

## THE NEW BUSINESS MODEL IN THE BANKING SECTOR AND ITS CHALLENGES

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**Abstract.** *The financial crisis exposed a number of caveats of the business model in the banking sector among which the most visible one was the relation between leverage and multiplied losses. The new Basel capital and liquidity requirements will force some costly changes on the banking sector daily management. These costs will trigger a reform of banking in all its aspects: maturity transformation, assets portfolio restructuring, client and regional prioritization, operations costs, corporate governance, innovation, mentality and culture. This paper analyses the main elements driving the change of the banks' business model in order to capture its challenges and threats confronting the stakeholders on the medium and long term run. These analyses are meant to point out the impact of international banking sector transformation on the Romanian economy, on its short, medium and long term financing, as well as on its banking community, which consists mainly of subsidiaries of foreign banks (a number of which are systemically important financial institutions for both home and host sides)..*

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### 1. Introduction

Several provisions regarding the functioning of the financial sector in general and the banking sector in particular have been crafted both at European and international level after 2012 (the European agreement for unified supervision in the euro area and the BIS minimum liquidity criteria). Such events are just two points in a string of measures that form an integrated process of restructuring the functioning of the financial system at international level. The starting point for the reform was the realization of the staggering social costs triggered by the 2007 – 2009 financial crisis. This financial crisis represented a catalyst for the efforts to rethink the fundamentals of old banking practices. The bottom line is that the financial and banking status-quo has become unacceptable.

There is a long list of measures that are still in the pipeline since there is no agreement at international level regarding their definition, content, measurement, and implementation. However, those measures ready to be implemented regarding

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