BANKING SECTOR CHALLENGES IN RESEARCH

Anatoliy G. Goncharuk, PhD, Dr.Habil, Professor, Head
Department of Business Administration and Corporate Security
International Humanitarian University, Ukraine

Introduction
The global financial crisis (Goncharuk, 2012) that started in 2008 led to the collapse of many commercial banks around the world. Seemingly unshakable financial institutions have failed. However, the crisis still did not stop. Today, many countries are still facing serious pressure and problems in banking sector. For example, in Ukraine during 2014-2015 years 62 commercial banks became insolvent that amounts to almost a half of all banking sector of the country.

So, what hinders the banks from surviving and developing? What challenges does banking sector face today?

We have tried to find the answers to these and some other questions concerning banking sector by studying papers presented in this journal.

Groups of Research
All JAMI's publications related to the banking sector and banks can be roughly divided into following groups:
1) Estimation and ranking of efficiency and competitiveness of the banks;
2) Problems in bank operations and security;
3) Analysis of banking sector;
4) Factors affecting banks’ activity.

Below the study presents the results of research publications in accordance with the above classification.

The Results of Research
Estimation and Ranking of Efficiency and Competitiveness of the Banks

To improve the performance of the banking sector we need an adequate system of banks’ evaluation. One of the most popular rating systems in banking now is CAMELS. CAMELS rating is a supervisory rating system originally developed in the U.S. to classify a bank's overall state. It's applied to every bank and credit union in the U.S. (approximately 8,000 institutions) and is also implemented outside the U.S. by various banking supervisory regulators.

Dash (2014) examined the consistency of rankings of Indian banks under the CAMELS framework. Consistency is necessary in order for the model to give an objective ranking of the banks and discriminate clearly/correctly between high and low performing banks. This analysis is performed on a sample of thirty-seven banks, including twenty-one public sector banks and sixteen private sector banks, over a period of ten years (2003-2013). The author also compares the overall ranking of the public sector banks vis-à-vis the private sector banks. This study uses two nonparametric statistical techniques: the Friedman test to analyze the consistency of rankings, and the Mann-Whitney test to compare rankings of public and private sector banks.
Rastogi and Saxena (2013) used the CAMELS model to evaluate and compare the all-round performance of public and private sector banks. Statistical sample includes four major public and private sector banks: the State Bank of India, Punjab National Bank, HDFC Bank and AXIS Bank. The results found that private banks have shown better performance on all the dimensions of CAMELS.

In today’s dynamic world trying to cope up with the aftermath of subprime crisis and the euro zone crisis, Bhatt (2013) revisited the CAMELS rating system. The author examined it for gauging quality of selected Indian banks: Indian Banks SBI, Union Bank, IDBI Bank, HDFC Bank, BOB, AXIS Bank, IndusInd Bank, PNB which is a mixture of public sector and private banks. CAMELS’ technique evaluates banks measures: banks stability on capital adequacy ratio, asset quality ratio, management quality ratio, earning ratio, liquidity ratios and sensitivity ratio. The results of this study revealed that this technique is critical in not only evaluating stability of the bank but could also be used for making preliminary investment decision.

The Indian banking system is still dominated by the public sector banks, and the issues of performance and efficiency have emerged to be the touchstone for the success of such banks. Vegesna and Dash (2014) stated that there is a need to develop a comprehensive framework for measuring their efficiency in transforming their resources for better performance. Such performance benchmarking has become extremely relevant for their success. This study focuses on the technical efficiency of banks in India using Data Envelopment Analysis (Goncharuk, 2013), to identify critical factors affecting the efficiency of banks. The inputs taken include net worth, deposits, borrowings, operating expenses, and fixed assets, while the outputs taken are investments, advances, net interest income and non-interest income. The results of the study shown that public sector banks were more efficient than the private sector ones, and that there was a trend decrease in the average level of efficiency. There were also some significant differences in terms of utilization/underutilization of inputs and under-production of outputs.

The other popular tool is the PESTEL analysis ("Political, Economic, Social, Technological, Environmental and Legal") that describes a framework of macro-environmental factors used in the environmental scanning component of strategic management. It is a part of the external analysis, when one is conducting a strategic analysis or doing market research, and gives an overview of the different macro-environmental factors, that the bank has to take into consideration. It is a useful strategic tool for understanding market growth or decline, business position, potential and direction for operations.

Using PESTEL analysis Florin (2014a) examined the non-financial performance indicators of banking activities of both Bangladesh and United Kingdom through highlighting different variables. Organizations are now more concerned about their overall performance (financial and non-financial) than ever before, as it is value creation change due to technology, competition, change of taste and behavior of customers.

Guda (2014) showed the key ways to achieve the competitive advantages of a bank, which are based on the comparative characteristics of the most developed banks of Ukraine.
Problems in Bank Operations and Security

Modern secured finance mechanisms offers a powerful means of mobilizing the value of a broad range of capital as a loan security creating profitable opportunities for a wide spectrum of potential users and providers of financial services. Florin (2014b) intends to investigate the various aspects of the credit appraisal procedure of SME loan by private commercial banks in Bangladesh. The author found that all the sampled banks are practicing the same procedures in terms of enterprise and entrepreneur selection criteria, marketing, management, financial and technical and security aspects, but difference was found in terms of socio-economic aspect.

