Examining the role of Iran Central Bank supervision in reduction of financial abuse across bank (case study: West Azarbaijan Melli Bank branches)

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ABSTRACT: The present study aims to develop the goals of article 19 of general economic policy of resistance, waver 2-25 of fifth Development Plan policies within twenty-year outlook and article 4 of general policies within the financial sector. The study employs library-based approach to collect the data. The required data are collected through bank supervision related questionnaires. The statistical population comprises of 250 employers working at Melli bank branches in Urmia, Khoy, and Mahabad; 152 people were chosen as sample size using Cochran formula. In order to make statistical analysis, SPSS software was utilized. Results derived from one-sample t-test indicated that supervision of Iran Central Bank had a positive and significant effect on reducing financial abuses. Also, the results of Friedman test manifested that there was a significant difference among the aspects of Iran Central Bank supervision from the perspective of employers working at West Azarbaijan banks.

Keywords: Central Bank supervision, reduction of financial abuses, Melli Bank

INTRODUCTION

Banking supervision is deemed as the prerequisites for assuring accurate performance of financial system. The main objectives of banking supervision are to keep the persistency of financial system and to increase confidence through reducing risk for depositors and other creditors. Hence, the aim of supervision is to assure that banks and credit institutes perform safely and correctly. Being responsible for supervising banks and credit institutes determined by act B of article 11 of monetary and financial law, the central bank chose the latest technologies and expert people relevant to supervision based on risk approach as the main approach to supervise banks and other credit institutes. In so doing, the central bank followed precautionary reforms and expanded literature on new banking system in order to refresh the organizational structure in relation to supervising banks.

Review of literature

Definition of supervision

Supervision is defined as evaluating and reforming the performance of organization in order to assure that the organization has attained the goals and executable plans.

The process of supervising

Supervising process is formed on four levels:
- Determining standards and criteria for measurement
- Valuating operations and performance
- Comparing performance and standards
- Reforming operations

Four-fold supervision proceedings

Following are some key points with regard to the supervision process

When it comes to determining standard and criteria, the main emphasis is on expressing organizational goals quantitatively.
Assessing the performance: one of the important steps in the process of supervising to collecting the required data in relation to performance and operations. Supervising system fails to play a great role when it lacks appropriate and enough information. Comparing information and standards: the comparison of real data and indexes as well as indexes should be in a way that they are perceivable and possible to be decided. Reforming proceedings: in case the obtained results from the afore-said comparison indicates that the predictions are not truly conducted and that performance is not in consistency with the standard, the related issue should be investigated and solutions should be offered.

Advantages of supervising
One an mention following as the advantages of appropriate supervising:
Preventing possible failures in systems and prevention of abuse
Preventing growth, development and reoccurring of factors leading to abuse, the result of which is prevention of spending huge one for identifying the abuse and resolving existing deficiencies in system
Assisting the implementation of law and reaching the predicted goals
In-service training and increasing efficiency of staff
Protecting the rights of people and country
Paving the way for logical analysis on performances throughout the administrations

Repercussions of lack of control and supervision
Followings are repercussions of lack of control and supervision
Chasm would be manifested between the government and people
Depravity would be increased in society
The life of society relies on following the rule and laws within it and lack of supervision system would result in failure
Social justice would not be observed
Career would not be seen as a value
Fundamental principle of effective banking supervision (the basic principles of the Baseline Committee)

The evidence is the revised case of effective banking supervision fundamental principle which was published by Baseline Committee supervision section in September 1997. Different countries use the evidence and fundamental principles categorized by 3 and 4 for evaluating the quality of their supervisory systems and for identifying the proceedings needed in the future so as to attain basic supervisory method. Experience has shown that self-evaluations in relation to the extent of countries compatibility with afore-said fundamental principles have been useful in line with the assumed references especially in the field of identifying legal and supervision-based inadequacies as well as determining and prioritizing them. Reconsidering in the basic principles of the Baseline Committee is another reasons that shows different countries make such evaluations. Also, international monetary fund and global bank have used afore-mentioned principles for evaluating the systems and quality of banking supervision. Since 1997, important changes have been made in banking principles and experience has gained through implementing fundamental principles in all countries. Also, new issues and legal perspectives have been proposed and that the committee has published several new articles on this issue. These changes required fundamental rules and its evaluation mythology.

