

The engineering of the prudential supervision structure - essential factor of financial-banking stability in the European context of Romania



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ABSTRACT

The stability and financial security of any state, whether it is regarded as individual unit or as a member of various unions or Union of States, is a fundamental issue of safeguarding depositors in relation to the risks of instability and insecurity in the financial and banking sector, a situation which involves the risk that the entire population of a State, or of the Union considered, might be in the situation when it has to pay for the losses. Stability and security should be sought and ensured by the structural engineering of some "Single Supervisory Mechanisms", "Single Regulatory Mechanisms" and through various forms of the security structure. The European context offers a very wide range of international financial and banking relations but at the same time it has to face the terrorist threat. In Romania, the structure of prudential supervision and banking security is ensured by the "National Bank of Romania". This one, together with other national authorities, ensures the structural engineering for the financial stability and security on the territory of Romania, which is a member state of the European Union, observing the European supervisory, regulatory, payment and control mechanisms. The National Bank of Romania shall have jurisdiction solely to "authorize Credit institutions in Romania", while at the same time, through prudential supervision and banking information security to ensure "the stability and viability of the entire banking system", and therefore conclude, for this purpose, "coordination and cooperation agreements with the competent authorities in other Member States".

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1. Introduction

Analyzing the economic and financial crisis that has been affecting, for over two decades, economic systems, as well as the stability, viability and financial-banking security, it emerges that this crisis is different from others through the unprecedented severity of its influence, the contagion rhythm and its global dimension. The causes of instability, inviolability and financial-banking insecurity were precisely these crises, and in turn, the causes of the profound crisis were and continue to be both macroeconomic and microeconomic nature. In the opinion of Mugur Isărescu, Governor of the National Bank of Romania, "the factor determining the global financial crisis was the mortgage market in the

United States of America". In addition to poor performance of prudential supervisory structures, capable of overseeing the regulation of the financial and banking market, microeconomic causes such as "securitization, financial disintermediation, cracks in rating agencies and excessive deregulation" (Rada, 2017), were added, thus managing to combine and lead to an unprecedented financial crisis, instability, insecurity and lack of viability for all national banking systems.

The engineering of obsolete prudential supervision has favored the serious disturbance of the financial markets and, at the same time, the risks associated to the way the European institutions in general and banking institutions in particular, operate. At the same time, it has influenced their expertise in ensuring security. Romania can be ranked, in the context of the European Union, among the unstable financial markets, being generally unstable in the field of banking, presenting especially a high risk of insecurity. Therefore, an important place in our research is the "European Monetary

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Policy", the aim of which is "to maintain banking stability and at the same time to ensure financial stability". International Relations in the Engineering of the Prudential Supervision Structure are maintained in actuality by the implementation of the "Single Supervisory Mechanism" (MUS) and the "Single Resolution Mechanism" (MUR). "The European Central Bank" (ECB) assumes, through its structure called the "European Banking Authority" (EBA) the risks and vulnerabilities of the European banking sector. In this situation, we must use the engineering of the prudential supervision structure through at least two mechanisms. We can exemplify the necessity and adoption, in 2011, of the European Union Report on "Fighting corruption in the EU", designed as a specific EU mechanism. In this respect, the "EU Regulation" legislative act, which prohibits the largest and most complex banks in the EU from being involved in the systemic risk trading activity, is important. Of interest for the National Bank of Romania (NBR) have been the developments in European relations engineering such as the "Directive on the Resolution and Recovery of Credit Institutions and Investment Firms", the creation of a "Single Resolution Mechanism (MUR)", "the revision of some directives on common deposit guarantee schemes", "Consumer Credit Directive for Residential Real Estate "or other new" rules concerning the Financial Market Instruments".

Reports from the European Banking Authority have highlighted the major shortcomings that mitigate the economies in Central and Eastern Europe, accentuated by the financial crisis such as "excessive dependence on foreign capital" and "excessive use of foreign currency funding"; then, the need to apply the "technical standards" on the information to be made public by the competent supervisory authorities on: "the Euro system's definitive trading program on government bond secondary markets", "the global gold market", "the launch of the ECB Guideline for evaluating the security of payment through the Internet", "Forecasting on Europe's Economic Recovery", "The reasons for the postponement of the global review of allowances by the Board of Governors of the International Monetary Fund (IMF)", "Reports on bank exposure and credit growth for the countries of Central, Eastern and Southeastern Europe".

The engineering of prudential supervision should also consider another aspect of relevant EU policies such as Security and Defense, in order to "create a safer Europe for the benefit of all its citizens". In this respect, the major threats and risks come from activities such as: "The terrorist threat to EU security, which over the past few years has seen an unprecedented scale and continues to be on an ascending trend" (Europol, 2017), "The attractiveness of the euro currency for counterfeiters", "Trafficking in human beings", "economic criminality", "smuggling", "money laundering, a crime per se, closely related to other forms of serious crime such as organized crime and the financing of terrorism" (Europol, 2017).

