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Priorities in banking supervision of the National Bank of Moldova for 2024

The banking system of the Republic of Moldova ended 2023 with positive results. At the same time, the National Bank has taken the necessary banking supervision measures to ensure the stability and viability of the banking system of the Republic of Moldova.

Despite negative external factors, the prudential indicators of licenced banks remained within the regulated limits, reflecting the resilience of the banking sector as a result of the reforms carried out in recent years.

During the year there was also a moderation in the intensity of the challenges to banks, though they did not disappear completely.

In the context of the existence of significant individual and macroeconomic risks, the National Bank of Moldova has identified the most important areas for 2024 in the process of banking supervision, both in the framework of off-site supervision and on-site inspections.

Thus, throughout 2024, the banking supervision process will focus mainly on the following areas:

- I. Corporate governance
- II. Credit risk
- III. Interest rate risk associated with non-trading book activities
- IV. Analysis, assessment and resolution of vulnerabilities related to payment and settlement systems and payment services
- V. Preventing and combating money laundering and terrorist financing
- VI. Identification and effective management of risks associated with information and communication technologies.

I. Corporate governance

Corporate governance plays a key role in ensuring prudent and sound management of a bank. In previous years, the National Bank has paid particular attention to assessing the adequacy of internal control functions in banks, i.e. risk management practices, in particular with regard to the identification, early measurement and timely mitigation of risks, the existence of a transparent organisational structure with clear reporting lines and an appropriate corporate culture, the segregation of responsibilities and independence of control functions, the full composition of governing bodies as required by the statute, etc.

As a result, measures and recommendations have been issued to improve the internal control framework. Therefore, the existence of robust internal control functions minimises the exposure of banks to excessive risks.

In this context, during 2024, the National Bank will continue to assess the adequacy of the internal control

framework, in particular by evaluating the actions taken by banks as a result of the recommendations issued during controls, in terms of compliance with the legal framework and supervisory requirements, ensuring appropriate risk control, and the existence of an independent and effective decision-making process.

At the same time, the National Bank aims to assess the way in which the results of stress tests carried out by banks (including scenarios based on negative information published on social media) are used in liquidity management and, in particular, in the calibration of the liquidity buffer.

II. Credit risk

Credit risk, in the context of external vulnerabilities, remains an area of increased supervisory focus in 2024, as the quality of the credit portfolio can have a direct and significant impact on banks' capital.

The existence of an adequate process for identifying, measuring, and monitoring risk as well as for recovering derecognised loans is an area of supervisory interest that contributes to the determination of the actual level of credit risk in the banking system.

Assessing banks' lending practices will help ensure that they continue to be sound and compliant with the risk profile and regulations in force and that risks are properly identified and managed.

Analysing the preliminary financial results of the banking sector, it can be noted that during eleven months of 2023, it had a positive trend.

During this period, the loan portfolio increased by MDL 1,738.7 million (2.8%) to MDL 63,365.9 million. The most significant increases were registered in consumer loans (11.5%) and in loans for the purchase/construction of real estate (6.5%). At the moment, their quality is favourable. Loans for purchase/construction of real estate and consumer loans classified in non-performing categories have small shares from the total loans granted in the respective branches, accounting for 2.4% and 5.7% respectively.

The quality of the loan portfolio by sector recorded an insignificant improvement compared to the end of the previous year, as a result of the decrease in the balance of non-performing loans by 1.8 %. As a result, the share of non-performing loans in total loans amounted to 6.2 %, decreasing by 0.2 percentage points compared to the end of the previous year.
In addition, during ongoing surveillance, throughout 2024 will be monitored the evolution of loans granted to natural persons, considering their significant increase.

At the same time, credit risk remains an important aspect subject to assessment during on-site controls, with a particular focus on the above-mentioned branches, by assessing the granting and monitoring procedures as well as the dynamics of these loans in relation to the banks' risk appetite and their recovery, especially in the case of consumer loans, which are mostly granted without material guarantees.

III. Interest rate risk associated with non-trading book activities

In view of the new legal requirements, in particular the inclusion from 2023 of the Report on the calculation of the change in economic value due to changes in interest rate levels, it was noted that some banks have a high sensitivity to interest rate risk associated with non-trading book activities (IRRBB). Therefore, in 2024,

the IRRBB risk will be reviewed in order to assess the correctness of banks' calculations of the potential change in economic value due to changes in interest rate levels as well as the measures and instruments adopted by banks to manage this risk.

