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# BANKS IN THE INSOLVENCY PARADIGM. BETWEEN EFFICIENCY, RISK AND GOVERNANCE

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# SUMMARY

The subject of the herein doctoral thesis targets a comprehensive analysis regarding the bank's position in the insolvency procedure, both in the Romania system and in the comparative law. Our intention is to establish the level of protection offered to the creditor by the insolvency law. To accurately and precisely determine the level of protection of the creditors within the procedure, we shall perform an empirical study of the Romanian insolvency procedure efficiency in terms of ensuring an increased level of creditors protection.

While initiating the current thesis, a wide debated regarding the Romania insolvency procedure existed, considering the entering into force of Law no. 85/2014. Of course, insolvency issues are becoming more relevant in the context of the European and Transatlantic business environment fluctuation processes, in a global community that is still suffering from the consequences of the economic crisis.

A major component of the insolvency proceedings has been ignored so far and that is the banks and other credit institutions' position. The bank's standpoint is very little analyzed, as a mere creditor in the insolvency procedure. The existing analyses target either a general approach of the creditors in this procedure or analyze the bank's position in the light of the concluded loan agreements. In the latter case, it is considered that the bank holds a favorable position precisely due to the mortgage (chattel mortgage most of the times) over the debtor's assets, following the conclusion of the credit agreement.

In this thesis, our research is focused only on the bank's perspective over the insolvency procedure. As a general premise, in the current environment, bank-creditor is exposed to an insolvency procedure which lacks transparency and at least in principle is inefficient.

The reasons of this deficiency are numerous. It can derive either form the deficiencies of the procedure, or form manipulating these regulations to favor certain category of creditors to the detriment of others.

Regardless of the reason, it is necessary to deepen this topic in the context in which the role of the bank in the business circuit is dominant. Starting from the premises that the bank fails to recover at an acceptable level the receivables following the insolvency proceedings, in the worst-case scenario, the bank will enter insolvency itself (this is a highly problematic situation for

any business environment). In the best case scenario, the bank in order to cover the deficit, will lend more restrictively, triggering a discouraging effect for all interested entrepreneurs, as well as a pressure on the active participants in the business environment, who will have to find new sources of finance. In the first case the well-being of the entire Romanian business environment will be affected. In the second case, the companies requiring capital allocation from the bank will enter insolvency proceedings. We can see from this simple progression how the vicious cycle of insolvency is perpetuated, absorbing more and more companies in its evolution. Considering this solvency symbiosis between the Bank and the Company, the relevance of the present analysis becomes evident.

Nevertheless, the simple mentioning of certain deficiencies of the Romanian insolvency legislation cannot allow the determination of the causes and reasons that generate this type of deficiency in a precise and substantiated way. Thus, this thesis aims at an empirical analysis of the efficiency of the insolvency procedure regarding the protection of creditors. Through this type of analysis, we want to determine objectively the deficient components of the insolvency procedure in order to rethink them. In the second part of the thesis, we shall see the impact of corporate governance on the risk appetite of credit institutions, determining a modification in the way the credit institution understands to interact with the debtors in difficulty or in insolvency proceedings.

From the standpoint of insolvency efficiency, the current analysis contains two central components, thus trying to outline the dual character of the Bank in the insolvency proceedings: both unsecured creditor (having access to the same protection mechanism as the other participants in this category) and secured creditor (quality which comes with an increased level of protection).

A viable economic increase is generated by the process of the creative destruction through which the non-functional companies are replaced with companies whose founding members have projected products molded according to the current needs of the consumers. The insolvency influences the conditions in which the transition from economic expansion to economic depression is achieved. The more effective capital reallocation will be, the less the stage of economic depression will withstand. Thus, the adoption of an efficient insolvency procedure remains the key element of any undertaking of this type. A central reason of the insolvency analysis as an element of economic influence is the issue of costs of carrying out the economic activity. Consequently, the effectiveness of the insolvency procedure triggers an increase in the number of rescued companies, as well as a boost of the level of recovered receivables. This positive result causes an

increase in the level of the creditor's confidence, in the degree of protection and success facilitated by the procedure. Therefore, the creditors will endeavor less into drawing up their own protective measures in their contractual relationships, leading to cost reduction in performing their economic activity. In the context in which the protective measures entail a raise as well in the level of interests, the efficiency increase of the insolvency procedure determines a decrease of the inflation and economic loss level, launching thus the state's economic development. Consequently, by introducing an effective insolvency law with an adequate level of creditors' protection, the global risk decreases, and the efficiency of the entire Romanian economy is improved.

