

An analysis of factors impacting on banks' outstanding claims: a case study in Mehr-e Eghtesad bank, west Azerbaijan province

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Abstract: The present study is aimed at investigation of the factors impacting on banks' outstanding claims with its case study being Mehr-e Eghtesad Bank, West Azerbaijan Province. In this study, the cases with the highest rates of debts to each West Azerbaijan Province-based Mehr-e Eghtesad Bank branches were selected and required information to analyze data was extracted and examined after referrals were made to related case owners. Statistical population of this research was a number of 1181 outstanding and doubtful cases. According to Cochran's theorem, volume of statistical samples was estimated to be 290. Sampling method is randomly performed. Kolmogorov-Smirnov test, frequency distribution, central indices, dispersion, and Chi-Square test were used to test research's hypotheses. Results are expressive of the fact that security type, amount of facilities, type of facilities (agreements), payable credit term, facility applications, and type of economic activities influence on generation of outstanding claims in banks (case study: Mehr-e Eghtesad Bank, West Azerbaijan Province).

Key words: Offered facilities; Outstanding claims; Mehr-e Eghtesad Bank

1. Introduction

Banking system is one of the chief bases of a state's economic system whose proper performance can help the system bloom; otherwise, terrible damages would be incurred to the economy's body. One of the challenges confronted by banking systems at many countries including Iran is increased banks' past due and outstanding claims compared to total conferred facilities in the country's banking system. This indicates a reduction in quality of banking system's assets and, thus, probable financial instabilities in the future. The less the amount of such claims, the higher the potential of banks in maintaining their existing resources would be. High amounts of such non-current facilities are, in addition, expressive of a threat to bank resources. Statistics show that ratio of such facilities to total facilities conferred by banks has experienced a relatively considerable growth (Shahbani and Jalali, 2012). High levels of outstanding claims exhibits high rates of credit risks in present-day banking systems—the fact which poses market risks and liquidity challenges to banks. Although banks try to control their internal risks, the high percentage of such risks and their upcoming repercussions cannot be ignored. Loss of return on banking investments signals a weakness in banking performance in their facilities section.

Failure in conduction of exact appraisals before conferment of facilities causes loans to be allocated

to those who are disqualified in terms of the amount and type of conferred facilities. Moreover, feebleness of banking supervisions over the manner facilities are employed perhaps leads to derailment of banks' intensions from offering loans (Ekrami and Rahnama, 2009). Banks whose claims are not very much are able to invest their freed resources in new initiatives or undergo further commitments. This would lead to improved banks' planning capacities in terms of consumption of resources, acceptance of further commitments, and earning money. Accordingly, this research is intended to identify the most important factors in generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

Financial institutions, especially banks, constitute a center of excessive attentions by economic observers due to their key economic roles. Among the problems faced by different countries' banking systems for whose resolution supervisory bodies seem to be helpful is the issue of outstanding claims (Ahmadian and Davoodi, 2012). This has become a national challenge, given bank-orientedness nature of the state's financial and monetary market and possession of 90 percent of the country's liquidity by banks. Increased total outstanding claims aligned with increase in conferred facilities indicate augmented credit risks confronted by banks (Kordbache and Pardel, 2011).

There are different theorems on bank insolvencies including theory of bankruptcy, according to which a bank is, failed when the value of its assets grow less than the value of its obligations.

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In most cases, decrease in value of assets happens as a result of credit risk which is a function of unfulfillment of loans (Samad, 2012). According to business segments, credit-receiving companies are categorized into four groups: real (land and equipment), manufacturing, commercial, and service segments. Internal evaluation system is assigned to each type of loans (Bastos, 2010). Despite banks' attempts made to control their credit initiatives, the issue of outstanding debts has remained to be a significant problem in banking systems. In fact, those due banking claims which are unpaid by related customers are transferred to outstanding claims if they remain unsettled upon their due date. Practically, this withdraws a portion of banks' resources from operating cycles either permanently or temporarily, imposing several problems on banks (Ahmadian, 2012). A bank's claims are its credits before debtors, while resources provision is peoples' money before banks. Therefore, more sensitivity is required to receive banks' demands from debtors (Ferdowsi et al., 2013). The banking system bottleneck that deprives banking system from achievement of its objective, i.e., generation of money in present and future times, is the issue of outstanding claims which impacts on performance accounting criteria through following channels (Taghi Nataj, 2011). Main question of the research: following question is asked aligned with main objectives of the research: "Which factors impact on generation of outstanding claims in Mehr-e Eghtesad Bank?"

