

## Factors Affecting Increase of Noncurrent Claims of Banks and Presenting Strategies (Case Study: Central Bank during Years of 2004-2010)

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**Abstract:** Goal of this research is to study factors affecting increase of noncurrent claims of banks and presenting strategies for improving it. Statistical population of this research includes all general managers, deputies and expert staffs of Central Bank Iran. A sample was estimated to include 132 people based on Cochran formula with stratified random sampling method. Information collection instruments included questionnaire which was distributed randomly after confirming validity using the specialists' view in a preliminary test on 35 researched people and value of 932% was obtained using Cronbach's alpha which indicated desirable reliability of this questionnaire. The obtained data were analyzed with help of One -Sample TTest. Research results showed that internal and external barriers have significant effect on increase of noncurrent claims of the banks according to general managers, deputies and expert staffs of Bank Central Bank Iran.

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### 1. Introduction

Banks as the main part of financial system play main role in financing manufacturing, commercial and consuming and even governmental sections. In Iran, bank network of the country is responsible for financing real economic sections considering economic structure of the country and for reasons such as lack of capital markets development and other nonbank and contractual networks (Jamshidi, 2000: 5). But it should be noted that continuation of activities and survival of most banks of the country result from governmental supports. High bank reserves and the outstanding graded facilities of the banks indicate failure to study causes of delay in claims and the primary absence of the factors and components affecting creation and development of outstanding claims in the country. In the market which margin of the banks is decreasing due to intensive competition and there is pressure for decrease of most costs, losses caused by failure to repay loans cause abundant problems resulting from shortage of capitals and credits over time. Totally, increase in share of the outstanding claims indicates weakness of credit assessment system and the absence of an effective supervisory system. Under such conditions, banks give deposits of the people who are unable to make investment and come from middle class of the society with a negative interval to the people and agencies which wait for achieving these cheap sources. But failure to collect these credits has aggravated the situation and adds fuel to shortage of financial sources for the banks. Continuation of this situation intensifies chaos of

monetary market and finally, causes to decrease monetary and capital sources in economic productive sections (Soltani, 2000: 6).

### 2. Theoretical and Experimental Literature

#### 2-1- Problem Statement

Of the most important bank operations are to absorb saving funds and use them for financing all kinds of economic activities. In other words, banks are financial brokers of investors and applicants for facilities and grant facilities using their sources and deposits of the people. Banks with major liquidity of society play very sensitive and important role in economic system and are effective in establishing economic relations of society. Therefore, in this banking system, bank profitability will be guaranteed when customer and applicant for facilities pay loan and credit claims at due date and based on trust and good reputation (ZakiZadehTabari, 2004: 2). On the other hand, most facilities granted by negotiable banks are transferred to list of the outstanding claims of banks due to the bank customers' failure to repay installments every year and cause recession of financial sources of banks and no direction to economic productive sections which have led to harmful effects on economy and banking system while increasing financial pressure on banks. In recent years, issue of outstanding claims of banks has turned into one of the problems of Iranian banking system and occupied minds of the banking system authorities and supervisory organizations (KavehFirooz and Iran Nejad, 2008: 1).

This research studies effect of internal factors such as weak expertise processes of granting loan, preference interventions in grant of credits, weakness of supervisory and control processes governing collection of claims, weakmechanized process of granting facilities to customers, different rate of facilities granted to customers, weak process of receiving pledges, administrative corruption and external factors such as political and economic changes of the country, weak judicial affairs in bank claims collection process, pressure and influences out of bank and weakness of laws within 7-year period (2004-2010) in Bank Markazi.

## 2-2. History of Research

HashemiNodehi, Mir Mojtaba (1998) in a research studies causes of outstanding claims and the expired due date of Bank Maskan during 1986-1997. According to the mentioned research, effect of variables of market interest rate as well as facilities interest rate plus fine rate with interest rate of monetary market on claims rate was confirmed. All of the above researches show trend of macroeconomic variables procyclical to profit (loss) of the banks. Gobainand Hausman (1996) for Latin America during 1990s have specified macroeconomic factors which have been effective on bank crisis. According to their findings, internal interest rate, inflationary tendencies, GDP growth, trade balance, internal income, bank facilities growth, exchange rate regime among other variables have the highest limitation on ability to grant loan. Under limitations, priority of macroeconomic factors precedes bank crises. Kroszner et al. (2007) have conducted a research entitled bank crises and financial dependency and economic growth. In this paper, they study the mechanisms which relate bank crises to conditions and activity of real economic sections. Filosa (2007) estimated behavior of Italian bank system through stress test by triple VAR model based on the latest studies. Findings showed that default rate and profit margin (as profitability scale) were regarded as index of bank crisis.

Gabra (2000) used two-variable VAR model and information of American commercial banks to measure regional and national economic variables on the outstanding loans. Explanatory variables include unemployment rate, agricultural section income, number of construction licenses, annual production and automobile sale all of which but automobile sale had significant effect for predicting quality of the bank assets. In addition, external sample prediction expressed accuracy of the model.