IV. Analysis, assessment and resolution of vulnerabilities related to payment and settlement systems and payment services

The area of competence of the National Bank in the field of payment and settlement systems and payment services is becoming increasingly complex, especially in the context of the digitisation of payment services and the implementation of instant payments in 2024. Given that the stable and efficient functioning of financial market infrastructures, payment schemes, arrangements, and instruments is essential for financial stability, for the implementation of monetary policy, and for promoting public confidence in making cashless payments, monitoring and supervision of the risks associated with this area is an important component of the monitoring and supervision process.

As part of the monitoring and supervision of settlement and payment systems and payment services, particular attention will be paid to actions taken by payment service providers to ensure the continuity and efficiency of the activity carried out in payment systems (local and international), as well as to actions taken by them to increase the confidence of payment service users in cashless payment instruments. In this context, the National Bank will focus its efforts on the following aspects:

- monitoring and assessing financial market infrastructures and analysing the operational resilience of banks as participants in these infrastructures,
- assessing payment services in terms of their digitisation, in order to provide secure services and increase the confidence of payment service users in making cashless payments,
- analysing the interaction of banks as payment service providers with third party entities involved in the provision of payment services (Card Processing Centres, Payment Service Providers licenced abroad, International Card Payment Systems etc.).

The proposed actions are intended to contribute to the strengthening of the payment system in the Republic of Moldova and to the efficient management of operational and liquidity risks by payment service providers, as well as to facilitate the implementation of new payment instruments, including based on the digitisation trends of payment products and services, and to encourage the use of cashless payments.

V. Preventing and combating money laundering and terrorist financing

During 2024, in its efforts to manage the risks associated with money laundering and terrorist financing (ML/FT) and to ensure compliance with relevant national and international standards in this area, the National Bank will continue identifying and assessing new or emerging risks, related and with the evolution of financial technologies or other innovative tools; jurisdictions that are considered vulnerable to ML/TF activities or the circumvention of international sanctions, and, subsequently, will use the risk-based approach in the supervision of reporting entities falling within its area of responsibility.

The National Bank will also assess and strengthen its internal processes for identifying and managing money laundering and terrorist financing risks, to address newly identified risks, or to comply with new regulations. In this regard, with the support of the advanced technologies implemented, techniques and data analysis will be developed to improve the capacity to monitor and detect suspicious activities, including for

the purpose of controlling the tools and practices applied by entities to address national threats and vulnerabilities associated with the field, such as corruption, tax evasion, smuggling, drug trafficking, and cybercrime.

At the same time, it will aim to promote awareness and continuing education in supervised entities in order to improve knowledge and skills in effective risk management and legislative changes in the AML/CFT field.

Close collaboration with other regulatory and law enforcement authorities as well as financial institutions will be another priority in order to facilitate the operational exchange of relevant information related to suspicious activities and to effectively combat money laundering and terrorist financing.

VI. Identification and effective management of risks associated with information and communication technologies

Information and communication technology (ICT) supervision is essential for ensuring the security and integrity of information systems. Surveillance objectives in this area are adapted to current threats and technological developments.

Over the years, banks have made significant progress in ensuring that information technology risks are identified, managed, and monitored. However, it is becoming clear that in today's digital age, information technology risks and operational resilience require constant and continuous monitoring, given the potential impact on financial stability. In response to these challenges, the new ICT Regulation to be approved shall provide a robust framework for the management of information technology risks and enhance the operational resilience of banks.

In this context, the National Bank of Moldova is planning for 2024 a detailed assessment of the situation in the field of ICT, analysing the effectiveness of control measures implemented by banks. Particular emphasis will be placed on issues such as information security governance, monitoring of banking systems and services, vulnerability management, and controls against cyberattacks. A crucial aspect of the assessment will be to ensure that banks test their business continuity plans and demonstrate operational resilience with respect to all critical operations.

In order to strengthen supervision, the National Bank will provide off-site supervision in the field of ICT using a questionnaire that will be disseminated to banks, assessing the major risks to which licenced banks are exposed. These efforts are aimed at improving the resilience capabilities of banks and ensuring appropriate protection against cyber threats and attacks.

Смотрите также

Метки
banking sector [1]
Banking system [2]
supervision measures [3]
licenced banks [4]
banking supervision [5]
roeconomic [6]

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Ссылки по теме:

[1] https://www.bnm.md/ru/search?hashtags[0]=banking sector [2] https://www.bnm.md/ru/search?hashtags[0]=Banking system [3] https://www.bnm.md/ru/search?hashtags[0]=supervision measures [4] https://www.bnm.md/ru/search?hashtags[0]=licenced banks [5] https://www.bnm.md/ru/search?hashtags[0]=banking supervision [6] https://www.bnm.md/ru/search?hashtags[0]=roeconomic