**Insolvency** is an event of financial nature. The insolvent company has as feature the incapacity to fulfil its commitments. Thus, insolvency is at the basis of the lending relationship.

The contractual relationship involves two participants: the debtor and the creditor. The debtors face two problems. On one hand, they must undertake a commercial project. On the other hand, they must finalize the necessary investments to achieve the project. The creditors face the difficulty to assess the profitability of the proposed projects by the debtors in order to access them. Their proposals are later analyzed by the debtors who assess the return of the financing conditions.

These relationships are affected by the *asymmetry of the information* placing the creditors in a position antagonistic to debtors. Although the instinct is to analyze this problem as a deficiency of creditors, the position of debtors affected by the opportunism of creditors should not be ignored. Thus, on a long term relationship between a debtor and a creditor, the latter can use the access to the gained information to the detriment of the other creditors to establish a higher interest rate than the interest rate not impaired by risk, but sufficiently low to exclude its competitors. Through this technique the debtors lack optimum financing conditions.

Each of the above hypotheses is based on the existence of an information asymmetry based on a relationship of subordination, in which one party is better informed than the other. Nevertheless, the imperfection of the information can be symmetric. Consequently, the difficulties faced by the creditor to assess the risks triggered from the interaction with a debtor are similar with those of the debtors, who cannot access all the information in order to evaluate its own return. If the two players don't seem to reach an agreement, the debtor must renounce to carry out its project.

Considering the above, we can see how an efficient insolvency procedure, with an adequate degree of creditors' protection will determine a mitigation of the effects produced by the asymmetry of the information, generating a greater degree of confidence in this type of procedure.

For the creditors, the central element of this analysis, efficiency increase of the insolvency procedure, means: 1.a higher chance to recover the receivable, 2. a greater confidence in the loan protection mechanism offered by the Romanian law. Therefore, the creditors will endeavor less into drawing up their own protection measures in their contractual relationships, leading to cost reduction in performing their economic activity.

The problem that arises is, however, the means through which we can determine the level of efficiency attained by the insolvency procedure, in terms of creditor protection as well as directions for improvement. The field of insolvency is divided between transparency and confidentiality. The limit between ensuring a maximum level of transparency in order to protect all the insolvency participants and the protection of the debtor for whom the disclosure of all the confidential information may impair its chances to re-enter the market, has been always difficult to test. The information we have managed to obtain from jurisprudence and doctrine is fragmented and does not provide a clear conclusion on the issue of the efficiency of insolvency proceedings.

Consequently, we have decided to use an empirical analysis to determine exactly the level of efficiency of the protection mechanism for the insolvent creditors. To identify the efficiency level, we shall chart quantifiable dependent variables, through which we can define efficiency, at an empirical level. The next step will be to determine the independent variables, elements that represent factors influencing the dependent variables. Using an empirical analysis, we shall determine which are these elements that directly influence the level of efficiency for this protection mechanism. Based on the obtained results, we will be able to conclude which of the components of the creditors protection mechanism are truly efficient.

We consider that our study is unique in Romania, while at the level of foreign doctrine, this undertaking surprises through the unique features of the variables. We found our statement based on the fact that the empirical analysis performed in this field, at international level, can be divided into two categories, as such: 1.efficieny analysis of the insolvency procedure at a comparative level, including the insolvent creditors protection, by determining the similarities and differences based on a particular culture and legal origin, and 2.empiric analysis of efficiency for a single insolvency element (for example the cost of the proceeding), based on a panel-like model applied at a sample of companies on several years, to underline and influence the legislative evolution. We can determine that our analysis is strictly focusing on Romania determining the way the entire mechanism of creditor protection really works and what are the levers of efficiency.

So far, no attempt has been made to determine the efficiency of a protection mechanism for an insolvency participant in this type of analysis in Romania.