2. Significance of the research

A glance at the problems existing in the area of financial and credit services in Iran, high levels of outstanding claims in banking system, and, most of all, availability of appropriate financial services to a good number of Iranian people required for their personal and social aspects of lives well shows that popular values, beliefs, and approaches to the present circumstances are far from being rosy (Aghazadeh, 2011).

The present study aims to examine the factors influencing on generation of outstanding claims. Due, outstanding claims, just like a frozen ocean, have grown to be a serious large-scale challenge for the state's banking system, and this is thus safe to name it a "national challenge," given bank-orientedness nature of the state's economy. Such a concern has instigated all banking and economic officials to ponder over measures required for analyzing all aspects and variables involved in this issue in order to present statistical and experiential analyses aimed at elimination of this problem out of the body of state's banking system.

Due, outstanding claims constitute a remarkable example of credit risks and a problematic issue for the Mehr-e Eghtesad Bank. It has been expanded to become an inclusive challenge at all levels of this Bank, declaring the necessity of carrying out research and presenting scientific solutions.

A lack of proper credit culture poses fundamental challenges to bases of the economic system. In case the society is denied of a right credit culture, a limited number of people would assume the rein of financial resources, depriving others from taking advantage of such services by their inappropriate performances and unfulfillment of their obligations.

Reduction and control of risks is addressed as a crucial factor in improvement of credit conferment process and performance of banks, thereby acting a fundamental role in continuation of provision of facilities by banks and financial institutes. Main objective of the research entails examination and determination of the factors impacting on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

Minor objective of the research:

- 1- Examination and determination of the impact of type of economic activities in generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.
- 2- Examination and determination of the impact of credit conferment term in generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.
- 3- Examination and determination of the impact of applications of credits in generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.
- 4- Examination and determination of the impact of the type of received securities in generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.
- 5- Examination and determination of the impact of the type of conferred credit (agreements) in generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.
- 6- Examination and determination of the impact of amount of conferred credit in generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

This research will be conducted in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches, the results of which will be useful for making practical application by all Mehr-e Eghtesad Bank centers and branches statewide. Thanks to similarity of these conditions to those dominant at other state's banks and banking institutes, they are also able to take advantage of the results obtained.

The hypotheses of the research involved:

- 1- Type of the economic activities has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.
- 2- Term of conferred facilities has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.
- 3- Type of application from facilities has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

- 4-Type of conferred credit (agreements) has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.
- 5-Type of received securities has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.
- 6-Amount of conferred credit has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

3. Materials and methods

Outstanding claims: "claim," as opposed to customers' delayed obligations, literally means "demanding," and outstanding means delayed. In banking terminology, additionally, claims are demands requested by banks from their customers as for their conferred facilities, transactions, and

services. Outstanding claims are claims which have remained unpaid for more than six months and less than eighteen months since their deadlines or discontinuation of their installment payments.

Doubtful claims: claims which have remained unpaid for more than eighteen months since their deadlines or discontinuation of their installment payments.

