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Bank Deposits and Their Impact on Supporting the Financial Stability of Banks

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Abstract

The study aims to address the problem of the decrease in the volume of deposits in the Iraqi banking sector and its impact on the financial stability of commercial banks via a set of statistical methods. As a result, there is a positive relationship between bank deposits and financial stability, as is the case of a positive relationship between financial stability and other economic components. In conclusion, there are two main factors that lead to financial instability: excessive investments, large speculation and thus their effects on other economic variables.

Keywords: Bank, deposits, liquidity, financial, stability.

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Depósitos bancarios y su impacto en el apoyo a la estabilidad financiera de los bancos

Resumen

El objetivo del estudio es abordar el problema de la disminución en el volumen de depósitos en el sector bancario iraquí y su impacto en la estabilidad financiera de los bancos comerciales a través de un conjunto de métodos estadísticos. Como resultado, existe una relación positiva entre los depósitos bancarios y la estabilidad financiera, como es el caso de una relación positiva entre la estabilidad financiera y otros componentes económicos. En conclusión, hay dos factores principales que conducen a la inestabilidad financiera: inversiones excesivas, gran especulación y, por lo tanto, sus efectos en otras variables económicas.

Palabras clave: Banca, depósitos, liquidez, financiera, estabilidad.

1. INTRODUCTION

Banking represents a reservoir of funds as indicated by some researchers in this area as the physical or natural transport of this money between savers and investors and goes even more to become a source of funds, especially when these banks commercial as well as providing services through various activities that support the And financing various activities of the Iraqi economy. So it is imperative that the dealers deal with those banks from a safe place they trust to deposit their funds and maintain them and to benefit from them when needed on the one hand, and on the other hand, the increase of funds deposited with those banks help them to financial stability. The trust in banks by their clients is linked to the availability of liquidity and solvency, which in turn will not be achieved unless clear policies are followed in the processes of equitable recruitment of their resources, as well as the administrations of these banks to remain in the competitive market, which requires them to match three basic activities.

Profitability and liquidity, but the diversity of risks facing the banking environment and complexity make them a source of danger to those banks, which made researchers are engaged in the development and finding solutions to the problems facing their departments in order to stabilize the banking systems and thus the safety of funds. Banks, in general, through their balance sheets and the expertise of their departments, are working as much as possible to avoid financial risks through the role played by financial stability in the continuous review of the process of planning and developing the deposit policy. The first topic dealt with the scientific methodology of the study and some of the previous studies. The second topic dealt with the theoretical aspect of the study. The third topic dealt with the practical aspect and the impact of the policy of financial stability. Bank deposits, and finally came to the conclusions and recommendations to cover the fourth topic.

2. METHODOLOGY AND PREVIOUS STUDIES

Scientific Methodology of the Study

Importance of the study

The study highlights the importance of the study through a number of the following justifications.

1. It addresses the decline witnessed by Iraqi banks sample study in the size of bank deposits, and then identify the necessary foundations in the achievement of financial stability, and the definition and importance, and what is the relationship of financial stability to financial coverage in order to identify and address weaknesses and strengthen the strengths.

2. Identify the main factors that will affect the financial instability of the banks.

3 .Addressing the most important precautionary measures that would achieve financial stability.

4. Understand the concept of banking liquidity and its components in commercial banks, as it relates to depositary policy.

5. Banks need a sample study to attract large deposits due to the financial crisis experienced by the country in the current period.

6. The administrations of these banks benefit from the employment of these deposits to achieve an increase in profitability and safety through the availability of liquidity.

7. Deposits are a basic function of the work of commercial banks because they have a distinct role in gaining the trust of their clients if their departments are well managed efficiently.

8. This study opens new horizons for researchers in order to conduct further studies and research to enhance the status of Iraqi commercial banks listed in the Iraqi Stock Exchange.

Objectives of the study

The objectives of the study are reflected in the following:

1. To identify the activities of the banks' departments, the sample of the study used in managing their deposits, and what is the effect that they are taking to maintain their financial stability.

2. To reach the most important and the main axes that would support the depositary policy adopted by the banking departments sample study.

3. Work to find the necessary solutions to the problems that accompany the depositary policy, and then develop them to support financial stability.

4. To reach many concepts related to the subject of financial stability, such as its definitions, its foundations, its importance, and its relation to financial coverage.

5. Identify precautionary measures for financial stability. As well as to identify the relationship of bank deposits to financial stability.

Study problem

Before starting the problem of the study, it is necessary to identify the variables, dependent and independent of the study, as follows: (Independent variable): Bank deposits, (Dependent variable): financial stability. The first question is: What is the type of statistical relationship between the independent variable (bank deposits) represented by its different sources and the dependent variable (financial stability) represented by its main components?

