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Priorities in banking supervision of the National Bank of Moldova for 2020

The National Bank of Moldova, as the banking supervisory and regulatory authority of the Republic of Moldova, is constantly guided in its activity by high standards of integrity, impartiality and professionalism.

In order to protect the interests of depositors and ensure the stability and viability of the banking system, the NBM ensures the prudential supervision of banks in the Republic of Moldova, following compliance with legal requirements, in order to prevent and limit the risks specific to banking.

The National Bank encourages banks to continuously improve their management mechanisms, which will help to promote a stable banking sector, increase the transparency, trust and attractiveness of the domestic banking sector for depositors and customers, as well as for potential investors and creditors.

Identifying and assessing the risks faced by supervised entities are essential for the successful performance of banking supervision. Risk analysis also serves as a basis for defining supervisory priorities as part of the process of strategic planning and rational use of human resources.

Following the assessment of the main risks and challenges related to the banks' activity, taking into account the current regulatory and banking supervision framework in the Republic of Moldova and the latest economic developments, the main areas on which the National Bank will focus in the banking supervision process for 2020:

- I. Internal governance, risk management, internal capital adequacy assessment process (ICAAP) and internal liquidity assessment process (ILAAP)
- II. Combating money laundering and terrorist financing
- III. Credit risk
- IV. Operational risk
- V. Recovery plans
- VI. Risk associated with information and communication technologies (ICT)
- VII. Risks associated with the use of payment systems

I. Internal governance, risk management, ICAAP and ILAAP

Starting with 2019, the supervision and evaluation process (SREP) is the main prudential banking supervision instrument of the National Bank, being a complex process that is based on risk analysis, problem anticipation and the use of professional judgment.

In 2020, the NBM will continue its efforts to ensure effective prudential supervision, through a thorough analysis of internal governance and internal control and risk management procedures, as well as by

assessing capital adequacy and liquidity.

In 2020, it is planned to present the first reports on the internal liquidity assessment process (ILAAP) by banks. The verification of the quality of the liquidity adequacy assessment process will become a new component of the SREP process carried out by the NBM. Thus, the National Bank will assess the soundness, effectiveness and comprehensiveness of the framework for managing liquidity and financing risks related to banks.

II. Combating money laundering and terrorist financing

During 2019, the NBM continued to implement measures to prevent and limit the risk associated with preventing and combating money laundering and terrorist financing (PCSBFT) by: supervising the reporting entities in the field and ex-officio inspections, the deficiencies found being reflected in the reports control, and information on identified suspicions of money laundering and terrorist financing being sent to the competent authority; ensuring the performance of the second complex external audit in the field of PCSBFT at all banks; conducting information sessions with PCSBFT specialists within the reporting entities, etc.

By 2020, the National Bank of Moldova, in order to continue applying international standards in the field of preventing and combating money laundering and terrorist financing, will strengthen its efforts to effectively implement the recommendations of the MONEYVAL Committee (Council of Europe), following the adoption of the System Assessment Report. National Fund for Preventing and Combating Money Laundering and Terrorist Financing of the Republic of Moldova in the 5th Evaluation Round.

Necessary measures will also be taken to improve the application of the risk-based approach in the surveillance process, which would allow a deeper and more dedicated analysis of the implementation of the requirements to prevent and combat money laundering and terrorist financing. In addition, major efforts will be made to continue and improve effective cooperation in the field of combating money laundering and terrorist financing between the participating institutions in the process of overseeing the reporting institutions.

III. Credit risk

Risk of concentration

Recently, there has been a significant increase in loans for the purchase / construction of real estate and consumer loans. The increase of the loan portfolio on the banking sector by 13.2% during the eleven months of 2019 is largely due to the increase of the portfolio of loans granted for the purchase / construction of real estate by 53.7% and consumer loans by 31.2%.