As previously mentioned, we can see how an efficient insolvency procedure, with an appropriate degree of creditor protection will determine the mitigation of the effects produced by the asymmetry of the information, generating a greater degree of confidence in this type of procedure. As such, we will be able to determine the level of efficiency for the protection mechanism of the insolvent unsecured creditor, so that the harmful effects of information asymmetry are diminished and the bank, the secured creditor, will be able to easily determine which insolvency protection measures are highly effective. The Bank will try to offset only those legal protection measures stipulated in the Romanian insolvency law that are considered inefficient. Therefore, the bank will endeavor less into drawing up their own protection measures in their contractual relationships, leading to cost reduction in performing their economic activity.

In the field of insolvency there are and there have been large debates over the participants to the insolvency procedure. A major component of the insolvency proceedings has been ignored so far and that is the banks and other credit institutions' position. Of course, there are specialized papers that comprehensively address the insolvency situation of credit institutions. Yet very little is analyzed from the bank's perspective as a mere creditor in the insolvency procedure. The existing analyses target either a general approach of the creditors in this procedure or analyze the bank's position in the light of the concluded loan agreements. In the latter case, it is considered that the bank holds a favorable position precisely due to the mortgage (chattel mortgage most of the times) over the debtor's assets, following the conclusion of the credit agreement.

In this thesis, our research is focused only on the bank's perspective over the insolvency procedure. As a general premise, in the current situation, the bank - creditor recovers its receivables following the insolvency procedure in a negligible percentage, even if it holds the chattel mortgage mentioned above.

It has become necessary to deepen this topic in the context in which the role of the bank in the business circuit is dominant. Starting from the premises that the bank fails to recover at an acceptable level the receivables following the insolvency proceedings, in the worst-case scenario, the bank will enter insolvency itself (this is a highly problematic situation for any business environment). In the best case scenario, the bank, in order to cover the deficit, will lend more restrictively, triggering a discouraging effect for all interested entrepreneurs, as well as a pressure

on the active participants in the business environment, who will have to find new sources of finance. In the first case, the well-being of the entire Romanian business environment will be affected. In the second case, the companies requiring capital allocation from the bank will enter insolvency proceedings. We can see from this simple progression how the vicious cycle of insolvency is perpetuated, absorbing more and more companies in its evolution.

Therefore, we can determine how an efficient insolvency procedure, with an adequate degree of creditor protection will regulate a mitigation of the effects produced by the asymmetry of the information, generating a greater degree of confidence in this type of procedure. For the creditors, the central element of this analysis, efficiency increase of the insolvency procedure, means: 1.a higher chance to recover the receivable, 2. a greater confidence in the loan protection mechanism offered by the Romanian law. As such, the creditors will endeavor less into drawing up their own protection measures in their contractual relationships, leading to cost reduction in performing their economic activity.

Considering this solvency symbiosis between the Bank and the Company, the relevance of the present analysis becomes evident. This study will also be favorable for the economic development of the Romanian state. In this respect, we mention that the reluctance of certain foreign institutions in entering the Romanian market is the uncertainty faced in case of the main debtors insolvency, that is the Romanian customers. Following the completion of this thesis, including the finalization of the empirical component, the foreign credit institutions will be able to comparatively assess the insolvency procedure in the country of origin and Romania, in this context, the host country, and thus be able to choose to open a subsidiary in Romania, well-informed. Moreover, introducing improved mechanisms to protect the bank - creditor will create in Romania a more attractive legal framework for the credit institutions that wish to expand in the Eastern Europe.

As such, **the first part of the thesis** is divided into seven chapters in which we shall analyses the specific efficiency of the insolvency procedure.

*The first chapter* deals with the topic and the stage of the research, aiming at the general research framework, positioning the present paper in the context of the relevant research. In this section, we will present in detail the purpose we are pursuing in our specific analysis, providing details on the potential contribution that this paper can offer.

The second chapter provides the perspectives over the creditors' protection within the insolvency procedure in the light of the information asymmetry. In this chapter we shall detail the distinction between the pro-creditor and pro-debtor legislation detailing the main rules governing the efficiency of the insolvency procedure. We will present the concept of information asymmetry and the way is linked with the insolvency procedure efficiency. Finally, we shall conclude with new paradigms offering additional clues on the future evolution of creditors protection measures.

*The third chapter* treats the notion of efficiency and evolution for this concept. Within this chapter we shall detail the concept and theories of efficiency, as manifested at the level of *law and economics* doctrine. Thus, we will present the main aspects of efficiency from the standpoint of each specific theory, that is: contractarianism theory and the principle of value maximization, communitarianism and the principle of transaction cost efficiency and the theory of multiple values, the principle of transaction costs and Kaldor-Hicks efficiency. We will parallel the concept of efficiency and equity, liability and expertise, marking all the differences between these concepts. We will conclude with the manifestations of the efficiency within the protection mechanisms of the insolvent creditors, as presented in the specific legislation.