Besides, "Computer Crime" is also a threat to global security, not only in terms of stability, security and viability of the financial-banking systems, but is also a threat to the existence of all humankind. The engineering of the prudential supervision structure should be developed in such a way that it becomes a priority for the EU to fight cybercrime. If technical innovation always has to bring social welfare, here, in this case, it brings a great social threat when used for abject purposes.

Of course, the European Union, in order to fight these threats, is continually inventing and innovating, through structural engineering, organisms and traps to fight against threats, both at the level of the Union and at national level, of course by law enforcement cooperation.

2. The research method

The research strategy used in this approach is the "case study strategy" (Yin, 2009), and it was preferred since there is only limited control on events and attention was focused on the engineering phenomenon of prudential supervision structure, on the need to innovate it in order to protect the interests of depositors and ensure the stability and viability of the entire banking system of Romania, so that innovation in this form of engineering can be achieved by modernizing the methods of prudential supervision; secondly, this method responds to our initial questions, i.e. "how" and "why". The use of this method helped us with our intention to deal with the contextual conditions of modernizing the structural engineering of the prudential supervision in order to protect the interests of the depositors and to ensure the stability and viability of the entire banking system in the NBR. As phenomena and context are not always differentiable in real life, data collection and analysis strategies have also been used.

2.1. Study questions

Research design has the study questions as its first critical component for case study research. Since these questions are "how" and "why", they are more likely to require an explanation, and may involve the use of case studies, histories and experiments as favorite strategies. They allow us to find out how and why innovation is required in the engineering of prudential banking supervision strategies in the National Bank of Romania, without relying on examining archival data or conducting a survey, but on the basis of a case study. So these types of questions provide an important clue as to the most relevant strategy to use and the study questions have been set as follows:

1. How and why is the structure of prudential banking supervision required in the National Bank of Romania?
2. How can innovation in terms of the engineering of prudential banking supervision structure be

achieved in the context of the National Bank of Romania?

3. Why is the engineering of the prudential supervision structure a factor of stability and financial and banking viability for the National Bank of Romania?

2.2. The hypothesis

The second component of the case study design is the hypothesis of the study, which focuses on the need for the engineering of prudential banking structure, so as to protect the interests of depositors and to ensure the stability and viability of the entire banking system in the NBR. The research started with the question "How and why is the engineering of the prudential banking structure in the National Bank of Romania necessary?", so the questions "how" and "why" capture the essence of what needs to be learned and lead to the choice of the case study as an appropriate strategy. This type of question does not indicate what should be studied, allowing researchers to formulate the hypothesis that will lead them in the right direction. Thinking is focused on the innovation of the structure for the prudential supervision of credit institutions in Romania's banking system, regarded in the European context, being one of the factors of stability, viability and security that will protect the interests of depositors and the entire banking system.

In addition to the fact that the hypothesis reflects an important tertiary aspect (i.e., the necessity to innovate the engineering of the prudential supervision structure of credit institutions in the European context), it indicates where to look for relevant evidence (to determine to what extent the engineering of the prudential supervision structure is a factor of stability and viability that ensures the protection of interests in the entire banking system).

The established hypothesis is as follows:

If the structure of prudential supervision of credit institutions in the banking system in Romania is necessary in order to protect the interests of depositors and to ensure the stability and viability of the entire banking system, then the strategy of prudential supervision of credit institutions, as a stability and viability factor in the European context, has to be permanently innovated in order to protect the interests of depositors and to ensure stability and viability.

2.3. The analysis units

The analysis unit, as the third component of the research design, is related to the fundamental problem of defining the "case". This case does not refer to individuals or groups of individuals in which an individual represents the studied case and at the same time the unit but refers to a phenomenon that reflects the need for innovating the structural engineering of prudential supervision of credit institutions, in order to protect depositors and ensure the stability and viability of the entire

banking system; it also refers to an entity, the National Bank of Romania, which is not very well defined as an individual. This is a case study on decisions, programs, implementation processes, and organizational changes. This type of topic, and therefore the engineering of the prudential supervision structure of credit institutions, is not very easy to define in terms of the "start" and end points of the "case". The study on such a theme may reveal: "a) variations in the definition of decisions, programs, implementation processes or organizational changes, and b) their components that existed before their formal nomination" (Yin, 2009). Therefore, the delimitation conditions a) and b) are taken into account in defining the analytical conditions of this study.