Considering the reconsidering of fundamental principles and its methodology, the committee was interested in assuring the integrity and measurability of the evidence with the published framework in 1997. Provided framework in 1997 has acted in an optimum way which is regarded as a framework which has got succeeded in time test. So, one would say that the goal was not planned on the basis that the fundamental principles are determined once more; rather the aim was to focus on the fields which required appropriate assuring in relation to make balances within the current framework. Such an evaluation was not developed to underestimate the validity of conducted work either in the form of government-based evaluations or reforming plans based on 1997 framework.

Embezzlement and financial abuses in Iranian banking system
In 1983, an issue was developed to reform and modify Iran baking activities as the Islamic banking system; however, banks followed it reluctantly due to the complexity within the activities to implement the terms. So, these reforms and modifications were not thoroughly followed and banks focused solely on one type of these appointments which ultimately led to embezzlement in banks, expansion of duplicity, increase in the overall cost of
product and bankruptcy of many companies in production and service field. Also, delay of payments in transaction based on the rate of duplicity and expansion of it under the term partnership was another result. The issue of bankruptcy and financial abuses in Iran banking system was generalized to press and the prominent figures were regarded by public perspectives. Study of bankruptcy cases during the years 1980 to 2002 shows that bankruptcy and cheating are among the attributes of monetary and financial institutes. Uncovering bankruptcy in these institutes indicate opacity of information and inefficiency of its supervising system. A number of circulars are issued in banks which are related to years 1957 to 1961 which have failed to be implemented. Statistical restriction in the field of bankruptcy has led to the way that most of the officials attempt to justify the solutions.

**Reasons of bankruptcy in Iran banking system**

As it is believed by many economists, diversity in rules and permanent management have caused mafia connection in financial system and such a diversity as well as management of different interpretations enable offender to commit their evildoings so that there would be no way of identifying embezzlement. Some believe that the government should establish supervising and controlling systems and institutionalize these supervisions in civil and public fields. Unfortunately, reluctance to supervising system of banks and lack of informing in relation to embezzlement as well as lack of analysis on the abuses would lead to evaluated awareness. Some of the experts believe that many problems having to do with embezzlement arise from opacity of informing and law. Also, they claim that in case crime is designed as same as mentioned previously, its occurrence will be reduced. In addition, the definition of embezzlement is different in Iran in comparison with other countries, so one cannot make statistical comparisons. Furthermore, embezzlement is not viewed by some experts as a special type of depravity in developing countries and they declare that industrial countries face specific cases of embezzlement whose degree is getting increased due to the development of countries and expansion of authorities’ responsibilities as well as the exiting differences in political system of developing countries.

As it is believed by many experts, determining responsibilities for officials and clerks would facilitate misunderstanding which is due to the fact that specific rules and principles have been determined in official system of every country. It is worth noting that embezzlement existed before and after evolution which is in its rising condition. Inefficiency of controlling and supervision of operations is taken into account as external affective factors of embezzlement. In cases the supervision is lower and operational complexity is higher in branches, higher levels of embezzlement have been observed. Also, lack of training and inappropriate authorities are considered as internal factors of embezzlement. There are different factors resulting in embezzlement; however, there is no accurate statistics due to higher rates of expenses. Embezzlement in banks occur due to several factors. One of these factors is aid to be lack of supervision and accuracy on the part of banks’ officials on their underlying points. Unfortunately, such supervisions are temporary and are left following two or three years. In case these supervisions are conducted permanently and curiously, there will be lower levels of misuses in this section. The other issue to be addressed is economic factors and the problems which are challenged by some individuals. Getting richer and faster ways of rich status as well as mixing issues with each other is considered as another reason. These factors come together and for embezzlement in banks.

**Review of literature**

Making reviews in the related literature, the researcher found out that few studies have been conducted in the field of research topic or there were studies not be consistent with the present work. Following is the studies conducted in the related field:

Jazaieri (2009) conducted a research to investigate the role of supervision in reducing official abuse across public companies. The main question in this research was whether on-time and accurate supervision would have any effect on recuing official abuse. Findings of the study manifested that there was a direct relationship between supervision and recuing abuse.

Emami (1991) examined the role of central bank supervision in improving the health of banking and concluded that central bank could improve the banking system health to a large extent through making use of integrated controlling sytems.