## 3. Method

The present research is an applied research in terms of goal and is correlative –descriptive in terms of research type. To obtain effect of factors on increase of noncurrent claims of banks, it acts through regression. The present research intends to study factors affecting noncurrent claims of banks and present strategies.

### 3-1. Research Hypotheses

**Main hypothesis 1- internal factors have significant effect on increase of noncurrent claims of banks.**

#### B – Sub hypotheses:

- 1.1. Weak expertise process of granting loan has significant effect on increase of noncurrent claims of banks.
- 1.2. Preference interventions in grant of credits have significant effect on increase of noncurrent claims of banks.
- 1.3. Weakness of supervisory and control processes governing collection of claims has significant effect on increase of noncurrent claims of banks.
- 1.4. Weak mechanized process of granting facilities to customers has significant effect on increase of noncurrent claims of banks.
- 1.5. Different rate of facilities granted to customers has significant effect on increase of noncurrent claims of banks.
- 1.6. Weak process of receiving pledges has significant effect on increase of noncurrent claims of banks.
- 1.7. Selection of the responsible experts for granting credits has significant effect on increase of noncurrent claims of banks.
- 1.8. Ceiling of the facilities granted to the customers has significant effect on increase of noncurrent claims of banks.
- 1.9. Bureaucracy has significant effect on increase of noncurrent claims of banks.

**Main hypothesis 2: external factors have significant effect on increase of noncurrent claims of banks.**

#### B– Sub hypotheses:

- 2.1. Political changes of the country have significant effect on increase of noncurrent claims of banks.
- 2.2. Weak judicial affairs in bank claims collection process have significant effect on increase of noncurrent claims of banks.
- 2.3. Pressure and influences out of bank have significant effect on increase of noncurrent claims of banks.
- 2.4. Weakness of law has significant effect on increase of noncurrent claims of banks.

- 2.5. Administrative corruption has significant effect on increase of noncurrent claims of banks.
- 2.6. Weakness of economic system of the country has significant effect on increase of noncurrent claims of banks.
- 2.7. Legal entities have significant effect on increase of noncurrent claims of banks.
- 2.8. Natural persons have significant effect on increase of noncurrent claims of banks.
- 2.9. Governmental supports have significant effect on increase of noncurrent claims of banks.
- 2.10. Failure to present sufficient guarantee has significant effect on increase of noncurrent claims of banks.

### 3.2. Time and space domain of research

Time domain of this research is based on the information gathered in Central Bank during Years of 2004-2010.

1- Research domain

A- Topical domain:

Topic of this research is issues of banks liquidity management.

B- Space domain:

Space domain of the research is Central Bank.

C- Time Domain:

Time domain of the present research relates to data available in Central Bank during years of 2004-2010.

### 3.3. Research Instruments

In this stage, information collection instrument is questionnaire.

After library study, the questionnaire was used based on theoretical fundamentals.

The above questionnaire includes four sections. Section 1 is questionnaire including brief description of some theoretical and concepts and definitions for more clarity of respondents. Section 2 of the questionnaire includes personal information with four questions including gender, education, type of employment, marital status, service years and position of the respondents. Section 3 includes questions relating to factors affecting increase of noncurrent claims of banks. Design of questionnaire has been designed in sections 2 and 3 as package. Validity of a research means accuracy of indices and criteria which have been prepared to test the desired phenomenon. Reliability means having features of iteration, stability and consistency in measurement instruments. Reliability specifies to what extent measurement instruments measure a concept certainly at any time. To specify validity of the questionnaire, view of the specialists and authorities has been used. In this research, Cronbach's alpha has been calculated to test reliability through a preliminary test on 35 people with help of SPSS16 software and this value was obtained to be 93% for the questionnaire which indicated desirable reliability of these questionnaires.

### Hypotheses Test Results

In this section, we present all hypotheses and then reject or confirm the hypotheses considering the related hypothesis test:

Table 1. hypotheses test

Sig.	d.f	t value	mean error	standard deviation	mean	name of group	Variable
0/000	78	289/20	0/05366	0/47690	4/0886	Experts	weak expertise processes of granting loan
0/000	39	15/216	0/07427	0/46970	4/1300	deputies	
0/000	12	9/990	0/15626	0/56641	4/0923	managers	
0/000	78	13/655	0/08065	0/71682	4/1013	Experts	preference interventions in grant of credits
0/000	39	10/516	0/10936	0/69163	4/1500	deputies	
0/000	12	5/461	0/23006	0/82948	4/2564	managers	
0/000	78	12/964	0/07714	0/68563	4/0000	Experts	weakness of supervisory processes governing collection of claims
0/000	39	13/111	0/08581	0/54269	4/1250	deputies	
0/000	12	5/278	0/19917	0/71810	4/0513	managers	
0/000	78	13/928	0/07907	0/70277	4/1013	Experts	weak mechanized process of granting facilities to customers
0/000	39	12/726	0/09168	0/57981	4/1667	deputies	
0/000	12	5/924	0/20831	0/75107	4/0256	managers	
0/000	78	22/703	0/04684	0/41629	4/0633	Experts	different rate of facilities granted to customers
0/000	39	18/331	0/06092	0/38527	4/1167	deputies	
0/000	12	8/303	0/14514	0/52332	4/2051	managers	
0/000	78	16/959	0/06543	0/58158	4/1097	Experts	weak process of receiving pledges
0/000	39	12/049	0/09544	0/60365	4/1500	deputies	
0/000	12	5/215	0/21144	0/76236	4/1026	managers	
0/000	78	12/917	0/08003	0/71131	4/0338	Experts	selection of the

