The Effect of Bank Survival Factor on Banking Cost Efficiency in Iranian Banks

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Abstract:
Humans being always search the best possible outcomes from the available facilities, reflecting the human gols to achieve higher efficiency. Efficiency can be defined such as maximizing the yield and the right use of resources.

Banks, as the core of the financial system, play a key role in providing the funds for manufacturing, commercial and consumer sectors, and even the government. The emergence of banking crises in recent decades in industrialized countries, and especially in developing countries, for reasons such as deposit volatility, rising bank non-performing loans, economic recession and so on, has disrupted financial market regulation and caused many banks to go bankrupt.

Various studies show that the probability of survival varies significantly across the businesses in each industry. Many new businesses go bankrupt each year and their economic and social results reveal the need to study the variables that affect their survival. The exit of any business has led to capital outflows and can greatly hurt economic growth. The existence of every living and active enterprise, like all organizations, requires an effort to improve its status and sustainability.

Banks today, especially in advanced countries, act as guidance, professional advisers, specialists in financing companies and collecting and exchanging information needed for their clients, as well as act as an economic driving engine. This has created a tight competitive environment between them.

As the business environment and banks become more competitive, inefficient banks continue to operate and survive, and only highly efficiency banks can survive in the competitive environment.

In Iran, because the financial system of the country is bank-based and the banking sector has a larger volume of the economy than the capital

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market, so it is important to evaluate the efficiency of Iranian banks, especially the cost efficiency.

The purpose of this study is to investigate the effect of factors influencing survival on the cost effectiveness of Iranian banks. For this purpose, first by studying the theoretical foundations and statistical models, the key variables that can influence the survival of banks were identified and finally their impact on banks' cost efficiency was investigated.

For this purpose, based on the CAMEL model and Logit regression technique, key and significant variables are identified on the survival of the studied banks and then their cost-effectiveness is estimated through translog function and stochastic frontier analysis (SFA) technique. Finally, the relationship between the variables affecting survival and the cost effectiveness of banks is tested.

The results show that improving capital adequacy increases the efficiency of banks. Capital adequacy can have a positive effect on bank cost efficiency by reducing uncertainty. Investigating the effect of Non-performing loans on bank efficiency shows that negative effect of Non-performing loans on bank efficiency is significant. This result shows that the growth of banks' non-performing loans reduces the efficiency of banks. Statistical results indicate that the liquidity coefficient is not significant on banks' cost efficiency model. The results also show that the type of ownership has a significant and negative effect on banks' cost efficiency. In other words, the state-owned banks had a negative effect on the cost efficiency of the Iranian banks.

At last, the results of this study show that the growth of Non-performing loans and the reduction of capital adequacy and state ownership decrease the efficiency of Iranian banks. Policy makers for losing the banking crisis should therefore pursue policies aimed at increasing the survival of banks and reduce the growth of Non-performing loans and increase the capital adequacy ratio and move towards reducing government ownership in the banking system.

JEL classification**:** C22, C23, G21

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