Journal of Financial Management Strategy
Alzahra University
Vol. 12, No. 45, Summer 2024

pp. 5-6

Research Paper

Examining the Relationship between Diversification of Banking Resources and Expenses and Systemic Risk[1]

Yazdan Gudarzi Farahani[2], Zoleikha Morsali Arzanagh[3], Mohsen Mehrara[4]

Received: 2023/10/22 Accepted: 2024/05/07

INTRODUCTION

The banking industry holds a pivotal role in any economy, primarily through monetary intermediation. Alongside the stock market and insurance sectors, banks constitute the fundamental pillars of financial markets. Given the underdevelopment of Iran's capital market, the banking sector assumes even greater significance. Despite facing numerous changes in recent years, banks continue to facilitate the transfer of resources from savers to investment entities. Diversification stands out as a prevalent business strategy among banking institutions, enhancing resilience against shocks at an individual bank level. However, widespread adoption of diversification can lead to overlapping portfolios across banks, thereby increasing systemic risk during severe economic shocks. This unintended consequence underscores the need to examine the relationship between banking resource and expense diversification and systemic risk within the country's banking system.

MATERIALS AND METHODS

This study focuses on banks listed on the Tehran Stock Exchange as the statistical population. Systemic risk is estimated using the conditional value-at-risk criterion. Panel data and quantile regression techniques are employed to assess the impact of

1. 10.22051/JFM.2024.45357.2874

2. Assistant Professor, Department of Islamic Economics, Faculty of Economic and Administrative Sciences, Qom University, Qom, Iran. Email: y.gudarzi@qom.ac.ir.

3. Lecturer, Department of Management and Accounting, Karaj Branch, Islamic Azad University, Karaj, Iran. Email: zmorsali93@gmail.com.

4. Professor, Faculty of Economics, Tehran University, Tehran, Iran. Email: m.mehrara@ut.ac.ir.

banking resource and expense diversification on systemic risk among selected banks in Iran from 2010 to 2022.

RESULTS AND DISCUSSION

The research findings indicate that diversifying banking resources and expenses increases interdependence among financial institutions and diversifies financial asset combinations, thereby amplifying systemic risk and its propagation across institutions. In the panel data regression model, the coefficient of influence of the bank resource diversification index on systemic risk is 1.45, and in quantile regression, it is 1.33. Moreover, quantile regression results highlight varying effects of resource and expense diversification indices across different banking groups concerning systemic risk levels. The prevalence of high systemic risk in Iran suggests an excessive systemic risk in financial activities, indicating a potential necessity for enhanced regulatory oversight.

CONCLUSION

The study underscores a significant relationship between the bank income mix diversification index and systemic risk. Non-current facility of the banking system emerges as a critical variable influencing systemic risk within the banking network. Thus, it is recommended to align bank facilities with economic growth performance, inflation rates, and liquidity expansion while prioritizing support for the real sector of the economy.

Keywords: Diversification, Systemic Risk, Banking System, Conditional Value at Risk, Panel Data.

JEL Classification: E63, G32, G21, C23.