Evaluation of financial potential across insurance companies in Iran was investigated by Hashemi Seyedabas, Safari and Dolatabadi in 2010. Financial potential of non-life insurances relevant to public and private insurance companies was studied and that financial potential was compared in these companies. Findings of the study indicated that public and private insurance companies should possess 11% and 15% of their receiving insurance rights so that they can stick to the promise they have made.
Hoseini and Mosavi (2011) investigated the supervisory systems on public financial contractions and their challenges. Public financial contraction have been taken into account due to diverse amount of capital and added number of people related to this field. It was claimed in this research that the legislative branch has determined three-fold supervisions through perceiving the importance of such centers. In other words, investigations on legal system show that the nature of supervision has been taken into account in statute and other legal sections of the country; however, planning and developing efficient as well as comprehensive system which covered political and official systems were needed for correct execution of responsibilities of these supervisory systems faced legal, executional and judicial challenges. Inconsistency existed in supervision-based systems, weakness in structure, opacity on rules and laws, diversity of laws, perspective of manager and supervision culture are accounted as the factors of supervision weakness and occurrence of challenges in the field of financial contractions. Identifying the institutions and afore-said challenges as well as output-based solutions develop the aim of the study.

Another study was conducted by Vije and Rezai examining the supervision method in relation to professional behavior of parliament representative with emphasizing on Iran rights. It was claimed in this study that learning supervision principle in public law, preserving public confidence, existence of legal government and equal law of citizens are as maxims. The importance of supervision role on behaviors of representatives as well as its role in efficiency of professional supervision centers would imply that the lawyer draw attention toward the issue. The main question of the study was to discover supervision method on professional behaviors of representatives. In response to the afore-said questions, pioneering countries have been addressed so that it was claimed that the pioneering countries used regular announcement methods, restricted condition of representatives and receiving incomes out of the parliament along with non-financial supervision such as people’s complaining about the ignorance of behavioral rules of representatives and controlling the quality of representatives’ interaction indicting on the prestigious condition. It was suggested that legalizing institute of the country make use of these method of regarding the legal culture.

**Research questions**

Main question: does supervision of Iran Central Bank have any effect on reducing financial abuse of banks?

**Secondary questions**

Do goals, independence authorities, clarity and cooperation have any effect on reducing financial abuse of banks? Does issuing license and ownership structure have any effect on reducing financial abuse of banks? Do regulations and precautionary proceedings have any effect on reducing financial abuse of banks? Do continuous banking supervision methods have any effect on reducing financial abuse of banks? Does accounting and disclosure have any effect on reducing financial abuse of banks? Does supervisors’ authorities in the field of reforming and complementary proceedings have any effect on reducing financial abuse of banks? Do integrated and exterritorial banking supervision have any effect on reducing financial abuse of banks?

**Study design**

The study follows a survey method of research. The study is applied, descriptive and correllational in terms of goal, quality of data collection. Stratified random sampling method was used in the present study. 250 employers working at West Azarbaijan Melli Bank branches comprised the statistical population. Rate of success (P) and rates of failure as well as level of confidence were considered as 50% and 95%, respectively. To calculate, Cochran formula was employed:

\[ n = \frac{t^2 \times pq}{d^2} \left(1 + \frac{1}{N} \left(\frac{t^2 \times pq}{d^2} - 1\right)\right) \approx 152 \]

**Analysis of statistical data**

Statistical data analysis is considered as important step throughout different studies and the results rely on the analysis. In so doing, questionnaires were distributed among the participants and they were distributed to collect the required data. Raw data were entered into SPSS software and were registered by computer and software. Descriptive analyses of data were done by frequency, relative frequency percent, central tendency
indexes and scattering indexes. Subsequently, data were collected and inferential statistics were done through making use of SPSS software.

**Inferential analysis of statistical data**

Research questionnaire was comprised of 18 items based on Likert-five item scale. The reliability of questionnaire was measured is 0.84. 65.8% and 34.2% of the participant are male and female, respectively. Age ranges falling into below 30 years of age, 31-40 years of age, 41-50 years of age, and over 50 years of age are categorized by 3.9%, 52%, 42.8%, and 1.3%, respectively. Levels of education falling into categories of diploma, associate's degree, bachelor of art, master of art are categorized by 11.2%, 18.4%, 56.6%, and 13.8%, respectively. Most frequent participants and less frequent participants are distributed as 65.8% and 34.2%, respectively. Age ranges falling into below 30 years of age, 31-40 years of age, 41-50 years of age, and over 50 years of age are categorized by 3.9%, 52%, 42.8%, and 1.3%, respectively. Levels of education falling into categories of diploma, associate's degree, bachelor of art, master of art are categorized by 11.2%, 18.4%, 56.6%, and 13.8%, respectively. Most frequent participants and less frequent participants are distributed as 65.8% and 34.2%, respectively. Age ranges falling into below 30 years of age, 31-40 years of age, 41-50 years of age, and over 50 years of age are categorized by 3.9%, 52%, 42.8%, and 1.3%, respectively. Levels of education falling into categories of diploma, associate's degree, bachelor of art, master of art are categorized by 11.2%, 18.4%, 56.6%, and 13.8%, respectively. Most frequent participants and less frequent participants are distributed as 65.8% and 34.2%, respectively. Age ranges falling into below 30 years of age, 31-40 years of age, 41-50 years of age, and over 50 years of age are categorized by 3.9%, 52%, 42.8%, and 1.3%, respectively. Levels of education falling into categories of diploma, associate's degree, bachelor of art, master of art are categorized by 11.2%, 18.4%, 56.6%, and 13.8%, respectively. Most frequent participants and less frequent participants are distributed as 65.8% and 34.2%, respectively.