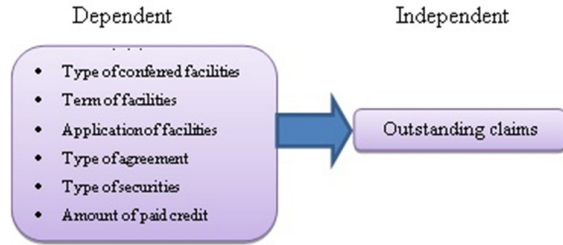


Fig. 1: Conceptual Model of the Research

Table 1: Operational Model of the Research

Concept	Dimensions and components	Indices
Factors impacting on generation of outstanding claims	Type of economic activity	Commercial
		Service
		Housing
		Industry
		Agriculture
	Term of conferred credits	One year
		1-3 years
		3-5 years
		More than 5 years
	Application of conferred facilities	Working capital
		Fixed capital
	Type of conferred facilities (agreements)	Partnership
		Civic engagement
		Free-interest loans
		Installment sales
		Hire-purchase
	Type of received securities	Real estates
		Promissory notes
		Obligatory agreement
		Deposit
Real estate's + Promissory notes		
Real estate's + Deposit		
Amount of conferred credits	Below 50,000,000 Rials	
	50,000,000 to 100,000,000 Rials	
	100,000,000 to 500,000,000 Rials	
	500,000,000 to 1,000,000,000 Rials	
	Higher than 1,000,000,000 Rials	

4. Statistical population and sampling

Statistical population of this research includes a total number of 1,181 cases identified as outstanding and doubtful using the Cochran's theorem, as follows:

$$n = \frac{t^2 pq}{d^2} \div \left(1 + \frac{1}{N} \left(\frac{t^2 pq}{d^2} - 1 \right) \right) \tag{1}$$

Where, Number of statistical population (N=1,181);

p= probability of ratio of possessing intended attribute (p=0.5);

q= probability of ratio of dispossessing intended attribute (q=0.5);

d= desirable probable precision (half of confidence distance, d=0.05);

t= degree or confidence of confidence (t=1.96)

$$n = \frac{1/96^2 \times 0/5 \times 0/5}{0/05^2} \div \left(1 + \frac{1}{1181} \left(\frac{1/96^2 \times 0/5 \times 0/5}{0/05^2} - 1 \right) \right) \tag{2}$$

$$n = \frac{\frac{3/84 \times 0/5 \times 0/5}{0/0025}}{1 + 0/0005 \left(\frac{0/96}{0/0025} - 1 \right)} \cong 290 \quad (3)$$

Random sampling was used to select statistical sample from statistical population, whereby 290 outstanding and doubtful cases from among province-wide Mehr-e Eghtesad Bank branches were randomly selected and required information was extracted.

5. Statistical data analysis

In order to analyze collected data (real data and that obtained from cases), frequency distribution Table, percentage of replies, bar charts, average rating, and standard deviation are firstly used to descriptively analyze data within the framework of descriptive statistics. In addition, inferential statistics of different tests and nonparametric

statistics were employed to analyze data, test research’s hypotheses, and analyze data obtained from the opinion poll. Error identification coefficient is considered to be 5 percent ($\alpha=0.05$) in this study.

5.1 Inferential statistics

In analyses conducted by inferential statistics, this is always a matter of question how to generalize results of studying a small group, i.e., samples, to a larger group, i.e., population (Hafeznia, 2008).

5.2 Tests

Kolmogorov-Smirnov test:

H0: research’s variables are normally distributed;

H1: research’s variables are not normally distributed.

Table 2: Normality of research’s variables

Amount of conferred credits	Type of received securities	Type of paid credits (agreements)	Application of conferred credits	Term of conferred credits	Type of economic activity	Variables
4.619	7.422	4.67	7.388	5.444	3.952	Kolmogorov-Smirnov Z test
0	0	0	0	0	0	Level of significance

Since variables’ level of significance is below 0.05 percent, H0 is rejected and H1 is admitted. Therefore, research’s variables are not normally distributed, and nonparametric tests (chi-square test) are applied to analyzed data.

Testing hypothesis 1: Type of the economic activities has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

H0: Type of the economic activities does not have an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches;

H1: Type of the economic activities has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

Table 3: Frequency of outstanding claims as separated by type of economic activity

Economic activity	Observed frequency	Expected frequency	Remnants
Commercial	80	58.0	22.0
Services	30	58.0	-28.0
Housing	110	58.0	52.0
Industries	50	58.0	-8.0
Agriculture	20	58.0	-38.0
Total	290		

As observed above, Table 3 exhibits observed and expected values of outstanding claims as separated

by type of economic activity in addition to the differences thereof.