The *fourth chapter* represents the first part of the empirical analysis, targeting the sample of insolvency procedures opened under Law no. 85/2006. Within this section, we shall take into consideration the insolvency procedures opened under the old regulation, representing the main point of comparison with the new insolvency legislation. The analysis is also divided in the empirical study of small and medium companies, large corporate as well as secured creditors. We shall conclude by presenting the proven degree of efficiency for the studied procedures.

*The fifth chapter* represents the second part of the empirical analysis, targeting the sample of insolvency procedures opened under Law no. 85/2014. Within this section, we shall take into consideration the insolvency procedures opened under the new regulation, our point of interest in this paper. The analysis is also divided in the empirical study of small and medium companies, large corporate as well as secured creditors. We shall conclude by presenting the proven degree of efficiency for the studied procedures.

*The sixth chapter* represents a qualitative analysis of the research sample. Within this section, we shall consider the evolution forecasts of the main assessed ratios, to see their produced impact, based on the conclusions of the empirical analysis. Within this chapter, we shall conclude on the significant qualitative differences between the Law no.85/2006 and Law 85/2014.

In the *seventh chapter* we will conclude with the presentation of the main conclusions regarding the results of our empirical research.

**In the second part of this paper**, we shall address the specifics of corporate governance for credit institutions and their impact on the risk appetite and the bank-insolvent debtor relationship. The efficiency of the insolvency procedures is considered as the central point which affects and influences the behavior of credit institutions, generating the behavior patterns and monitoring mechanisms described in Part One.

If the monitoring procedures mentioned above are linked to the protection measures that can be implemented by a credit institution at the level of each unit and loan analyst, less discussed is the impact of the bank's management and indirectly the corporate governance norms managed by the latter. This topic is even more relevant as 2013 marked a reform at European level as concerns the financial sector through the package CRD/CRR IV.

The National Bank of the Romania transposed in the Romanian legislation these principles via the NBR Rule no. 5/2013 on prudential requirements for the credit institutions (hereinafter referred to as the Rule), with substantial amendments at the level of Romanian financial market. In this part we shall focus on the main new requirements introduced at the level of risk management aspects to signal the possible impact on lending activity. The specific conclusions will result from an empiric analysis with unique features which can offer relevant conclusions for the Romanian banking sector.

Consequently, **the second part of the thesis** is divided into eight chapters in which we will deal with the specific analysis of corporate banking governance.

*The first chapter* treats the introduction in the corporate governance principles. The chapter presents the evolution of the regulatory framework of the corporate governance, concluding on specifics of the credit institution, the reasons why this topic remained in the debate of the community of experts and practitioners, especially after the financial crisis of 2007-2008.

*The second chapter* targets the first pillar of corporate governance, and that is internal governance of credit institutions. Within this chapter, we shall detail the types of management bodies of the credit institution, their interaction and the impact which these systems have on the risk appetite of the credit institution. Within this analysis, we shall identify the main elements of the empirical analysis in relation to the internal governance.

*The third chapter* targets the second pillar of corporate governance, and namely the process of assessing the adequacy of the management body. Within this chapter, we shall detail the types of management bodies of the credit institution, their interaction and the impact which these systems have on the risk appetite of the credit institution. Within this analysis, we shall identify the main elements of the empirical analysis in relation to the internal governance.

*The fourth chapter* targets the second pillar of corporate governance, namely the process of assessing the adequacy of the management body. Within this chapter, we shall detail the remuneration framework of the banks, highly promoted subject for the vast majority of the doctrine as a result of the financial crisis of 2007-2008, as well as the impact it has on the risk appetite of the credit institution. Within this study, we shall identify the main elements of the empirical analysis in relation with the solid remuneration policies of the credit institution.