The attempt to establish the unit of analysis, and therefore the case, is related to the way in which the initial study questions were formulated, namely: it was intended to address as a "unit of study analysis" the innovation of the structure of prudential banking supervision in the National Bank of Romania as an essential factor of stability and financial-banking viability in a European context, in order to protect the interests of depositors and to ensure the stability and viability of the entire banking system in Romania. The selection of the analytical unit was made after the primary research questions were specified with accuracy. At the time of setting up the analytical unit it was not considered to be definitive, having the possibility, as with other aspects of design, to be reconsidered as a result of discoveries made during the following stages of the study.

2.3.1. The primary analysis unit

The primary analysis unit refers to the possibility to innovate the engineering of the prudential banking supervision structure in the National Bank of Romania.

2.3.2. The contextual analysis unit (the existence of the case)

The contextual analysis unit is the very existence of the case, namely: the necessity for the engineering of the prudential banking supervision structure in the National Bank of Romania.

2.3.3. The embedded analysis unit

The embedded unit refers to the engineering of the prudential supervision structure as an essential factor for stability and financial-banking viability of the National Bank of Romania.

2.3.4. Linking data to hypotheses

This fourth component of the case study design anticipates the data analysis stage and is not usually extensively discussed in case studies, but the research design should help build solid bases for this

stage of the investigation. It is not precisely defined how to link hypothetical data, although it can be done in several ways. Therefore, a promising approach to case studies, that of pattern matching, described by Cambell (1975), was chosen. This technique involves "the use of a pattern matching logic" (Yin, 2009), which compares an established pattern with empirical bases with an anticipated (or with more alternative predictions), as shown by Trochim (1989). In this case, if the pattern established on empirical basis ("the necessity for the engineering of prudential banking supervision structure in the National Bank of Romania") coincides with the anticipated path (predicted) by the authors ("achieving the innovation of the prudential banking supervision structure in the National Bank of Romania", as factor of stability and financial-banking viability of the National Bank of Romania, in order to protect the interests of depositors and to ensure the stability, viability and financial-banking security throughout the system), therefore results can contribute to strengthening the internal validity of the investigation. In this case the patterns are related to the dependent and the independent variables defined above, namely the predicted pattern with respect to the independent variable is defined before the data collection stage, and the information obtained in this case can be referred to the theoretically determined hypothesis.

2.3.5. Criteria for data interpretation

The fifth component of the case study design makes it possible to compare at least two alternatives. These alternatives depend on the researchers' understanding of the conditions under which the new findings of research - the key factor for stability and financial-banking viability of the National Bank of Romania - may be useful in achieving the innovation of prudential banking structure engineering in the National Bank of Romania, in order to protect the interests of depositors and to ensure stability and the viability of the entire banking system. It is made clear that people often believe that research serves only itself, "not satisfying any practical need" (Yin, 2009).

The pattern matching technique is also valid when it comes to an explanatory study, as patterns are related to the independent variables, in this case: the necessity of engineering the prudential banking supervision structure in the National Bank of Romania; patterns may also be related to the dependent variables, in our case: achieving the innovation of prudential banking supervision structure in the National Bank of Romania, as essential factor of stability and viability of the entire financial-banking system. This technique is equally relevant if the study is descriptive as long as the anticipated (predicted) pattern regarding certain variables is defined before the data collection stage, in this case: the achievement of innovation in the engineering of the prudential banking supervision structure, with the view of ensuring the viability of

the banking system and protect depositors and the entire financial-banking system.

As the last component of the research design, criteria anticipate the data analysis stage. The data obtained through the chosen strategies and techniques are a constant challenge for achieving some quality analysis, which made researchers pay particular attention to all the evidence. The evidence was objectively presented and an appropriate interest in exploiting alternative interpretations was manifested (Yin, 2009). Combined criteria were used in the interpretation of findings, especially the logical models in which "The logical model deliberately stipulates a complex chain of events over time. These are included in repetitive cause-effect-cause-effect patterns" (Yin, 2009). That is, the dependent variable of an initial stage, "the need for engineering the structure of prudential banking supervision", becomes the independent variable at a later stage, "the achievement of innovation in engineering the prudential banking supervisory structure", in order to be a key factor for the stability, viability and security of the entire financial-banking sector and protect the interests of depositors. The logical model implies the matching of the empirically observed events: „the need for the engineering of the banking prudential supervision structure" with the theoretically predicted elements of "achieving the innovation in engineering the banking prudential supervision structure", so as the latter might become an essential factor for the stability, viability and security of the entire banking and financial system in Romania, in the European context that focuses on protecting depositors and the banking system itself.

2.4. Preliminary theories

After analyzing the five components of the design, a preliminary theory related to the topic of the study should be developed. This very practice of elaborating the theory before collecting the data (the evidence) differentiates this case study from other similar methods. Some of these, for instance ethnography and grounded theory, intentionally avoid speculation in relation to the theoretical hypotheses at the beginning of the investigation (Yin, 2009). This situation can induce mistakes, and associate such methods with the case study. It can be argued that this "overlapping" with the case study allows immediate progress towards the collection of evidence and reaching the "field contacts" very quickly. Serious error consists in creating relevant field contacts without the previous understanding or theorizing of the studied object.