Table 4: Test statistic

chi-square statistic	94.483
Degree of freedom	4
Coverage of test statistic	0.000

Results of the test are shown in the Table 4, where chi-square statistic as equal to 94.483 and degree of freedom (df) as equal to 4 is higher that critical value of chi-square with degree of freedom as equal to 4 in the confidence level of 95 percent equal to 9.488. Level of significance as equal to 0.000 is lower than 0.05, which is an indication of rejection of null hypothesis and admittance of H1 in confidence level of 95 percent. This demonstrates that there is a significant difference among economic activities in terms of outstanding claims. In other words, number of outstanding claims in different economic activities is not identical. Therefore, this is safe to indicate that type of economic activities (commercial, service, housing, industrial, and agricultural) has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

Testing hypothesis 2: Term of the conferred credits has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

H0: Term of the conferred credits does not have an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches;

H1: Term of the conferred credits has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

Table 5: Frequency of outstanding claims as separated by credit conferment term

credit conferment term	Observed frequency	Expected frequency	Remnants
1 year	65	70.0	-5.0
1 to 3 years	50	70.0	-20.0
3 to 5 years	135	70.0	65.0
Over 5 years	30	70.0	-40.0
Total	280		

As observed above, Table 5 exhibits observed and expected values of outstanding claims as separated by term of credit conferment in addition to the differences thereof.

Table 6: Test statistic

chi-square statistic	89.286
Degree of freedom	3
Coverage of test statistic	0.000

Results of the test are shown in the Table 6, where chi-square statistic as equal to 89.286 and degree of freedom (df) as equal to 3 is higher that critical value of chi-square with degree of freedom as equal to 3 in the confidence level of 95 percent equal to 7.815. Level of significance as equal to 0.000 is lower than 0.05, which is an indication of rejection of null hypothesis and admittance of H1 in confidence level of 95 percent. This demonstrates that there is a significant difference among credit conferment terms regarding outstanding claims. In other words, number of outstanding claims in different credit conferment terms is not identical. Therefore, this is safe to indicate that credit conferment terms (one year, 1-3 years, 3-5 years, and over five years) has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

Testing hypothesis 3: Type of application of conferred facilities has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

H0: Type of application of conferred facilities does not have an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches;

H1: Type of application of conferred facilities has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

Table 7: Outstanding claims frequency as separated by type of application of conferred facilities

Type of application of conferred facilities	Observed frequency	Expected frequency	Remnants
Working capital	200	150.0	50.0
Fixed capital	100	150.0	-50.0
Total	300		

As observed above, Table 7 exhibits observed and expected values of outstanding claims as separated by type of application of conferred facilities in addition to the differences thereof.

Table 8: Test statistic

chi-square statistic	33.333
Degree of freedom	1
Coverage of test statistic	0.000

Results of the test are shown in the Table 8, where chi-square statistic as equal to 33.333 and degree of freedom (df) as equal to 1 is higher that critical value of chi-square with degree of freedom as equal to 1 in the confidence level of 95 percent equal to 3.841. Level of significance as equal to 0.000 is lower than 0.05, which is an indication of rejection of null hypothesis and admittance of H1 in confidence level of 95 percent. This demonstrates that there is a significant difference among type of application of conferred facilities in terms of outstanding claims. In other words, number of outstanding claims in different applications of conferred facilities is not identical. Therefore, this is safe to indicate that type of application of conferred facilities (working capital and fixed capital) has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

Testing hypothesis 4: Type of conferred facilities (agreements) has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

H0: Type of conferred facilities (agreements) does not have an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

H1: Type of conferred facilities (agreements) has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

As observed above, Table 9 exhibits observed and expected values of outstanding claims as separated by type of paid facilities in addition to the differences thereof.

Table 9: Frequency of outstanding claims as separated by type of conferred facilities (agreements)

Type of conferred facilities	Observed frequency	Expected frequency	Remnants
Partnership	40	72.5	-32.5
Civil engagement	95	72.5	22.5
Installment sales	125	72.5	52.5
Free-interest loans	30	72.5	-42.5
Hire-purchase	0	72.5	-72.5
Total	290		

