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The Study of Financial Condition and Credit Institutions in Iran

Hossein Niavand

Research Scholar, Department of Business Administration (BIMS)

University of Mysore, India

Farzaneh Haghighat Nia

Research Scholar, Department of studies in Commerce, University of Mysore, India

E-mail: niavandd@gmail.com, f.haghighat67@gmail.com

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Abstract

This paper examines that financial conditions and credit institutions in Iran, Credit institutions; non-governmental and public economic institutions in Iran agreed in principle with the central bank are established and engaged in banking operations. A "credit union institution" that by attracting deposits allowed the bank (excluding deposit interest-free loan current), obtaining loans and other financial instruments to mobilize resources, Venture and the resources to grant credit facilities assigned or in any other manner to the recognition of the central bank, an intermediary between suppliers and applicants have the financial resources. We show that the financial condition and credit institutions are possible or not, and the result will be institutions offering appropriate solutions.

Keywords: Financial Condition and Credit Institutions, Central Bank, Economic, Performance of Financial and Credit Institutions, Bankruptcy, Performance Comparison

1. Introduction

Today, banks play a crucial role in global economic development in countries, an institution that provides a great variety of financial services. The role of financial mediation in the economy, regardless of the market-oriented or bank-oriented economy, is of considerable importance. At market-oriented economies, recessions or prosperity in the financial sector lead to stagnation or prosperity in the real sector of the economy. In between, banks as intermediaries, financial intermediaries carry out operations such as maturity intermediation, risk mediation, intermediation interest rates. Meanwhile, the complexity of laws and regulations by banks or financial and credit Institutions as well as supervision is one of the main challenges of the banking system. In addition, the central bank plays an important role in reforming the law they have transparency.

At their most fundamental, banks hold cash in the interest of clients, which is payable to the client on request, either by showing up at the bank for a withdrawal or by composing a check to an outsider, banks utilize the cash they hold to back advances, which they make to organizations and people to pay for operations, contracts, instruction costs, and any number of different things. Many banks likewise perform different administrations for an expense; for example, they offer ensured checks to clients ensuring instalment to outsiders. In a few nations, they may give speculation and protection administrations. Except for Islamic banks, they pay enthusiasm on stores and get enthusiasm on their advances. Banks are directed by the laws and national banks of their nations of origin; typically they should get a sanction to participate in business. Banks are typically sorted out as enterprises.

Nowadays, banks and finance and credit institutions can monitor and control their activities through online links and systems. Using communication technology enables finance and credit institutions to propose up-to-date services, and accordingly present brand-new credit and finance offerings to their customers.

Customers of banks and financial institutions today accomplish their banking activities by using online portals. Therefore, they expect online services, like internet banking, to be available without any disruption in every time and place.

According to the central bank of Iran, minimum capital requirements for credit institutions established in 300 billion USD, according to the bylaws approved by the state Board, 4 February 2015 credit institution after getting central bank agreements must be in a three-step of the bank license (the primary licence, certificate, permit, established) but in practice a large number of these institutions without having the license of the central bank.

Many economic crises in history have been the result of financial crises, and many financial crises, in turn, originated as failures of financial intermediaries. And in every instance, the reference has been to banks, in their essential role as deposit-taking entities involved primarily in the business of lending.

2. Background

The Basel Committee in 2004 investigated the bankruptcy of banks in eight countries: Germany, Japan, Norway, Spain, Sweden, Switzerland, the United Kingdom and the United States. Included that: Credit risk, especially in the context of immovable property, has led to widespread banking problems in Switzerland, Spain, the United Kingdom, Norway, Sweden, Japan and the United States, The market risk has led to the first stage in the United States' savings and disadvantages, economic liberalization has been one of the common features of large banking crises. In Spain, Norway, Sweden, Japan and the United States in the 1980s, the entire banking system was affected by the crisis. At most cases that final crisis was widespread. The federal insurance brokerage firm (FDIC) also came up with similar and multi-faceted results in the American banking crisis study in the 1980s and early 1990s, which concluded that several factors contributed to the bank's bankruptcy: economic factors, Financial, regulatory, regulatory, oversight and management. However, the study of the federal deposit insurance company pointed out that all observers do not agree with the multi-dimensional bankruptcy interpretation.

In the first half of 2009, the federal insurance company provided insurance, as a receiver of claims, 36 insolvency banks were appointed. The bankruptcy of the Indy Mark Bank in July 2008 and Washington Mutual in September 2008 represents two of the worst bank failures in US history. In Europe, big troubled banks included the Scottish Dream Bank in the UK, the Halifax Bank of Scotland, Northern Rock, Belgium's Fortis Bank, Belgium French Dexia.