The second main question: To know what kind of statistical relationship between the basic elements of the dependent variable (financial stability) in attracting bank deposits with its independent variable?

The hypotheses of the study

Based on the questions of the study problem, its hypotheses were formulated as follows: the first hypothesis: Is there a statistically significant effect of the independent variable (bank deposits) represented by its different sources on the dependent variable (financial stability) represented by its main components? The second hypothesis: Is there a statistically significant effect of the elements of financial stability as a dependent variable on attracting bank deposits with its independent variable?

Study Limitations

Time Limits: The study included the period from 1/1/2011 to 31/12/2015. Spatial boundaries: A sample of private sector banks listed on the Iraqi Stock Exchange (Abusamra, 2007).

Society and Study Sample

The sample of the study consisted of (10) banks from commercial banks belonging to the private sector (Iraqi Ahli, Iraqi Trade, United Investment, Iraqi Union, Business Bay, Middle East, Mansour, Babel, Baghdad, Ashur International). The choice of these banks was subject to two reasons: First: being listed in the Iraqi market for securities, and the second: continuing in its work without interruption and evidence of that availability of data according to the Economic Bulletin of the market for the same period.

Methods of analysis

Statistical Methods

The study relied on a set of statistical methods to test its hypotheses and reach the objectives (e.g., arithmetic mean, variance, beta coefficient, standard deviation, simple linear regression and multiple) by using the SPSS program.

Financial Equations

The following equations were used

Current Cash Flow = Monetary Assets (Cash with the Fund and the Bank) / Current deposits * 100%

Bank solvency rate = (Right of ownership)/ Total deposits * 100%

The rate of growth = (Deposits of the current year - Deposits of the previous year)/ Deposits of the previous year * 100%

3. THE THEORETICAL SIDE OF THE STUDY

Bank deposits and bank liquidity

The concept of bank deposits

The views of the writers and researchers on the concept of deposits have varied, but in their general form, they represent the blood of banks in general and commercial ones in particular.

The importance of bank deposits

The importance of bank deposits is highlighted by stating its importance according to three main:

axes First: Banks: Deposits are the main artery of the financing activity carried out by banks because they represent the ability to borrow, and that the total amounts of deposits represent the cornerstone of the bank in the investment of its various investments and services in order to obtain profits and increase in reserves, so banks compete among themselves And by various means to attract deposits (Hassan, 2011; Hasani Hossienabadi, 2016). Axis 2: Depositors: Depositors can get their deposits (indirect financial instruments) into cash or currency or anything else with the least effort so banks become a greater source of liquidity to depositors. While this cannot be done for other financial instruments that must be sold (such as bonds), and perhaps at a loss and after some time (Ali, 2004).

Depositors are difficult to buy because they are readily available for deposits and any amount of money, as well as large deposits of large amounts Investors and business establishments (such as certificates of deposit with large amounts and with different maturities commensurate with the needs of the depositors), are in demand deposits for one day or even one night, and certificates of deposit for several years (Aljazrawi, 2011; Yazdani Chamzini et al, 2016).

Deposit behavior and classifications

The management of banks depends primarily on the behavior of bank deposits as the compass through which their funds are managed.

Their increase or decrease is due to their movement during the month and the latest. It increases at the beginning of the month because the employees and the limited and middle-income earners receive their salaries and wages and decrease with the beginning of the second half of the month when the organizations deposited with banks pay salaries and salaries of their employees. Deposits can be classified (according to their movements or behavior to the following (Ramadan, 1995).

(1). Active Deposits (Active Deposits): Accordingly, their balance is relatively unsustainable due to a large number of withdrawals and deposits (Soo et al., 2019).

(2) .Inactive Deposits (Idle Deposits): Accordingly, their balance is relatively constant due to their saving nature. Because of the liberalization of the world's major financial markets as well as the wide technological developments, it led to a drop in bank deposits, which made banks unable to grant loans to others and to meet withdrawals, which required commercial banks to work hard to invent new means.

Therefore, we find that banks are looking for unconventional sources to support their financial resources, despite their high costs, in order to earn more than costs, because they are not subject to legal reserve requirements or are subject to very low rates. As banks have recently introduced diversified services, they have attracted more and more clients' money, such as securities brokerage services, life insurance windows, accidents and inter-bank contracts.

Liquidity dimensions

Financial literature suggests that liquidity has three dimensions:

1. Time: It is the speed at which the bank can convert the asset into cash.

2. Risk: the possibility of a decline in the value of that asset, causing losses to the bank .

3. Cost: The amount of financial and non-financial sacrifices incurred by the Bank as a result of the conversion of the asset into cash.