Currently, their quality is favorable. Loans granted for the purchase / construction of real estate and consumer loans classified in non-performing categories have small shares in the total loans granted in the respective branches, constituting 2.5% and 3.9%, respectively.

It should be noted, however, that an increase in the share of these loans may in future generate certain risks related to the sectoral concentration, including their recovery, especially in the case of consumer loans which are largely granted without material guarantees.

The further evolution of loans granted to individuals will be monitored under ex officio supervision during

2020. At the same time, the National Bank will intensify thematic field controls, in order to focus on credit risk assessment, on the verification of loan portfolios granted in the above-mentioned branches, especially granting and monitoring procedures, as well as on the evolution of these loans in relation to appetite. at the risk of banks.

Non-performing loans

During 2019, the quality of the loan portfolio registered positive trends. The share of non-performing loans in the total loans decreased by 3.0 pp, at the situation of 30.11.2019 constituting 9.5%.

Although banks have made progress in reducing the share of non-performing loans, further action is needed to reduce them.

Thus, in 2020, the National Bank will monitor the implementation by banks of strategies to reduce non-performing loans.

IV. Operational risk

Lately, the operational risk is manifested more and more in the activity of banks, given the increasing complexity of their activity, including by diversifying electronic banking services and increasing the requirements for information technologies, as well as increasing staff turnover. Improper operational risk management can have a significant impact on the integrity of the bank's property and assets.

Thus, in 2020, the National Bank will intensify thematic field controls, in order to focus on operational risk assessment. The National Bank will verify both the inherent operational risk (the amount of exposure, the nature and importance of banks' exposures to operational risk; sources of operational risk) and the operational risk management activity (operational risk management strategy and operational risk tolerance; organizational framework, policies and related procedures; quantification, monitoring and reporting of operational risk). The measures taken by banks to strengthen physical security procedures will also be assessed.

V. Recovery plans

The recovery plan is an effective crisis management tool, which includes the measures to be taken by banks to restore the financial position and viability in a timely manner in times of financial crisis. Recovery plans must be fully aligned with the risk management framework of banks, have a government that promptly detects a stressful situation and operates quickly in a crisis, include credible and feasible recovery options.

Thus, in 2020, the National Bank will conduct a detailed assessment of recovery plans to determine the credibility of key components of these plans - governance, identification of critical functions, recovery indicators, recovery options, preparatory measures, stress testing scenarios, communication plan.

VI. The risk associated with information and communication technologies (TIC)

In 2020, the National Bank of Moldova will assess the situation of ICTs in licensed banks to assess their compliance with the Regulation on Minimum Requirements for Information and Communication Systems of Banks and how they manage the ICT risks to which they are exposed.

VII. Risks associated with the use of payment systems

Within the supervision of payment systems and payment services during 2020, the National Bank will focus on: verifying the implementation of new electronic banking products and services; evaluation of existing automated remote service systems; authorization and execution of payment transactions; non-execution or improper execution of payment transactions; compliance of the internal organization and internal control mechanisms with the regulatory framework for payment services; handling and resolving petitions related to the use of payment instruments; interaction of payment service providers with third parties involved in the provision of payment services (Processing Centers, Payment Service Providers Licensed Abroad, etc.); checking the limitation of the use of accounts to a single payment instrument; verification of framework contracts used by providers in relations with payment service users, as well as conditions of transparency and information; other potential problems or concerns that have arisen since the last examination or the need to monitor previous problems.

At the same time, in the context of the strategic objective of promoting cashless payments, as an indicator that reflects the degree of digitalization of payment services, the share of payment orders initiated electronically by bank customers will be monitored, as well as the measures taken by them to increase the number of electronically initiated payments.

The National Bank will ensure the implementation of all actions in order to meet the priorities of banking supervision from its own budget.

2019

- Bank Supervision Priorities of the National Bank of Moldova for 2019 [1]

2018

- Bank Supervision Priorities of the National Bank of Moldova for 2018 [2]

2017

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