In *the fifth chapter*, we shall present the main mechanisms through which the credit institution understands to manage the specific lending risks, by detailing the internal works of the banks to monitor and manage the debtors (by assessing the risk profile of the potential client as well as the continuous monitorization of the customer)

*The sixth chapter* targets the central element in the second part of the paper - the empirical study. Using statistical modelling methods, including regressions, we will analyze the impact that risk mechanisms have on the risk appetite of credit institutions and, consequently, on the relationship between the credit institution and the client in financial difficulty. Within this part we shall perform an empirical analysis of the three governance components, measuring the impact of the internal governance, adequacy procedures and remuneration policy over the general risk and credit risk profile of the banks.

*The seventh chapter* represents a qualitative analysis of the research sample. Within this section, we shall take into account the evolution forecasts of the main assessed ratios, to see their produced impact in the Romanian banking sector, based on the conclusions of the empirical analysis.

*The eight chapter* represents the final conclusions resulted from the correlation of the empirical and qualitative analysis. Within this chapter, we shall conclude on the impact which the current and the new legislation of corporate governance might have on the credit institution activating in Romania, as well as the impact it might have over the entire Romanian market and at the entrepreneurial level.

The thesis concludes with the general findings, in which we shall present the main observations of both parties, summarizing the manner in which the general objectives set out by the author were described in the herein paper, as well as the most significant conclusions resulting from this scientific undertaking.

Following the performed analysis, in the case of SMEs, there are enough elements to shape the image of a procedure that functions and is sustained by the debtor. These issues are confirmed by the decline of creditors' activism manifested in the decrease of the percentage of the procedures opened at the imitative of the creditors, decrease of the number of cases in which the insolvency practitioner is appointed by creditors correlated with an increase in the percentage of drafted oppositions and a decrease in the specific cases of director discharge.

Many of the reasons that could determine this passivity of the creditors have been presented in the thesis, but we shall consider that the most important are the low level of assets to be distributed correlated with the higher procedural costs. These elements discouraged the creditors initiative who preferred not to allocate additional resources for the management of proceedings with a low success rate**.** From this point of view, we see an increase only in the preliminary appeals to the table of debts (necessary step for registration of the receivable) but without any additional control procedures**.** The decreasing value of the Herfindahl ratio also indicates the emergence of more heterogeneous creditor classes, leading to a further fragmentation of the impulse to stimulate the lenders' activism. Thus, the new insolvency procedure offers a low degree of efficiency as a whole and fails to meet its targets for increasing the return on recovery for the lenders, in case of the SMEs. This is largely due to the late stage in which companies in insolvency are caught in their life cycle. The insolvency is established late, when the company no longer has assets in their patrimony to be capitalized. Consequently, the insolvency procedure is exposed to an error in the ex-ante approach of the pre-insolvency detection mechanism and a rethinking of the tests used to determine the state of insolvency as well as of the monitoring mechanism, is essential. It is also becoming clear that insolvency is not an element of discouragement and increase in the level of expertise of the statutory administrator's ex ante as the degree of liability and forfeiture of rights is maintained at a negligible level.

In case of the *qualitative analysis for large insolvent companies*, there are enough elements to outline the image of a procedure that works and is supported by the creditor, completely opposite

to the situation indicated in the case of the SME insolvencies. These issues are confirmed by the increase in the number of insolvencies opened upon the lenders' initiative, the surge in the number of actions to cancel fraudulent acts, the rise in the cases of administrators' liability, correlated with the decrease of the opposite situations. The increase in the value of the Herfindahl ratio also shows the emergence of more homogeneous creditor classes, although the predominant presence of the majority budget creditor generated a detachment of the creditor from the specific insolvency mechanism in the new form.

However, these measures are not reflected in an increase in the recovery degree or the efficiency rate. Although the costs represent a lower percentage of the total assets to be distributed, the total assets are not sufficient to cause an increase in the level of debt recovery, the degree of recovery remaining at a level of 26% (28% in the case of the secured creditor). Thus, the new insolvency procedure in case of large companies seems to provide a framework for increasing the creditors protection, but, similar to the situation of SMEs, it offers a low degree of overall efficiency and fails to meet its targets for increasing the liability recovery efficiency.

Overall, the empirical study on the effectiveness of insolvency proceedings showed that in almost 80% of the cases, the secured creditors were not part of the bankruptcy proceedings or held a minority position in the creditors group. In those cases where they are present, they were the majority creditors in the procedure in 15% in the post-2014 stage (11% in the pre-2014 stage). This position was held, in most cases, by the State through its subsidiaries. This is an interesting position given that one might assume that private lending (which is often secured receivables) is an important part of any company's financing strategy.