Reinhart and Rogoff (2008) distinguish exactly thirty separate occasions of keeping money emergencies crosswise over numerous nations and at various focuses in time amid the most recent 100 years. Cantor et al. (2007) archive that near 80% of portfolio supervisors and store supports expressly depend using a loan evaluations in their portfolio rules. Various investigations have demonstrated that over a specific size of money related advancement with respect to the span of the local economy, development in a local monetary part is hindering to total profitability development (Arcand et al., 2012; Cechetti and Kharroubi, 2012; Law and Singh,2014). This "vanishing impact" of the budgetary area in late writing has been named the back revile wonder, where development is a money related segment benefits the nations that host it just to a limited degree, past which promote development turns negative. As per Cecchetti and Kharroubi (2012), the fund reviles marvel happens in light of the fact that the monetary segment contends with whatever is left of the economy for rare assets; thusly, money related blasts are not, as a rule, development improving.

Shen and Lee (2006) show a reverse U-formed connection between budgetary improvement and monetary development, where a more elevated amount of money related advancement has a tendency to moderate financial development. The above discoveries of the limit and non-straight connection between budgetary improvement and monetary development highlight an irregularity with the "more fun, more development" suggestion as appeared in past writing (Levine, 2003).

Beck et al. (2014) point out that the growth effect of financial development comes through enterprises rather than households to drive the positive impact.

In 2011, it was completed the organization of 1700 credit cooperatives was, of which there were about 1,500 cooperative companies and 200 cooperatives have been free of charge. At the end of 2011, the deposits absorbed by these cooperatives and cash departments are estimated about 600 thousand billion rials. According to the Minister of Cooperatives, on June 2011, there were deposited, 300 thousand billion rials, It has been open to free credit cooperatives. Thus, from the amount of 600,000 billion rials related to the end of 2011, about 300 Thousand billion Rials of liquidity are under the authority of credit cooperatives. According to the Central Bank, the balance of Rials and foreign exchange deposits of banks and credit institutions in March 2010 is equivalent to 3.68 million trillion rials. Comparing the character of 600 trillion rials mentioned above with this character which accounts for over

19% of the banking system's deposits financial and credit institutions.

Issued by the head of the central bank, deposits held by financial and credit institutions, It is 850 trillion rials, which can be said to account for 27% of the banking system deposits in Authorities of financial and credit institutions. From the accumulation of about 70 credit cooperatives, there were 14 financial institutions the credit will be continued under the title, and the central bank will monitor its performance with the establishment of a resident observer.

The objective of this study is a survey on the status of financial condition and credit institutions and the cause's bankruptcy of financial condition and credit institutions in Iran and the Approaches to these Institutions.

3. Performance of Financial Condition and Credit Institutions

Internal audit planning standards, core principles of the Internal Audit Office and documentation are among the most optimal internal auditing standards for non-bank credit institutions that need to be monetized in these facilities. According to the first standard, the audit program should be designed in such a way as to achieve the objectives not specified in the agreements and ensure that internal auditing is performed on the basis of internal auditing standards. Financial and credit institutions as complementary banks have a significant role in the dynamics of the financial market in the Iran.

An evaluation little indicates that these institutions were able to operate with the widest range of branches throughout the nation along with private and public banks and to gain an adequate share of the market.

Given the role and importance of the activities of financial and credit institutions in the monetary and banking system and the competitive environment between these institutions and banks, it is given necessary for these institutions to have a robust business model and optimize them as the basis for their activities.

Business models generally describe the logic of a company or organization in how to create, present, and earn value for customers and themselves. Therefore, financial and credit institutions should also be aware of how to create and deliver value to their customers and continuously improve their efforts. According to the central bank of Iran, table 1 shows that the frequency of with authorization and without authorization, financial condition and credit institution, credit corporation, interest-free loan fund, exchange money and lazing.

Table1. Frequency of financial condition and credit Institutions

Type of Institutions	With Authorization	With Out Authorization
Financial Condition and Credit institution	1	7
Credit Corporation	821	-
Interest free loan fund	24	2880
Money Exchange	652	-
Lazing	36	270
Summery	1534	3157

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Source of Central Bank of Iran

4. Performance Comparison

In the table2 below that, respectively the amount of deposits and facilities of 9 financial institutions at the end of February 2016 is 428 and 326 thousand rials. At the same time, the total deposit and facilities of the entire financial condition and credit Institutions system were 2093.6 and 2.0822.4 billion rials.

