The Corporate Governance in Banking Sector of Iran. Challenges, Expectations

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Abstract

Banks as intermediators of funds, can always play a unique role in the economy of any country, but "protecting the interests of depositors", "preserving the trust and confidence of public to Banking system" from one hand and increasing complexities in the banks operations and their sensitivity to liquidity crises all and all, have created the stringent circumstances for striking the balance therein, for the interest of all beneficiaries of banks. In this context, one of the most appropriate strategies for restoring this equilibrium, is the promotion of Corporate Governance in banks. In recent years, significant achievements have been aquired through establishment of Corporate Governance system, viz-a-viz, legislation, execution of supervisory measures, voluntary implementation of this system by different corporations in the developed and developing countries etc, in toto. On the other hand, depositors and beneficiaries of other banks, have attained more information about the necessity and importance of Corporate Governance system and are inclined and expected to follow the establishment of this system in their respective firms. Meanwhile, placement of a comprehensive and effective system of Corporate Governance bears positive impacts on expansion and efficient performance of financial markets and optimal allocation of resources in the economy and the empirical evidences, show the close links between the appropriate Corporate Governance system, superlative functioning of firms and economic growth Sui generis. On this ground, the supervision authorities and legislators of discrete countries have tried their best to foster a strengthened environment in consonance with principles of Corporate Governance in banks and financial institutions of their residing countries in which among them, we may refer to formulation of required guidelines for internal controls, specification of main tasks and responsibilities of Board of Directors and demarcation of executive and supervisory responsibilities, establishment of numerous committees concerned with the issue, divulging and transparency of financial information, protection of shareholders rights, promotion of information technology security, and propounding certain mechanism for management of heterogeneous risks.

However, the Corporate Governance system in Iran is relatively a new subject, which in recent years has received its due importance and as a result, the necessary measures have been taken for implementation of its diverse dimensions in money and capital market in a disintegrated manner. Thus, the main aim of this paper is to diagnose the existing challenges and present a depiction of unexcelled and effective assessment of Corporate Governance in banking system of Iran. The main query of this research prima facie, is focused on characteristics of consumate Corporate Governance system in Iran and to accomplish the amendatory measures for its implementation sine qua non. The research methodology utilised in this paper is an analytic and descriptive mode and in this case, an attempt is made to construe de facto, the manifold features of Corporate Governance and its implied international standards and practices, till to render the reformatory measures for banking system of Iran, quid pro qua.

Keywords: Corporate Governance, Banking System, Transparency, Accountability and Divulging the Information.

JEL Classification Codes: G14, G17.

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Studying the Impact of Inflation Targeting on Rate of Inflation in Non Industrialized Countries

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Abstract

The inflation targeting is considered to be a specific framework of monetary policy in which the first and foremost target that a Central Bank could assign to it, is the price stability in toto. The essential components of this policy instrument are comprised of determining the appropriate targets for inflation, the public announcement of inflationary targets, persistent and regular communication with the public about efficacy of monetary policy and inflation forecast as an intermediate target. The Reserve Bank of New Zealand was the first Central Bank which passed the new rules and regulations, and implemented this instrument in 1990. So far, 25 countries and that among them, 18 non-industrialized countries have already executed the inflation targeting regime. In this direction, the evaluation of inflation targeting performance in economic policy making bears a great importance per se.

However in this paper, an attempt is made to study the impact of inflation targeting on rate of inflation of non-industrialized countries implemented this instrument, and compare the outcome with those countries which use the other instruments of monetary policy Ipso facto. For this purpose, we have utilized the panel data of non-industrialized countries for the period of 1985-2010 viz-a-viz applying the Adaptive Dynamic Panel Models and Least Squares Dummy Variable Coefficients Estimator Method for empirical estimation of the model. The results prima facie, indicate that the inflation targeting has significant impact on rate of inflation, so that the long-run trend of inflation in countries which adopted the inflation targeting is 2.5 percent less than those not performed this method, comparatively.

Keywords: Inflation Targeting, Inflation Rate, Dynamic Panel Data, LSDVC Estimator.
JEL Classification Codes: E52, E58.

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Studying the Role of Banking System on Private Sector Investment in Iran

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Abstract

One of the most important factor which is affecting on economic growth is considered to be the development of financial market and augmentation of aggregate investment. In developing countries, due to flaws and shortage of capital market, lack of expansion of stock market and economic institutions de facto, there is no any possibility to raise the funds from these sources and subsequently, the high cost of procuring capital from the informal market, imposition of western sanctions on financial sector of Iran and economic pressures emanating from these constraints and non availability of external financing, all and all help per se, to resort significantly to organized money market and banking system for raising the required resources. Thus, banks irrespective of their degrees of financial deepening, can play the crucial role in developing countries. Investors are usually inclined to maximize their profits through reduction of production costs. However, the major share of these costs are borne from the explicit outlays of banking facilities which are eventually extended to them and sine qua non, payment of interest rates for procuring the required loans in toto.