**CONCLUSION**

Central indexes and tendency of research variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Number</th>
<th>Mean</th>
<th>Frequency</th>
<th>Deviation</th>
<th>Variance</th>
<th>Skewedness</th>
<th>Elongation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goals, independence, authorities, clearance issuing license and structure</td>
<td>152</td>
<td>2.9539</td>
<td>3.00</td>
<td>.85269</td>
<td>.727</td>
<td>-.919</td>
<td>-.364</td>
</tr>
<tr>
<td>Regulations and obligations</td>
<td>152</td>
<td>2.7610</td>
<td>3.00</td>
<td>.92002</td>
<td>.835</td>
<td>-.676</td>
<td>-.994</td>
</tr>
<tr>
<td>Methods of continuous banking supervision</td>
<td>152</td>
<td>3.1020</td>
<td>2.25</td>
<td>.69253</td>
<td>.480</td>
<td>-.797</td>
<td>-.634</td>
</tr>
<tr>
<td>Accounting and disclosure</td>
<td>152</td>
<td>3.1228</td>
<td>3.33</td>
<td>.91964</td>
<td>.846</td>
<td>-.387</td>
<td>-.435</td>
</tr>
<tr>
<td>Supervisors’ authorities</td>
<td>152</td>
<td>2.9474</td>
<td>4.00</td>
<td>1.03763</td>
<td>1.077</td>
<td>-.011</td>
<td>.008</td>
</tr>
<tr>
<td>Integrated banking supervision</td>
<td>152</td>
<td>3.0921</td>
<td>3.50</td>
<td>.82875</td>
<td>.687</td>
<td>.162</td>
<td>-.067</td>
</tr>
<tr>
<td>Islamic Republic Central Bank supervision total</td>
<td>152</td>
<td>3.0402</td>
<td>2.56</td>
<td>.75530</td>
<td>.570</td>
<td>-.899</td>
<td>-.516</td>
</tr>
</tbody>
</table>

Table 1 presets the central tendency indexes and scattering distribution of variables i.e. Goals, independence, authorities, clearance issuing license and structure, regulations and obligations methods of continuous banking supervision, accounting and disclosure supervisor’s authorities integrated banking supervision, Islamic Republic Central Bank supervision. Research variables are scales on five items ranged from very low to very high.

**Studying normal status of variables distribution**

When it comes to study normal status of variables distribution, null hypothesis is tested at 5% level of error. In case the test statistic is greater than 0.05, there will be no reason for rejecting null hypothesis/ In other words, statistical hypotheses for testing the normality are as follows:

H0: data of variable / are disturbed normally
H1: data of variable / are not distributed normally
As the level of significance for all variables is less than 0.05, so null hypothesis is rejected and alternative hypothesis is accepted. This means that data follow a non-normal distribution. Non-parametric data analysis is used to study the hypothesis. Since the number of sample size is greater than 30, one-sample t-test and Friedman tests are employed.

**Testing the first hypothesis**

Supervision of Iran Central Bank has an effect on reducing financial abuse of banks

\[ H_0: \mu \leq 3 \]

\[ H_1: \mu > 3 \]

As it is seen from the above table, mean indexes and central tendencies have been obtained. The results show that the level of significance is greater than 0.05. In addition, the mean of Central Bank supervision in relation to reducing banks financial embezzlement is greater than 3. So, one can conclude with 95% confidence that null hypothesis is accepted and alternative hypothesis is rejected. In other words, supervision of Iran Central Bank does not have any effect on reducing financial abuse of banks.
**Testing the second hypothesis**

There is significant difference among the subscale of central bank of Iran supervision and reduction of abuses cross banks

\[
H_0: \mu \leq 3 \\
H_1: \mu > 3
\]