In this case, the development of theory as part of the design phase is essential for the purpose of the investigation and proposes a theory of innovating the structure of prudential supervision of credit institutions, as the existing, essential factor of the stability and viability of the entire banking system in Romania, which protects the interests of depositors. It shows why simply replacing the old structure of

prudential supervision (e.g., key-persons in the supervision system) has not been sufficient so as to achieve the innovation of the prudential supervision engineering structure in the European context, so as it might become the key factor for the stability and viability of the entire banking system and for the protection of depositors' interests.

First, the primary unit of analysis is theorized: "managing to innovate the engineering of the banking prudential supervisory structure in the National Bank of Romania". The engineering of the supervision of the entire banking system in Romania is under the competence of the National Bank which has the exclusive right to authorize credit institutions in Romania, and through their prudential supervision it ensures the stability and viability of the entire banking system. It is extended beyond the borders of the country, in order to streamline the prudential supervision process. It is put into practice by concluding coordination and cooperation agreements with the competent authorities of other states. Thus, given the responsibilities resulting from its double role: "of monetary and prudential authority", the NBR has an intrinsic role in maintaining financial stability. This double role is declared by the National Bank of Romania on its website <http://www.bnr.ro/Stabilitate-financial---Rolul-BNR-3114.aspx>, and the role is exercised "both through regulation and the prudential supervision of credit institutions under its control, and through the effective formulation and transmission of monetary policy measures and the oversight of the optimal operation of payment and settlement systems of systemic importance. In fulfilling this role and in maintaining the concept of financial stability within the system, the engineering structure of prudential supervision must ensure "the identification of the risks and vulnerabilities of the entire financial system, as well as of its components, since financial stability monitoring is preventive". However, in the structure of prudential supervision, some malfunctions, such as "incorrect risk assessment" and "inefficient capital allocation," affecting the stability of the financial system and economic stability, arise and develop. In order to be able to broaden the national financial stability framework beyond the borders of a country, it is necessary to strengthen cooperation among the authorities responsible for the authorization, regulation, supervision and control of the financial markets' components through the engineering of the prudential supervision structure.

According to most specialists, innovating the engineering of the prudential supervision structure in the European context is made possible by Romania's membership in the Banking Union, where the European Central Bank (ECB) became the first pillar of resistance, which took over the supervision of the largest euro area banks that hold over 70% of the Romanian banking system. According to Mugur Isărescu, the Governor of the NBR, a strong argument for the accession of a non-euro country to the Union is "the pre-eminence in the banking sector

of the euro area capital". The massive presence of the euro-zone capital in the Romanian banking system determines the innovation of the engineering of the cross-border supervisory and regulatory structure. As pointed out by Mugur Isărescu, the preservation of the supervisory powers only at national level "would have only sub optional results" due to the fact that access to parent bank information is limited and there is no overall prospect. Innovating the engineering of the prudential supervisory structure is determined by a country's belonging to the Banking Union, which allows the participation "from the inside to the construction of a mechanism that one will have to join eventually, when becoming a member of the euro area anyway" (Isărescu, 2014). The existence of the Banking Union produces, however, effects on the financial system in Romania, even if it is not a member of the Banking Union. Upon entering the Banking Union, innovating the engineering of the prudential supervision structure will also ensure the "removal of a stimulus for disintermediation by foreign banks" (Isărescu, 2014), and the experience after the economic crisis provides enough lessons for the engineering of prudential supervision structure with regard to the protection of the national banking system; "Some supervisory authorities", by managing the innovation of their structure's engineering, "can impose prudential measures on capital controls, transfers and intra-group lending, limiting branch activities, or prohibiting repatriation of profits, causing some banks to reduce the activity of their subsidiaries in host countries.

After the European Central Bank (ECB) became, on 4th of November 2014, the "single direct supervisor of the largest 120 banks, accounting for 85% of all euro area banking assets", the Single Supervisory Mechanism was set up under the auspices of the ECB, a model that must prove able to be applied at a Pan-European level and that should allow the innovation of the prudential supervision engineering, which has remained at the national level for non-euro countries. This model aims to determine banks to take more prudential measures with the view of preventing economic crises, since ECB's ultimate goal, as the sole supervisor, is also that of rebuilding confidence in a financial system shaken by crisis and scandals.