0/000	39	11/424	0/09337	0/59052	4/0667	deputies	responsible experts for granting credits
0/000	12	7/086	0/16284	0/58714	4/1538	managers	
0/000	78	11/086	0/09591	0/85274	4/0633	Experts	ceiling of the facilities granted to the customers
0/000	39	9/469	0/11353	0/71805	4/0750	deputies	
0/000	12	5/461	0/23006	0/82948	4/2564	managers	bureaucracy
0/000	78	14/583	0/07378	0/65579	4/0759	Experts	
0/000	39	10/784	0/10741	0/67931	4/1583	deputies	
0/000	12	7/153	0/18281	0/65915	4/3077	managers	political changes of the country
0/000	78	13/825	0/07783	0/69173	4/0759	Experts	
0/000	39	13/681	0/08345	0/52779	4/1417	deputies	
0/000	12	4/695	0/24031	0/86644	4/1282	managers	weak judicial affairs in bank claims collection process
0/000	78	14/907	0/07014	0/62343	4/0456	Experts	
0/000	39	14/390	0/07679	0/48567	4/1050	deputies	
0/000	12	7/049	0/14405	0/51937	4/154	managers	pressure and influences out of bank and weakness of laws
0/000	78	14/575	0/07209	0/64071	4/0506	Experts	
0/000	39	11/012	0/09913	626970/	4/0917	deputies	Weakness of laws
0/000	12	6/880	0/17516	0/63155	4/2051	managers	
0/000	78	13/825	0/07783	0/69173	4/0759	Experts	
0/000	39	13/681	0/08345	0/52779	4/1417	deputies	Administrative corruption
0/000	12	4/695	0/24031	0/86644	4/1282	managers	
0/000	78	13/104	0/07921	0/70405	4/0380	Experts	
0/000	39	11/261	0/10952	0/69266	4/2333	deputies	Weakness of economic system of the country
0/000	12	5/094	0/20135	0/70599	4/0256	managers	
0/000	78	19/202	0/05485	0/48749	4/0532	Experts	
0/000	39	16/957	0/06251	0/39536	4/0600	deputies	Legal entities
0/000	12	6/127	0/18832	0/67899	4/1538	managers	
0/000	78	18/081	0/06184	0/54964	4/1181	Experts	
0/000	39	14/783	0/08230	0/52052	4/2167	deputies	Natural persons
0/000	12	6/956	0/18431	0/66453	4/2821	managers	
0/000	78	15/568	0/06857	0/60947	4/0675	Experts	
0/000	39	13/088	0/08850	0/55975	4/1583	deputies	Governmental supports
0/000	12	5/007	0/20486	0/73864	4/0256	managers	
0/000	78	16/429	0/06729	0/59806	4/1055	Experts	
0/000	39	12/049	0/09544	0/60365	4/1500	deputies	Failure to present
0/000	12	5/215	0/21114	0/76236	4/1026	managers	
0/000	78	10/608	0/09705	0/86236	4/0295	Experts	
0/000	39	7/371	0/14131	0/89375	4/0417	deputies	
0/000	12	4/920	0/20325	0/73283	4/0000	managers	

Based on findings of the above table,  $t$  statistic observed in table which is rejection region of  $H_0$ .i.e with certainty of 95%, it can be said that general managers, deputies and experts of Central Bank believe that internal and external factors in process of bank claims collection have significant effect on increase of noncurrent claims of banks. Results of this research are in line with study results of KavehFirooz and Iran Nejad (2008), Ekrami and RahmnamaEski (2009), Gobainand Hausman(1996), Gabra (2000), Baboucek and Jancar(2005).

#### 4. Conclusion and Recommendations

Considering the research results, general managers, deputies and expert staffs of Central Bank believe that internal and external factors have significant effect on increase of noncurrent claims of

banks. Bank outstanding claims are always regarded as one of the cases and factors which had considerable effect on profit and loss of the banks and economic agents always tried to reduce these claims. Considering the conducted studies in research process, one can refer to the following recommendations.

Banks should be dealt not to cause problem for the manufacturing or servicing unit considering their recognition of customers and estimation of manner and timing of claims collection and ability of debtor to repay debt. Evaluation of technical feasibility of economic projects and estimation of their risk to ensure loans repayment by the unreal customers put the receivable facilities in non-principal direction and targets and disturb social and economic order in government policymaking while disrupting bank

networks and announcement of this group through newspaper, radio and television can be warning for others.

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