practice of differentiated interest rates, in order to ensure the necessary currency and balance the balance of payments;

- the prohibition of access to credits for unprofitable economic agents and without certain possibilities of recovery, which register losses from the activity carried out;

- monitoring the economic agents, clients of the bank, which will be liquidated and establishing the appropriate measures for the recovery of the bank's claims arising from credits and interests, including through the forced execution of guarantees;

- the allocation of credit ceilings, in lei and foreign currency, to territorial units is differentiated on the basis of value criteria realized by them;

- the powers to approve loans and letters of guarantee are reduced by 50% or suspended while the banking unit registers outstanding loans and/or unpaid interest older than 30 days in a weight that exceeds 20% and respectively 50% of total portfolio; - changing the level of interest charged by the bank on the loans granted, depending on the debt service of the borrowers;

- monitoring of the economic agents with the largest outstanding debts to the bank, partners, budget, which carry out unprofitable activities, with inadequate financial performance;

- priority granting of credits per object, with distinct follow-up, on separate economic contracts and the corresponding reduction in the volume of global operating credits;

- in order to disperse the credit risk, the large-scale introduction of consumer loans for the population will be pursued, which allows the stimulation of demand and, on this basis, the relaunch of production.

The specific credit risk policies are established and revised periodically, or whenever necessary, and are subject to the approval of the Management Committee and the Board of Directors of ING bank, upon the proposal of the Risk Committee. Sectoral credit risk policies take into account the fact that in banking practice, the danger of excessive concentration of credits towards a certain branch of activity is recognized. Through the continuous monitoring system of the loan portfolio, ING bank analyzes its exposure to all branches of activity and establishes its loan allocation policy by activity sector. When establishing the exposure limits for branches of activity (sector polarization of risk), ING bank uses a scoring analysis system based on a series of performance evaluation indicators for each branch.

The measures undertaken by ING bank in the direction of reducing the credit risk are embodied in:

- creating an efficient informational base;
- knowledge of all controllable and uncontrollable decision-making factors, all limitations and possible results for any credit line or service that could be granted;
- carefully drawing up the credit documentation to ensure the terms and conditions that support the bank's position;
- providing appropriate guarantees;
- ensuring a qualitative and quantitative control of credit, ensuring, among other things, record keeping and the ratio between the degree of indebtedness and credit;
- assessment at the individual level of the repayment capacity of the debtors;
- setting up specific credit risk provisions to absorb anticipated losses;
- avoiding a concentration of credits on: economic sectors, geographical areas, terms, destinations, classification categories, types of guarantees and avoiding their insurance - reinsurance with a single company (or with insurance companies with problems);
- dispersion of credit risk by diversifying the customer base and the types of loans granted;
- periodic review of the customer analysis system for granting loans (scoring and rating systems), etc.

Establishing criteria for granting healthy and well-defined loans is an essential principle in the lending activity.

As the economies of Eastern European countries mature, and business and financial markets become more and more integrated in the internal market of the European Union, the role of credit risk management will increase significantly, credit risk being an important component of the management

and strategy of ING bank. In accordance with the adopted strategy, the major financial objective of the bank is to obtain profits at the expected level, the achievement of which requires the existence of certain conditions of uncertainty, respectively the assumption of a risk. Under these conditions, the bank seeks to maximize its profit while maintaining the risk at an acceptable level.

Given its importance for the activity of banking institutions, both credit institutions and the supervisory authority must promote and support the new theoretical models. The rule confirmed by practice is that a correct risk assessment carried out for both the bank and the borrower generates profitability for both parties

Rigorous credit risk management supports the consolidation of financial-banking markets and helps borrowers to use borrowed capital with maximum efficiency. Also, the unification and practice of a common risk assessment, based on the new directives on capital requirements, ensures the strengthening of relations between the community and global economic partners.

Credit risk management therefore represents an essential component of risk management, useful for the long-term success of any banking institution.

The basis of sound credit risk management is the ability of credit risk management policies to identify existing and potential risks, inherent in any lending activity, and to limit or reduce them.

As far as ING bank is concerned, its success on the Romanian market and recognition from both partners and competitors is due to continuous adaptation to the needs of the local market, the introduction of new services that meet customer expectations and the firm refusal to make concessions on quality.

Conclusions

In the conditions of the turbulent changes taking place within the national financial-banking system, the correct and prudent management of the main component of banking assets, the loan portfolio, becomes the essential condition for the survival of banking institutions.

The analysis of the loan portfolio represents the complex activity that results in ensuring the realization of a loan portfolio with certain qualitative characteristics from the point of view of related risks and a certain level of return on capital. The purpose of the loan portfolio analysis activity, in the last instance, must coincide with the general activity purposes of the banking institution: stability, profitability, development, and in order to achieve these purposes, it is necessary to elaborate the lending policy in detail, component

of the bank's general policy, and to ensure its implementation in practice. The credit policy contains the general directives regarding the organization of the lending process, the organization of credit control and the methods of identification, evaluation and acceptance of risks susceptible to hereditary activity. The credit policy must also contain credit standards and instructions, which would detail the ways of applying the general policy directly in practice.

The individual credit analysis and management begins with the selection of credit applications, the evaluation of the potential client's creditworthiness, the judicious elaboration of the credit structure, the passing of the project through all the authorization stages. At each stage, the risks accepted by the bank and the ways to avoid or at least reduce their negative consequences are taken into account. The portfolio, once formed, is subject to a rigorous control, in order to maintain its qualitative characteristics and capitalize it at the estimated level of profitability. For this, the monitoring of each credit in the portfolio is carried out, with individual approaches and attitudes for each client and special situation, in connection with the mobilized resources. The global management of the credit portfolio studies the risks and their potential effects on the synergistic quality of the portfolio, i.e. on the net banking result. Within global management, we distinguish the process of credit classification, application of limits, diversification, ordering of priorities, etc. A special place in global management is held by the procedures for ensuring the market risks involved in credit activity, as well as the detection of non-differentiable risks, practically the most dangerous aspects, which require special attention and specific approaches.

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