The following theorization is made for the contextual analytical unit, which is the existence of the case, namely: The necessity of engineering the structure of prudential banking supervision in the National Bank of Romania. The evolution of the Romanian economy after 1989 can be evaluated from several perspectives, such as the transition to a new economic and political regime that has created new institutional structures, structural reforms, including privatizations and the imposition of structural reforms. A long cycle of institutional changes and economic mechanisms has been initiated. Adherence to the European Union may be the subject of another analysis. The need for engineering the prudential supervision structure of

credit institutions was generated by the financial crisis that "showed both how erroneous were the assumptions that Central Banks and Governments were operating with and how flawed was the regulatory and supervisory framework of the financial markets" (Dăianu, 2015), and the theories that "markets know everything", or that "public intervention must be minima" are paradigms that have failed and led to crises. Hence "the need to regulate and supervise the financial system, as well as the emergence of macro-prudential supervisory bodies" (Dăianu, 2015). Taking into account the policies of the central banks, the specialist Axel Weber (former head of the Bundesbank) has shown that it was a mistake to neglect credit dynamics by underestimating systemic risk or, where credit cessation was attempted, including in Romania, the need for engineering the structure of prudential supervision emerges. Indeed, its existence has also been proved by the intervention of the EU single market, which has imposed certain measures on the central banks, while the massive liquidity injection over the past years has played a crucial role in avoiding the collapse of banking systems; the engineering of the prudential supervision structure of credit institutions has also become an essential factor of stability and of financial-banking viability, with the view of protecting depositors' interests.

The necessity of engineering the prudential supervision structure of credit institutions, as a requirement for "strengthening European institutions and finalizing the process of reforming the governance framework, are essential actions for the good functioning of the European Union".

Another requirement for the existence of the engineering of the prudential supervision structure is the evolution of the Romanian banking system after the 1990s in all aspects, namely "the size and number of credit institutions, the form of their ownership, the types of activities carried out, the complexity of the operations, the increase of the sophistication of the products offered, the legislative and institutional framework".

The necessary measures to be imposed in prudential supervision justify the existence of the engineering of prudential supervisory structure in credit institutions, which are considered to have a high risk profile, by the introduction of prudential filters, at individual level as well, with the implementation of new accounting standards by banks, of the indicators used for the adequacy of capital. Also, we should point out here at measures concerning the premises for the proper implementation of the capital requirements imposed by the Basel III regulations, which are gradually being applied in Romania until 2018.

The last theorization of this case is related to the embedded analysis unit and includes the engineering of the prudential supervision structure as the essential factor of stability and financial-banking viability of the National Bank of Romania. The fundamental objective of engineering the structure of prudential supervision of credit institutions is "to

prevent systemic risk by promoting effective banking supervision in order to ensure the stability and viability of the entire banking system" (Rada, 2017) - a key factor for the fundamental aim of "protecting the interests of depositors and ensuring the stability and viability of the entire banking system" (Rada, 2017).

Credit institutions, as Romanian legal persons, have the obligation to report to the National Bank of Romania the data and information necessary for the assessment of their observance of the prudential and legal framework in force at the deadlines and in the form set by the NBR. The National Bank of Romania, through the structure of prudential supervision, ensures the verification of the management framework for strategies and processes implemented by each credit institution. As Romanian legal person, it carries out its own risk assessment at which credit institutions are or may be exposed to. The National Bank of Romania determines the engineering of the management structure, as well as the strategies, processes and mechanisms implemented by the credit institution, as a Romanian legal person; it also evaluates if the funds held by it ensure prudent management and adequate risk coverage in relation to the institution's risk profile credit.

The monitoring of compliance, by credit institutions, as Romanian legal persons, with prudential requirements and other legal requirements, is carried out both on the basis of the credit institutions' reports and on-the-spot verifications at the headquarters of the credit institutions and at their branches in the country and abroad. On-the-spot checks shall be carried out by the NBR referent specialists empowered to do so, or by financial auditors or experts appointed by the supervisory authority.

3. The gathering of evidence (data)

In this case, the evidence was collected from the following sources: documents, archives, interviews, sites, direct observation, participatory observation, observing the methodological procedures for each. In the data collection effort, the priority principles were respected: a) multiple sources of evidence (two or more sources converging towards the same findings), b) a database (it is about the evidence gathered, not the final report and c) a logical succession of evidence (explicit links between the data collected, the questions asked and the conclusions reached) "(Yin, 2009). All sources may prove useful and therefore we have examined a large number of articles and research methodology books for this study. The interviews were among the most important sources of information in our case. They have also been generated from personal duties in connection with prudential supervision, as BNR referent at various bank or non-bank credit institutions in the country and their territorial units. The results were recorded in evaluating and monitoring documents. The measures taken were

also included in documents and the reports for the supervisory management, as well as and the conclusions of these interviews are documents that became confidential and are the property of the NBR. For this reason, they have not been published (mentioned) in this study.

Collection of evidence for the primary unit: "achieving the innovation of engineering the structure of prudential banking supervision in the National Bank of Romania":

- Supervisory reform: Establishment of the European Banking Authority (EBA) as part of the banking supervision mechanism created in 2011, which replaced the Committee of European Banking Supervisors (CEBS); currently it has a more important role in setting regulations and in prudential supervision, as well as in the legislative process; it also performs the role of consumer protection (Table 1).
- Developments in the process of creating a banking union. The Banking Union is made up of the following components (Table 2).