In other words, the ratio of deposits and facilities of the 9 financial condition and credit institutes to the entire banking system is 20% and 16%, respectively.

Table 2. Amount of deposits and facilities financial condition and credit Institutions

Financial Condition And Credit Institutions	**Amount (Milliard Rial)**		**No. of Branch**
	Financial Resource	Expenses	
Mehr	85000	57000	**700**
Gavamin	82000	68000	**-**
Mizan	60000	58000	**105**
Samen	57000	44000	**520**
Ansar	48000	44000	**600**
Karsazan	40000	18000	**120**
Askariea	20000	13000	**120**
Mashiz	20000	14000	**65**
Movahedin	16000	10000	**220**
Sum	428000	326000	**2450**

Source of Central Bank of Iran

Table 3. Public and Private Credit Line

		Balance (Milliard Rials)			
		2014	**2015**	**2016**	**Total share (percentage)**
Public	Public Commercial Bank	1165/2	1221/7	576/9	**23/4**
	Specialized Bank	424/5	472/6	662	**27/3**
Private	Private Commercial Bank	364/8	388 -	234 -	**9/6** **-**
	Financial Condition and Credit institutions	-	326	-	**-**
New Private rise	Saderat, Tejarat, Refah and Melat Bank	-	-	955/3	**39/4**

Source of Central Bank of Iran

According to the Table2 and Table 3, the share of financial condition and credit institutions in financial turnover and deposits in the banking system of the nation is significant.

5. The problems of Financial Condition and Credit Institutions

The Iranian economy has been hit by the recession, and in the last two years, various ways have been proposed to break this ring. But the common point of all these solutions is that it should be reformed somehow in the banking system, since the monetary system and banks have not only been contributing to development and a productive economy, which has now become a problem for the economy; they are more vulnerable to being able to count on auxiliary power However, the dilemma of their deferred claims and interference in different markets and the increase in the amount of money rotation has been a negative service that has come from this network and contributed to unproductive economic networks.

The rebellion of this network from the definitive laws of the economy and the monetary and financial supervisory authority of the country (central bank) in recent years has led to the formation of unauthorized banking and financial institutions. Now, the bank's deferred claims are shrinking, and apparently, it is not supposed to reduce the burden of these debts.

The high rate of profit is one of the challenges in the financial condition and credit institution that has hit the whole economy. Production has long benefited from the livelihood rate of the flock and has repeatedly stated that the real production will not be provided with these figures. The government had previously decided to cut interest rates, but it did not happen.

Because of unauthorized financial condition and credit institutions, or the uncooled monetary market, benefit far more than the rates and encourage people to invest and cover their bankruptcy by raising their profits. But in the end, with the issues said, something needs to be done and the accounts of the central bank corrected negatively.

In this regard, the government's efforts to block unauthorized credit institutions and the transformation of authorized institutions into banks have begun, suggesting that the bankruptcy of these institutions has been more serious than before.

6. Conclusion

Today, financial condition and credit institutions are part of the IFC (International Finance Corporation) the financial structure is the vast majority of countries in the world. These Institutions are quicker than banks in financial and banking systems as well as market-oriented growth.

We present some approaches and solutions for prevention of bankruptcy and develop of financial condition and credit institution.

1. Unequal and unhealthy financial condition and credit institutions with banks and the possibility of absorbing deposits with a rate of profit closer to inflation; in circumstances according to the central bank, the inflation rate is more than 30 percent and there is an expectation of rising inflation in the coming months, attracting a deposit with a maximum allowable interest rate means a negative profit rate.
2. The central bank also needs to revise the policy of interest rates so that the value of small deposits is not reduced and instead, recipients of the facility will not benefit.

3. The need for restructuring and merging together and the formation of one or more new banks or merging with existing banks.
4. In order to develop the country's banking system and outflow from the current situation, that can be used merging banks together or seizing financial and credit institutions and active and unauthorized credit by banks is an appropriate solution.
5. The merger of some financial and credit institutions because of the lack of capital required.
6. The need to monitor and enforce the laws of financial condition and credit institutions by the central bank.
7. Given the significant number of banks and financial condition and credit institutions as well as unauthorized loan funds, it seems that the number of banks and financial and credit institutes is high for the volume of activity of the Iranian economy.
8. For the monitor to be placed, you need to regularly report the performance of banks and financial condition and credit institutions to the central bank.
9. Full inspection of the establishments in place.
10. Changing the structure of the Central Bank's oversight department for effects on the financial condition and credit institutions.

Finally, the financial condition and credit institutions in the banking system of the nation are significant; therefore it is necessary to always consider the various aspects of the activities of these institutions.

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