Table 10: Test statistic

chi-square statistic	84.483
Degree of freedom	4
Coverage of test statistic	0.000

Results of the test are shown in the Table 10, where chi-square statistic as equal to 84.483 and degree of freedom (df) as equal to 4 is higher than critical value of chi-square with degree of freedom as equal to 4 in the confidence level of 95 percent equal to 9.488. Level of significance as equal to 0.000 is lower than 0.05, which is an indication of rejection of null hypothesis and admittance of H1 in confidence level of 95 percent. This demonstrates that there is a significant difference among type of conferred facilities in terms of outstanding claims. In other words, number of outstanding claims in different types of paid facilities is not identical. Therefore, this

is safe to indicate that type of conferred facilities (partnership, civil engagement, installment sales, free-interest loans, and hire-purchase) has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

Testing hypothesis 5: Type of received securities has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

H0: Type of received securities does not have an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches;

H1: Type of received securities has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

Table 11: Frequency of outstanding claims as separated by type of received securities

Type of received securities	Observed frequency	Expected frequency	Remnants
Real estates	20	58.0	-38.0
Promissory notes	110	58.0	52.0
Obligatory agreement	10	58.0	-48.0
Deposit	30	58.0	-28.0
Cheque	120	58.0	62.0
Real estates and deposits	0	58.0	-58.0
Total	290		

As observed above, Table 11 exhibits observed and expected values of outstanding claims as separated by type of received securities in addition to the differences thereof.

Table 12: Test statistic

chi-square statistic	191.034
Degree of freedom	5
Coverage of test statistic	0.000

Results of the test are shown in the Table 12, where chi-square statistic as equal to 191.034 and degree of freedom (df) as equal to 5 is higher than critical value of chi-square with degree of freedom as equal to 5 in the confidence level of 95 percent equal to 11.070. Level of significance as equal to 0.000 is

lower than 0.05, which is an indication of rejection of null hypothesis and admittance of H1 in confidence level of 95 percent. This demonstrates that there is a significant difference among type of received securities in terms of outstanding claims. In other words, number of outstanding claims in different types of received securities is not identical. Therefore, this is safe to indicate that type of received securities (real estates, promissory notes, obligatory agreements, deposits, and real estates plus deposits) has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

Table 13: Frequency of outstanding claims as separated by amount of conferred credits

Amount of conferred credits	Observed frequency	Expected frequency	Remnants
Below 50,000,000 Rials	30	56.0	-26.0
50,000,000 to 100,000,000 Rials	95	56.0	39.0
100,000,000 to 500,000,000 Rials	135	56.0	79
500,000,000 to 1,000,000,000 Rials	15	56.0	-41.0
Higher than 1,000,000,000 Rials	5	56.0	-51.0
Total	280		

Testing hypothesis 6: Amount of conferred credits has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

H0: Amount of conferred credits does not have an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches;

H1: Amount of conferred credits has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches. As observed above, Table 13 exhibits observed and expected values of outstanding claims as separated by amount of conferred credits in addition to the differences thereof.

Table 14: Test statistic

chi-square statistic	227.143
Degree of freedom	4
Coverage of test statistic	0.000

Results of the test are shown in the Table 14, where chi-square statistic as equal to 227.143 and degree of freedom (df) as equal to 4 is higher than critical value of chi-square with degree of freedom as equal to 4 in the confidence level of 95 percent equal to 9.488. Level of significance as equal to 0.000 is lower than 0.05, which is an indication of rejection of null hypothesis and admittance of H1 in confidence level of 95 percent. This demonstrates that there is a significant difference among amount of conferred credits in terms of outstanding claims. In other words, number of outstanding claims in different amounts of conferred credits is not identical. Therefore, this is safe to indicate that amount of conferred credits (below 50,000,000 Rials, 50,000,000 to 100,000,000 Rials, 100,000,000 to 500,000,000 Rials, 500,000,000 to 1,000,000,000 Rials, and higher than 1,000,000,000 Rials) has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

6. Results and findings

Results and findings of the research are presented based on descriptions of hypotheses as follows hereunder. According to results of statistical tests, Tables, and diagrams offered hereinabove, following will be a list of research’s findings.