Consequently, we can conclude that the bank (probably) issued secured or unsecured loans and recovered these amounts before the insolvency proceedings began. This would be in line with the bank's loans recovery and workout policy. Considering that, although in 2014 84% of the total receivables paid in the insolvency proceedings were distributed to secured creditors, a bank recovers only about 30% of its debts through bankruptcy proceedings, sometimes even less. Thus, the banks are discouraged from any attempts to recover their receivables, choosing other ex-ante measures. In this regard, a bank will resort to the insolvency law only after the exhaustion of the following measures: if a credit recovery procedure cannot be implemented, if the bank's guarantees are not enforceable or are undervalued or if there is no another option through which the bank can

recover its receivable. If the insolvency proceedings are opened, a bank will carefully assess its position, taking into account the amounts to be recovered, the costs that can be borne, as well as other available means of recovering the initial amounts (mortgages, personal guarantees , autonomous guarantees, legal provisions, etc.). If the disadvantages are too big or the amounts recovered are small enough, the bank will choose not to participate in the insolvency proceedings. This could explain why the secured creditor is so frequently absent from the proceedings and / or why he has not filed a request to open the insolvency proceedings against a client, in the cases we have examined.

This phenomenon is unfortunate given that the lack of secured creditors is strongly felt in the procedure's structure. The secured creditor, together with the state, holds the majority of the receivables that must be recovered in the insolvency procedure. Therefore, these types of creditors represent the will of the entire of pool of stakeholders, since all decisions at the level of the creditors' meetings are taken by majority, ensuring a system of mutual control that can stop any attempt of abusive majority. Moreover, in the relevant published literature, the ride along principle facilitates the decisions of the secured creditor to promote the private interest, thus protecting the unsecured creditors. In the current paradigm, the state has a monopoly on the decisions of the Creditors' Meetings and is interested in recovering its own budgetary costs for the public interest. Our results show that the unsecured creditors recover less than 10% of their claims, in some cases less than 1%.

As concerns the corporate governance practices of the banks, we can draft conclusions regarding the impact of the governance practices over the risk profile of the credit institutions and the impact over the financial sector.

As we can see in the first part, the insolvency procedure does not offer a high degree of efficiency in the continuous battle to ensure a high degree of protection to the creditors, mostly to secured ones. The main reasons were the following: a) most of the companies requesting insolvency procedures do not dispose of the necessary assets to cover the liabilities; b) the debtor companies were already in a difficult situation long before the opening of the procedure; c) within the procedure, the secured creditors benefit from a low degree of control and a reduced recovery rate.

Considering this pattern, the banks compensate through different *ex ante* and *ex post* (financing) mechanism to counteract these consequences of the procedure. Ex post, the credit institutions turns to the continues monitoring of the creditors and apply certain spread-out mechanisms for the payments or other types of workout patterns.

In terms of corporate governance, we concluded, following the empirical analysis, that both the analyzed internal governance standards and the adequacy standards have a significant impact on the credit institution's risk appetite. However, as we mentioned in the first chapters of the second part of this paper, the standards of internal governance, remuneration and adequacy continue to worsen, leading to the implementation of much stricter and more restrictive requirements in the general corporate governance of the credit institution from Romania. Consequently, correlated with the obtained empirical results, the credit institutions will show a lower risk appetite, determining a decrease in the relationship with the debtors in difficulty and insolvency, considering the reduced level of insolvency procedure efficiency presented in the first part of this paper.

Therefore, the real negative impact of these protection mechanisms implemented by the bank, due to the low risk appetite, is felt at the level of SMEs. In 2016, a small percentage of SMEs of 15% revealed that they sought support from bank and managed to obtained financing, while the vast majority declare that they didn't even go to the bank. The latter decision is not only because they have benefited from funding from other sources, most of them stating other reasons.

Considering all the above signalled problems, the need for insolvency reform is felt, at least in terms of creditors protection. The lack of efficiency correlated with an increase in internal governance requirements will lead to a considerable decrease in the relationship between credit institutions and the debtors in difficulty. We consider necessary to draw up a new procedure to take over the extrajudicial functional insolvency risk management mechanisms implemented by the bank and to transpose these mechanisms into law, in order to reduce the mentioned procedural costs and to remedy the financial sector and offer real chances to small and medium enterprises from Romania which represents a forgotten majority of the Romanian market.