<table>
<thead>
<tr>
<th>Variable</th>
<th>Number</th>
<th>Mean</th>
<th>Standard deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goals, independence, authorities, clearance</td>
<td>152</td>
<td>2.9539</td>
<td>.85269</td>
<td>1.00</td>
<td>4.00</td>
</tr>
<tr>
<td>Issuing license and structure</td>
<td>152</td>
<td>2.7610</td>
<td>.92002</td>
<td>1.00</td>
<td>4.00</td>
</tr>
<tr>
<td>Regulations and obligations</td>
<td>152</td>
<td>3.1020</td>
<td>.69253</td>
<td>1.75</td>
<td>4.00</td>
</tr>
<tr>
<td>Continuous banking supervision</td>
<td>152</td>
<td>3.1228</td>
<td>.91964</td>
<td>1.33</td>
<td>4.67</td>
</tr>
<tr>
<td>Accounting and disclosure</td>
<td>152</td>
<td>2.9474</td>
<td>1.03763</td>
<td>1.00</td>
<td>5.00</td>
</tr>
<tr>
<td>Supervisors’ authorities</td>
<td>152</td>
<td>3.0921</td>
<td>.82875</td>
<td>1.50</td>
<td>5.00</td>
</tr>
<tr>
<td>Integrated banking supervision</td>
<td>152</td>
<td>3.4046</td>
<td>.93450</td>
<td>1.00</td>
<td>5.00</td>
</tr>
</tbody>
</table>

The above table shows descriptive statistics for supervision of central bank and reduction of financial abuses across Melli bank branches involving mean, standard deviation, minimum and maximum of each aspect.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Number</th>
<th>Mean</th>
<th>Standard deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goals, independence, authorities, clearance</td>
<td>3.78</td>
<td>2.9539</td>
<td>.85269</td>
<td>1.00</td>
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</tr>
<tr>
<td>Issuing license and structure</td>
<td>2.82</td>
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<td>.92002</td>
<td>1.00</td>
<td>4.00</td>
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<tr>
<td>Regulations and obligations</td>
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<td>.69253</td>
<td>1.75</td>
<td>4.00</td>
</tr>
<tr>
<td>Continuous banking supervision</td>
<td>4.30</td>
<td>3.1228</td>
<td>.91964</td>
<td>1.33</td>
<td>4.67</td>
</tr>
<tr>
<td>Accounting and disclosure</td>
<td>3.36</td>
<td>2.9474</td>
<td>1.03763</td>
<td>1.00</td>
<td>5.00</td>
</tr>
<tr>
<td>Supervisors’ authorities</td>
<td>4.08</td>
<td>3.0921</td>
<td>.82875</td>
<td>1.50</td>
<td>5.00</td>
</tr>
<tr>
<td>Integrated banking supervision</td>
<td>5.05</td>
<td>3.4046</td>
<td>.93450</td>
<td>1.00</td>
<td>5.00</td>
</tr>
</tbody>
</table>

As it seen in the above table, Chi-Square with 121.395 degree of freedom and coverage level which is less than 0.05 show the rejection of null hypothesis and accepting of alternative hypothesis. This means that subscales of central bank supervision have an effect on recuing banks financial abuses from employers perspective. Based on the obtained results, integrated banking supervision and issuing license as well as structure are highest and lowest contributive factors to reduce financial abuses, respectively.
Suggestions

Regarding the findings of the present study that issuing license and ownership structure as well as integrated banking supervision were contributive to reducing banks financial embezzlement, a number of suggestions are developed in this regard which can be considered as lowering factors of financial abuses in banking industry. Other aspects should be affective in reducing financial abuses of banks, too.

Negotiating with their institutes and different organizations in order prevent advertisements of non-licensed financial and credit institutes

Strict interaction with non-licensed financial and credit institutes which bring about security detriments in the context of official financial market Considering necessary conditions and capital in order to get license so as to organize and improving of banks

Banks are recommend to prevent the activity of institutions which do not have license and are not under the control of central bank and that the term control is suggested to be monitored by them.

Banking supervision system should be accurately aware of standard processes and should take into account necessary considerations in order to prevent any possible abuses due to the amount of dedicated resources and in order to considering the discrepancies of benefits. Regulations are suggested to be determined in relation to the notion that providing resources by bank to people and dependent companies is based on non-personal relations and controlled by effective supervision.

Banking supervisors should be equipped with supervising tools such as annulment of banking certification or suggesting cancellation when necessary.

One of the essential factors of banking supervision is that supervisors control aiming group as integrated. This can be done through enough supervision and making use of precautionary regulations for all global operations by afore-mentioned group.

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