Liquidity components in commercial banks

Almost the majority of financial literacy in general and in the banking sector, in particular, agree on the division of the components of liquidity in commercial banks by the degree of liquidity into two parts:

(1) Cash balances (initial reserves): These are the monetary assets held by the bank without earning any return and did not participate in bank investments, which contains five components: (1). Cash in the Fund (2). Balances with the Central Bank (3) Balances with other banks (4) Receivables (5) Balances with banks outside the country.

(2) Secondary reserves: These are assets that can be converted into cash when needed and consist of discounted trading securities. This type has benefits such as supporting initial reserves, achieving profits and providing seasonal liquidity to the bank (Aql, 2006).

Second: Financial Stability

Preface

Financial stability is one of the main tasks exercised by governments in order to create a balance in the economic conditions experienced by their countries. The role of the government in supporting financial and economic stability varies in two ways: direct and indirect. Banks or government projects, either indirectly through the regulations and legislation or through the official statements of the government, including statements made by state officials. The damage to the efforts of financial stability will necessarily harm the efforts of economic stability in general and monetary stability in particular, which represents the essence of the work of the Central Bank of Iraq and a basic goal of its objectives stipulated in the provisions of Law No. (56) of 2004 (Yang et al., 2019; Kord et al., 2017).

Financial Stability

In view of the adoption of the concept of financial stability to facilitate the process of financial intermediation system between the family sector and companies and the government through a group of institutions. Financial stability depends on creating a balanced financial instrument environment among its three main components (financial institutions, financial markets, and infrastructure) to achieve financial stability. Central banks play an important role in achieving financial stability at the state level by dealing with financial crises In addition to preparing the banks to prepare for the expected shocks by conducting many tests (notably the so-called stress tests) and demanding the preservation of a certain quality of assets, including the separation of financial disciplines.

Financial Instability

It refers to periods of severe turbulence in financial markets that weaken the system's ability to provide payment services, transfer risks, credit allocation, liquidity, and low real economic activity (www.alsharq.com/news/details/230129) The famous economist Fischer in 1933 referred to financial stability Where he emphasized two main factors that would cause financial instability (www.baytalhikm a.iq/News-Details. php? ID = 652): (1) over-investment, (2) Over-Speculation. Therefore, any problem that occurs in these two important factors may have devastating effects on other economic variables.

Financial Stability Relationship with Financial Inclusiveness

Because financial inclusion means the availability and use of all financial services to various groups of society through official channels including bank accounts and savings, payment and transfer services and insurance, finance and credit services to avoid resorting to some channels and informal means that are not subject to a minimum of supervision and supervision and the relatively high prices which leads to the abuse of the needs of these financial services and banking, and the increasing attention to it by central banks in recent times.

(Ismail, 2004). Addressing financial inclusion in improving financial conditions and raising the standard of living of the poor and serving the family and small businesses will contribute, through financial development, to supporting social and political stability and thus in turn to increase the stability of the financial system. It should be noted here that financial stability because of its relation to financial coverage, this is clearly shown in the diversification of assets and liabilities portfolios to enhance the distribution of risks and avoid concentration (Foley & Awadullah, 2003).

Precautionary Measures for Financial Stability

There are two types of precautionary measures for financial stability: (www.worldorg / en / publication / gender / background / Financial-Stability)

(1). Corporate-level measures: The company makes a clear comparison between risk-weighted (risk and capitalized) stocks and returns. The risk is measured at the individual enterprise level by the following equation:

$$Z = (K+\mu)/\sigma$$

Where Z: The Bank's solvency K: nominal capital as a percentage of assets, μ: return as a percentage of assets, σ: standard deviation of return.

4. CONCLUSIONS AND RECOMMENDATIONS

Deposits can be categorized according to their movements or behavior as effective and ineffective deposits where banks' management acts to lend to third parties and to meet withdrawals in the light of facilitated or ineffective deposits. In order for the Bank to meet its obligations towards its customers, it must maintain sufficient liquidity, whether monetary or cash-quick assets, as well as enable it to make investments that make it financially viable in order to achieve profits that will assist it in development and growth. Within the banking environment. The success of the banks' management in the process of finding sufficient liquidity from their basic components will make their financial stability and then the economic prosperity more generally at the country level. The risk factor at its high rates leads to the loss of the confidence of the bank's customers and vice versa when the risk rates decrease The Bank's customers are working hard to continue their transactions with him.

The financial stability of banks will not be achieved unless there is efficiency in the control infrastructure and financial markets as well as in the safety of financial institutions that are able to grow and qualify in preparation for expected shocks. There are two main factors that lead to financial instability: excessive investments, large speculation and thus their effects on other economic variables. Among the many benefits of financial stability, it is necessary for political and security, economic and monetary stability and the application of best banking practices. It is proved through many types of research that there is a link between financial inclusion and financial stability as they support each other. There are two types of precautionary measures for financial stability: the first type at the company level and the second at the level of the financial system.

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