Testing hypothesis 1: Type of the economic activities has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

In this study, cases with the highest rates of debts to each West Azerbaijan Province-based Mehr-e Eghtesad Bank branches were selected and required information to analyze data was extracted and examined after referrals were made to related case owners. Finally, a number of 290 outstanding cases were randomly identified and investigated. Results of this research show that there is a significant

difference among economic activities in terms of number of outstanding claims. In other words, number of outstanding claims in different economic activities is not identical. Therefore, this is safe to indicate that type of economic activities (commercial, service, housing, industrial, and agricultural) has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

Results obtained from this study were somewhat aligned with research carried out by Arab Mazar and Rueentan (2006), who investigated qualitative and financial information of a number of companies receiving loans from Tehran Province Keshavarzi Bank branches within the 1999-2004 time span using logistic regression. They found that such factors as type of activity significantly impact on credit risks confronted by Keshavarzi Bank legal customers, having several interfaces with factors influencing on credit risks confronted legal customers at other banks.

Testing hypothesis 2: Term of the conferred credits has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

According to results of this study, there is a significant difference among credit conferment terms regarding outstanding claims. In other words, number of outstanding claims in different credit conferment terms is not identical. Therefore, this is safe to indicate that credit conferment terms (one year, 1-3 years, 3-5 years, and over five years) has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

Results of this study were somewhat conformed to those obtained from research carried out by Davoodi (2004) entitled “Investigation of the Factors Impacting on Generation of Outstanding Claims at Refah Bank.” Based on the research’s findings, factors like shorter terms influence on generation of outstanding claims.

Testing hypothesis 3: Type of application of conferred facilities has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

According to results of this study, there is a significant difference among type of application of conferred facilities in terms of outstanding claims. In other words, number of outstanding claims in different applications of conferred facilities is not identical. Therefore, this is safe to indicate that type of application of conferred facilities (working capital and fixed capital) has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

Results of this study were somewhat conformed to those obtained from research carried out by Forooghian and Tabasi (2010) entitled “Investigation of the factors Impacting on Generation of Outstanding Claims at Refah Bank,” in which a number of 85 companies which had received

facilities from Refah Bank and were unable to discharge their debts were examined.

Testing hypothesis 4: Type of conferred facilities (agreements) has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

According to analyses of results of this study, there is a significant difference among type of conferred facilities in terms of outstanding claims. In other words, number of outstanding claims in different types of paid facilities is not identical. Therefore, this is safe to indicate that type of conferred facilities (partnership, civil engagement, installment sales, free-interest loans, and hire-purchase) has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

Results of this study were somewhat conformed to those obtained from research carried out by Gholamreza Aghazadeh (2011) entitled "Prioritization of Banking Customers' Credit Scoring Criteria (6C) Impacting on Credits Using AHP Technique" in West Azerbaijan Province Melli Bank. According to results of this study, criteria of regulations provided for conferment of facilities, which also include type of conferred facilities (agreements), possess higher periodization levels than other factors generating outstanding claims.

Testing hypothesis 5: Type of received securities has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

According to results of this study, there is a significant difference among type of received securities in terms of outstanding claims. In other words, number of outstanding claims in different types of received securities is not identical. Therefore, this is safe to indicate that type of received securities (real estates, promissory notes, obligatory agreements, deposits, and real estates plus deposits) has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

Results of this study were somewhat conformed to those obtained from research carried out by Gholamreza Aghazadeh (2011) entitled "Prioritization of Banking Customers' Credit Scoring Criteria (6C) Impacting on Credits Using AHP Technique" in West Azerbaijan Province Melli Bank. According to results of this study, customers' securities including cash securities, real estate securities, or guarantors possess higher periodization levels than other factors generating outstanding claims.

Testing hypothesis 6: Amount of conferred credits has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

According to results of this study, there is a significant difference among amount of conferred credits in terms of outstanding claims. In other words, number of outstanding claims in different amounts of conferred credits is not identical. Therefore, this is safe to indicate that amount of

conferred credits (below 50,000,000 Rials, 50,000,000 to 100,000,000 Rials, 100,000,000 to 500,000,000 Rials, 500,000,000 to 1,000,000,000 Rials, and higher than 1,000,000,000 Rials) has an impact on generation of outstanding claims in West Azerbaijan Province-based Mehr-e Eghtesad Bank branches.