Table 1: The mandate of the committee of European banking supervisors

	CEBS	ABE
REGULATION	A purely consultative role Issues directions and recommendations that do not have an obligatory character	Issues technical standards that become EU regulations directly applicable in member states, after their adoption by the Commission
SUPERVISION	Voluntary participation to a series of supervisors' colleges	It has the right to participate to all supervisors' colleges and introduce topics in the agenda. Role of mediator in case of disagreement among national supervisory authorities
CONSUMER PROTECTION	It is not the case	It promotes transparency, simplicity and equity on the market for the financial products and services in the EU

Table 2: Progress of various components of the banking union

COMPONENT	STAGE	DESCRIPTION
The Single Supervisory Mechanism	On 15th of October 2013 the Council adopted the regulations for setting the Single Supervisory Mechanism	Under the Single Supervisory Mechanism, the ECB will be responsible, together with the supervisors, for overseeing banks in the Euro area and other Member States wishing to participate.
The integrated framework for managing crises	On December 2013, the Council and the European Parliament agreed on a framework for bank recovery and resolution	The framework aims to ensure the management of banks in difficulty and, where appropriate, to allow for the gradual and predictable phasing out of the activity of banks in major difficulties, using as few public funds as possible. Once operational, the Single Resolution Mechanism will be the authority responsible for implementing these rules.
	On March 20, 2014, the Council and the European Parliament reached an agreement on the Single Resolution Facility. The first reading of the European Parliament on the proposal for a regulation on the creation of a Unique Resolution Facility for Banks in Great Depression took place on 15 April 2014. After the final adoption of the text, the Council of the European Union will adopt the regulation without further debate.	The Council and the Parliament agreed to set up a resolution committee, with extensive powers in case of bank resolution. This committee or the ECB, as the banking sector supervisor, may initiate the resolution process of a bank in major difficulties. The agreement provides for a resolution fund financed by taxes imposed on banks, and initially supported on national compartments, which will gradually merge over a period of 8 years. The Single Resolution Mechanism will cover all banks in the participating Member States.
The common system for guaranteeing deposits	Legislative bodies agreed that each Member State should set up a partially pre-funded system guaranteeing all deposits below EUR 100000.	Currently, there are only national Deposit Guarantee Schemes. At the time of the audit, the Commission had not yet presented a proposal for a common European Deposit Guarantee Scheme.
The Single Regulation Framework	Ever since its setting, EBA has endeavored to establish a single regulatory framework. In 2013, its activities in this area were ongoing.	In 2014, six guidelines and four reflection papers, 14 consultation documents and 23 drafts for technical standards were processed for a public consultation process - for example, to be incorporated into the Capital Requirements Directive IV.

- European Financial Supervision following the introduction of the Single Supervisory Mechanism (MUS). In the period following the creation of the Single Supervisory Mechanism - October 2013, the allocation of responsibilities between EBA and the ECB had to be clarified (Fig. 1).
- Regulation of the European Union no. 1024/2013 Council Regulation (EU), of 15th of October 2013 conferring on the European Central Bank powers as regards the prudential supervision of credit

institutions - Single Supervisory Mechanisms Regulation.

Collection of evidence for the contextual unit: "The Need for Engineering the Prudential Banking Supervision in the National Bank of Romania":

- Involvement of the new legislation applicable to the tax sector (Table 3)

- The involvement of the new legislation as regards the correction of macroeconomic unbalance with

the view of achieving the integrated framework for the identification of unbalance (Table 4).