In this paper, an attempt is made to investigate the impact of total volume of banks facilities extended to private sector on investment of private sector. For this purpose, we applied the Autoregressive Distributed Lag methodology for estimating the model. The results prima facie, indicate that in the short-run, the public investment bears a negative relation with private investment, while the volume of facilities extended by banks has a direct and positive relation with investment of private sector. Nonetheless, the real effective exchange rate carries a direct and positive impact on private investment but the weighted rate of profit of banking system has negative and indirect relation with investment of private sector. Similarly, in the long run, we have found that the public investment has negative relation with private investment and volume of bank facilities bears direct and positive relation with private investment. The weighted rate of profit of banks also contains a negative impact on private investment, where the real effective exchange rate has a negative and inverse relation with private investment quid pro qua.

Keywords: Weighted Rate of Profit, Formation of Fixed Gross Investment, Autoregressive Distributed Lag Estimator Model, Real Effective Exchange Rate.

JEL Classification Codes: B41, E22, E43, G21.

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Studying the Impact of Effective Factors Influencing on Credit Risk and Prioritization of Credit Valuation Criteria of Banking Clients

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Abstract

In this paper, an attempt is made to review the relevant theories and concerned literatures of the subject, and then we tried to postulate and examine the key variables affecting on credit risk of bank clients with respect to application of 6C model which comprises the qualitative and financial variables i.e, character, capacity, capital, collateral, conditions and conditions and term of loans criteria and subsequently, based upon them, we have derived 28 auxiliary variables. However, the statistical population of this paper contains branch mangers, assistant managers, and credit officers of all Melli Bank branches located in West Azarbaijan province, who are all considered to be 186 individuals and have been chosen in accordance with our value judgement in toto. Similarly, by observing the number of banks branches under the study, we have set up 125 statistical samples vis-à-vis using the Cochran formula of classification criteria. We have also collected the required data from the questionnaire which we prepared in consonance with the opinion extracted from the banks experts and designed through utilization of Random Stage Sampling Method per se. Eventually, for determining the weight of data, we exploited the Paired Comparison Method, and in turn, for specification of rating between 6C variables and 25 auxiliary variables, and estimating the impact of key variables on credit scoring, we applied the Analytical Hierarchy Process Approach via, employing the Expert Choice Software therein. The results prima facie, indicate that hinged upon the 6C model principle, there are certain differences within the credit scoring criteria, so that, the collateral factor, bears the highest priority while the other factors i.e, capital, character, capacity, conditions, and conditions and term of loans criteria, are placed in order Sui generis, in the next priority, respectively.

Keywords: Credit Evaluation, Credit Scoring, 6C, Credit Risk, AHP.

JEL Classification Codes: G210.

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Studying the Bank Valuation Models

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Abstract

The Banks Valuation in Iran has prima facie, encountered with certain challenges which are emanating from constraints of legal requirements and specific obscurity in identifying the precise delineation of debts and reinvestment in toto. In this paper, an attempt is made to introduce the fundamental valuation model for estimation of banks valuation in Iran, besides the reviewing of traditional valuation models i.e, dividend discount model, free cash flow to equity model, economic profits discount and relative valuation model quid pro qua. Nonetheless, we have tried per se, to investigate the impact of regulatory risk, imposition of subsidies and existence of unspecified hurdles on banks valuation process, Ipso facto.

Keywords: Valuation, Fundamental Valuation, Free Cash Flow to Equity, Franchise Value.

JEL Classification Codes: C22, G12.

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Justification of Using Money Laundering Detection Systems (MLDS) in An Electronic Banking Environment

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Abstract

In recent years, the utilization of information technology and its penetration to all aspects of human life has become quite feasible in toto. One of these innovative areas, is the adoption of electronic banking system in which retail banking services could be provided to all beneficiaries in a fast accurate fashion without any limitation of time and place and in every trice of the day. However, application of this technology bears certain risks including money laundering operations per se. Money launderers are used to getting acquainted with internet-e-banking system and virtual space for carrying out their criminal activities, because they can easily transfer money at once, without being identified and caught by law. In this context, introduction of an intelligent anti- money laundering system, may help in solving this challenge and detect the fraudulent transaction viz-a-viz utilization of Sophisticated Data Mining Algorithms System.

In this paper, an attempt is made to investigate prima facie, the necessity of using the diagnostic apparatus for detecting the menace of money laundering in electronic banking system and envisage the sound and solid system of anti-money laundering measures compatible with the specification of electronic banking industry in Iran, Ipso facto.

Keywords: Money Laundering, Electronic Money Laundering, Electronic Banking, Anti-Money Laundering Systems.

JEL Classification Codes: K42, G21, E59.

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Central Bank Losses and Experiences in Selected Countries

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Abstract

Under normal circumstances, a Central Bank should be able to operate at a profit with a core level of earnings derived from seigniorage. Losses have, however, arisen in several Central Banks from a range of activities including monetary operations under extreme conditions and financial sector restructuring. The paper discusses the impact of losses on Central Bank operations and lays out the principles and practices for handling Central Bank losses. It is suggested that losses should be disclosed as a reduction of the Central Bank's net worth unless covered by the government. Governments may cover losses through recapitalization of the Central Bank, and this will create a new Central Bank asset, usually in the form of government securities held by the Central Bank. Six case studies illustrate the circumstances under which losses may arise, their coverage, and Central Bank's disclosure practices.

Keywords: Central Bank Balance Sheet, Central Bank Losses.
JEL Classification Codes: E58, F34, G15.

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