Results of this study were somewhat conformed to those obtained from research carried out by Akrami and Rahnama Oski (2009) entitled "Investigation of the Factors Impacting on Past Due and Outstanding Claims," in which nine variables (entailing amount of facilities and ratio of facilities to balance average as independent variables and facilities reimbursement status as dependent variable) were examined. Data of this study was developed through investigation of cases existing in banks and analyzed by logistic regression method. Economic activities impact on generation of outstanding claims. Therefore, these items are proposed: precise supervision on the manner conferred facilities are consumed in related economic areas, prevention of relocating facilities into other sections, conformance of conferred facilities to operation license of the companies, assurance of consumption of facilities and reimbursement of related amounts, creation of optimized assets package from bank assets.

In many banks of the country, particularly a number of private banks, a large body of facilities are, impractically and without complying with scientific patterns, allocated to housing segment. Banks have themselves caused a dangerous encounter with burst of the housing bubble *de facto*—the challenge which suffered the US banking system in 2008. Thus, statewide banks are required to pay diligent attention to the very important issue of optimized assets package in their facility conferment and employ powerful, updated models in handling their risk management challenges.

Type of received security is among the factors that impact on generation of outstanding claims. Accordingly, reception of authentic and sufficient securities as well as identification of other assets of customers from whom promissory notes and obligatory contracts are received is required. Clearly, opening credits is of higher importance for new applicants. Since amount of conferred facilities impacts on outstanding claims, more attention should be paid to conferment of large-scale loans. Precise implementation of the Facilities and Large-Scale Obligations Bylaw issued by the IRI Central Bank in 2003 is an important instrument that helps banks attain such paramount objectives. According to this Bylaw, large-scale obligations and facilities mean total remaining facilities and obligations related to each beneficiary that do not exceed 10 percent of the basic capital in nongovernmental banks and credit institutes and 5 percent of basic capital in governmental banks. For this area, thus, this is proposed:

(i) Dispatching secondary experts to make reinvestigations on plans and comparing received

reports. Although such inspections require more budget and time, they are significantly important due to scale of such plans and incurred risks in case of non-fulfillment of reimbursements.

(ii) Obliging applicants to fill out information forms including progresses in executive stages and needed cooperation to allow for expert inspections after operation stage is initiated, after three months of initiation, and after six months of initiation. This will prevent occurrence of any diversion in plan implementations and operations.

7. Conclusions and future works

In this research, attempts are made to provide replies for the question: "What are the factors impacting on generation of outstanding claims in Mehr-e Eghtesad Bank?" Summary of the results obtained from testing hypotheses indicates that t -test level of significance is smaller than level of significance 0.05 for each of the research's hypotheses in a single-scope level of significance. Consequently, type of securities, amount of facilities, type of facilities (agreements), repayment term, application of facilities, and type of economic activities influence on generation of outstanding claims in West Azerbaijan Mehr-e Eghtesad Bank branches. Generally speaking, research in the areas of humanity and social sciences poses particular complexities and imposes many limitations for research undertakers. Such limitations include time, location, human, social, and economic constraints which are raised as project advances. What this research was especially entangled with was provision of the information related to outstanding cases.

According to this research's results, 3-to-5-year facilities possess the largest share in increased credit hazards for banks. This is thus suggested to branch officials to take shorter-term facilities into account. Research's results are indicative of the point that installment sales have the largest portion among all Islamic agreements operated in Mehr-e Eghtesad Bank to generate outstanding claims for bank branches. Branch officials are, therefore, recommended to pay more attention to ascertaining their applicants and consider all required criteria so as to reduce the level of outstanding claims as much as possible.

Also, working capital has the highest share in claims and this is of particular importance due to the fact that facilities conferment system usually deals with customers who are mostly unknown and for some of whom maybe this is the first time to make attempts to receive facilities. In this stage, undeniable would be the role of related officials and experts in exerting technical, financial, and economic supervision over such demands. Application of fuzzy methods and operations research to identify and grade factors and components impacting on generation of outstanding claims left as future work. Future researchers are proposed to develop all-

inclusive models to investigate factors impacting on credit risks in Mehr-e Eghtesad Bank.

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