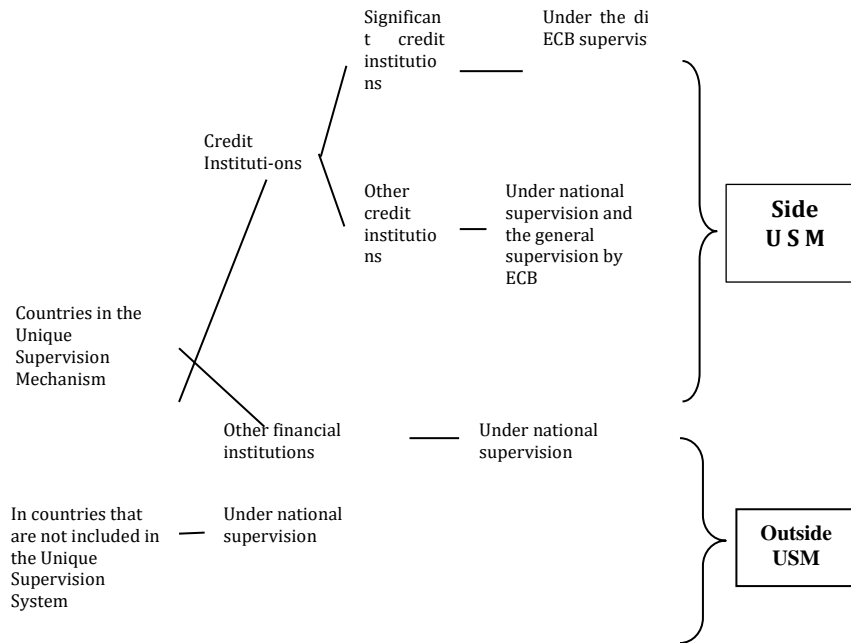


Fig. 1: European financial supervision following the introduction of the unique supervision mechanism (USM)

Table 3: New legislation applicable to the financial sector

THE PREVENTIVE SIDE	THE CORRECTIVE SIDE
<ul style="list-style-type: none"> • The European Council monitors the achievement of medium-term fiscal policy objectives (targets are the level of structural deficit as MTO and a structural adjustment rate of 0.5pp per year if targets are not already achieved under the program); • The Council's oversight of compliance with the rule of slower growth of budget expenditure relative to nominal equilibrium level of GDP; • Verify the incorporation of the established rules in each country's Convergence / Stability Programs at the European level. 	<ul style="list-style-type: none"> • In the case of some deviations, considered significant, the European Commission can issue a recommendation, in other words impose correction measures; • The obligation to constitute a deposit bearing interest (0,2% of GPD) when budget consolidation is not considered sufficient; • Introducing a presumed excessive deficit procedure constitutes a single non-negotiable deposit; • The deposit of non-remunerated payments is converted into a fine if the State does not respect the recommendations of the European.

Table 4: The new legislation regarding the correction of macroeconomic unbalance

THE PREVENTIVE SIDE	THE CORRECTIVE
<ul style="list-style-type: none"> • Construction of slave boards for the detection of macroeconomic imbalances, starting from deviations from the medium-term trends, to be specified for both the minimum and the maximum level of indicators for each country; • Deviations from the established limits will not result in automatic application of the corrective part; only the corroboration of these signals with a detailed analysis of that economy and technical missions to facilitate dialogue with the Member State can lead to corrective action being taken; 	<ul style="list-style-type: none"> • The European Council may issue recommendations / warnings to correct identified imbalances; • the application of fines (each year) if the Member State does not comply with Council recommendations and / or does not have a national plan to correct them; • the application of fines (between 0.1 and 0.5% of GDP) is automatic (reverse inversion), without the possibility of the political factor intervening on the amount or the decision regarding the opportunity to apply them; • the fines will increase the capital of the European Stability Mechanism.

Gathering proofs for the embedded unit: „the engineering of the prudential supervision structure as essential factor for the stability and the banking-financial viability of the National bank of Romania”.

- Stopping the vicious spiral between the country risk and banking unbalance, as in Fig. 2. The reform of the European architecture of financial supervision, as in the Fig. 3.

4. Data analysis

Data analysis is the chapter of the case study research strategy and consists of examining,

clarifying, tabling and testing the evidence. In other words, their "quantitative and qualitative reorganization in order to approach the initial assumptions of a study" (Yin, 2009). We have encountered a series of difficulties in this case because the strategies and techniques that were to be used were not found in clearly defined bibliography. However, there were three strategies that relied on theoretical assumptions, setting a framework based on alternative explanations, and by developing case descriptions based on these strategies, "five techniques specific to case study analysis can be used: pattern matching, constructing explanations, analyzing time series, logical models

and comparative synthesis "(Yin, 2009). The challenge in this case was a quality analysis which

implied a special attention paid to all the evidence, not just for those presented here.

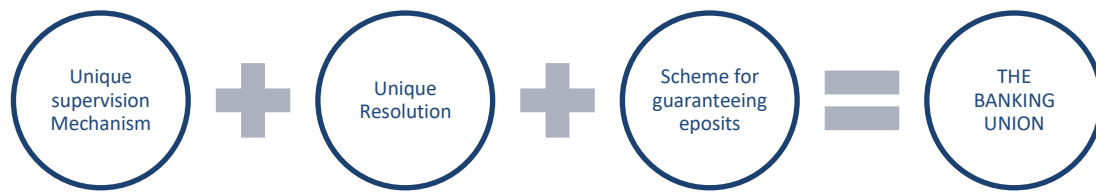


Fig. 2: Stopping the vicious spiral

We also attempted to collect the evidence objectively, demonstrating interest for exploring alternative interpretations. Since this approach is not as broad as, for instance, a doctoral dissertation, all the evidence and analysis could not be included, especially since this research structure is among the most developed and difficult aspects of practice, and since there was no clue as regards the examination of evidence. In the analysis of this case, examinations were limited to evidence from analysis units that

were established on the basis of the research hypothesis and that can demonstrate that the structure of prudential supervision of credit institutions is the essential factor of stability and financial-banking viability in Romania, in a European context, having as purpose the protection of depositors' interests. It is an analysis strategy for the study seen as a whole. The matrix of categories created is presented in Table 5.