E-business has created a remarkable revolution all across the world particularly in the North America, Europe. Even countries in Asia have progressed a lot. To keep with the same pace, Bangladesh is also moving forward. It is a new horizon for Bangladeshi banking industry. Although, most of the nationalized banks, even having hundreds of branches covering all the Bangladesh, did not progress satisfactorily due to poor IT infrastructure, data synchronization, network coverage and skills within the banks as an end user made this even more challenging. One the other side, private banking sectors are offering in a fast paced environment at par to global context. Saleheen et al. (2014) findings based on primary data are giving an opportunity for the industry practitioners to review their operations’ practice and suggested the intricacies to improve the operational efficiencies in the IT platform to upgrade the E-commerce facilities. The economy has been greatly benefited through using online banking which covered all over Bangladesh. It has made revolution in the rural periphery. Ultimately authors stated that it has changed the life style of the people by bringing them under the umbrella of technology and real time data information.

Analysis of Banking Sector

The 2008 global economic and financial crisis hit hard Iceland and the other small states (Hilmarsson, 2014). During the crisis three largest Icelandic banks collapsed in just a few days with severe consequences for the economy and the people. Prior to the crisis, Iceland, a high income OECD country, had experienced strong growth and unprecedented expansion in overseas investments and activities, especially in the financial sector. Hilmarsson (2015) focused on the actions of the international community when the Icelandic authorities, during a period of great uncertainty and need, sought assistance to protect the Icelandic economy before the banking system fell.

Maryam (2015) found an increased trend towards employment in banking sector in Bangladesh. Based on it, author analyzed the difference between the perception of work environment which also includes the organizational culture between the private and public sector of the banking industry. This research is carried out on different variables such as motivational level, job experience, and perception by genders and job designation. The main hypothesis of the study was that there is a considerable difference in the perception of work environment. Author concluded that there is not a significant difference in the private and public sectors of the economy with reference to the banking sector.

Analyzing Indian banking sector Sayed and Sayed (2013) found that banking in India has been through a long journey and have achieved a new height with the changing times. Majority of the banks are successful in keeping with the confidence of
the shareholders, but not all the banks are able to meet the expectation of the shareholders. In order to grow and gain the faith of shareholders, organizations should create wealth for the shareholders. Various value-based management systems have been developed to judge the wealth creation. One of such model is MVA (Market Value Added). Authors have chosen this tool to evaluate the performance of the Indian Banks. We have chosen the banks that are listed on the Bombay Stock Exchange (BSE). In this paper, the researchers have studied the MVA performance in the Indian banking industry, besides they explored the relationship between MVA and other related variables namely, dividend pay/out ratio PATM, ROA, ROE, ROCE, CAR, NPA etc.

Factors Affecting Banks’ Activity

Asset-liability management in banks is the strategic management of assets and liabilities aimed to optimize profitability, while ensuring liquidity, and protecting against different risks. Dash (2013) examined the impact of asset-liability management on the banks’ profitability for a sample of thirty-five public and private sector Indian banks. The results of his study indicate that most of the banks are exposed to short term risk, with negative maturity mismatches in the 1-90 days bracket, and more so for public sector banks. However, the regression results indicate that there is an incentive to maintain negative maturity mismatch in the short-term, as this improves profitability.

Koryakov (2012) showed a correlation between credit interest rates increase and potential risks of banking sector. Author analyzes the role of inflation and growth of government expenditure as one of the most important reasons of credit interest rates fluctuation.

Mergers and acquisitions (M&A) have been a very important market entry strategy as well as expansion strategy. This era is known as competition era. In this era companies to avoid the competition go for merger, and enjoy sometimes monopoly. Liberalization and technological advances are increasingly pushing the banking sector towards greater globalization to improve the operational flexibility of Banks, which is crucial in the competitive environment that banks operate in. Based on secondary data Chadamiya and Menapara (2012) have found that overall the merger and acquisition do not affect the financial position of banks except, when weaker and non-viable banks are merged with a financially sound and profit making bank: in such case the profitability of the later bank will be affected.

The EMH (Efficient Market Hypotheses) is one of the most incessant and respected theories in finance, yet it still comes under heavy criticism. The EMH has been based on an earlier theory that the market prices follow a random walk, hence they are unpredictable. Anand and Dulababu (2012) considered Indian banks: Axis Bank, HDFC Bank, ICICI Bank, IDBI Bank and Oriental Bank of commerce. The authors revealed that past prices of the stocks follow random walk. The investors are advised to analyze company’s balance sheet, corporate announcements on stock split, dividends, bonus issue and other financial factors before investing into a company.

Conclusions

Based on research studies in the field of banking sector and banks, we can draw the following conclusions:

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- the key four groups of studies related to the banking sector and banks were allocated, namely: estimation and ranking of efficiency and competitiveness of the banks; problems in bank operations and security; analysis of banking sector; factors affecting banks’ activity;
- for these key groups a brief overview of studies published in recent years was held.

The results of this review may be useful for scholars, officials, bank managers and investors, who are interested in developing and improving of the banking sector.

References

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Anatolii G. Goncharuk
International Humanitarian University, Ukraine

Abstract
The paper allocated the basic research types related to the banking sector and banks: estimation and ranking of efficiency and competitiveness of the banks; problems in bank operations and security; analysis of banking sector; factors affecting banks’ activity. For each type author held a brief overview of studies published over the last years.

Keywords: banking sector, ranking, efficiency, competitiveness, security, banks