Table 5: Matrix of data analysis (Rada, 2017)

THE MATRIX OF DATA ANALYSIS			
Evidence: The primary analysis unit "Achieving the innovation of the engineering of the prudential banking supervision structure in the National Bank of Romania"	Evidence: The Contextual Analysis Unit "The necessity for the engineering of the prudential banking supervision structure in the National Bank of Romania"	Evidence: Embedded analysis unit "the engineering of prudential supervision structure as a key factor of stability and financial-banking viability of the National Bank of Romania"	Results
1	2	3	4
3.1.1. Supervisory reform: Establishment of the European Banking Authority (EBA) as part of the banking supervision mechanism created in 2011, which replaced the Committee of European Banking Supervisors (CEBS) and has a more important role in regulating and prudential supervision, as well as in the legislative process and also includes the role of consumer protection. 3.1.2. Developments in the process of creating a banking union. 3.1.3. European Financial Supervision following the introduction of the Single Supervisory Mechanism (MUS). In the unexpected period of the establishment of the Single Supervisory Mechanism - October 2013, the allocation of responsibilities between EBA and the ECB had to be clarified. 3.1.4. Regulation of the European Union no. No 1024/2013 of 15 October 2013 conferring on the European Central Bank powers as regards prudential supervision of credit institutions - Single Supervisory Mechanism Regulation.	3.2.1. Involvement of new legislation applicable to the tax sector. 3.2.2. Involvement of the new legislation on correcting macroeconomic imbalances in order to achieve the integrated framework for identifying imbalances.	3.3.1. Reform of the European Financial Supervisory Architecture, as in the figures and tables below: a. Breaking down the vicious spiral of country risk and banking instability; b. The European Financial Supervisory Architecture.	The analysis of the data revealed the necessity of having the structure of prudential supervision of credit institutions as an essential factor of stability and financial viability in order to protect the interests of depositors and the stability and viability of the entire banking system in Romania in a European context; Achieving the innovation of the engineering of the prudential supervision structure for credit institutions is done permanently and continuously by the National Bank of Romania, in the European context. It also emerged that: the engineering of the prudential supervision structure of the credit institutions belonging to the Romanian banking system is an essential factor of stability and financial-banking viability in the European context and aims to protect the depositors and the entire banking system.

5. Conclusion

A single supervisory system at the level of the European Union can ensure that all credit institutions are subject to prudential supervision and convergent supervisory practices. A supra-national supervisor is much better placed to assess the risks

posed by cross-border activities, thus enhancing financial stability and confidence in the existing and the emerging euro area.

The financial crisis has highlighted the importance of the robustness of the banking system, of its stability and viability. This required the

recapitalization of banks, which led to their ability to manage their risks.

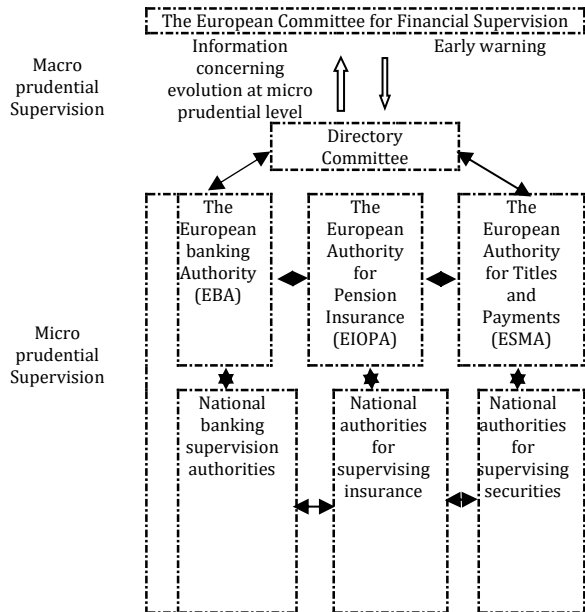


Fig. 3: The European architecture of financial supervision

The reality of the support of national authorities was preferred to financial integration, which could be considered sufficient, but proved, in fact, superficial.

The crisis has confirmed the validity of the Keynesian idea that tells us that resources need to be accumulated in times of economic prosperity for the funding needed in times of recession.

A single supervisory system at the level of the European Union can ensure that all credit institutions are subject to prudential supervisory and convergent supervisory practices. A supra-national supervisor is much better placed to assess the risks posed by cross-border activities, thus enhancing financial stability and confidence in the euro area and the emerging euro area.

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