

Preface

The concept of financial globalization refers to the increasing interdependence of financial markets across national economies through a significant increase in transnational movement of financial instruments, services, capital, and information. Within the globalizing world economy, a country's financial system is attached to the globalization process of financial institutions which have been contributing to global financial integration. The latest turmoil in the global financial system has once more demonstrated that the impact of globalization is associated with risk and vulnerability. The process of globalization on financial markets relies on the economic integration across national economies; whereas, international trade, banking, and supported financial systems are the pillars of successful integration.

The process of globalization on international institutions and financial systems is facilitated by the dissemination of investment opportunities and the elimination of boundaries for capital movements. Global financial crisis demonstrated that globalization of the financial system has posed both opportunities and threats bearing some risks for advanced and emerging economies simultaneously.

The subprime mortgage crisis which started in the USA affected international capital movements and portfolio investments across the globe. Financial risk in capital markets were globalized while financial stress in advanced economies spread into emerging economies. Consequently, international financial institutions briefly experienced liquidity issues in financial markets. The 2008–2009 financial crisis had many impacts on global economic activity within the structure of the globalized financial system. In developed and emerging economies, economic stimulus packages, which exceeded \$7 trillion, were aimed at stabilizing the world economy via rescuing large industries. However, the progress of economic recovery has been stalling, which is affecting global economic activity.

The main purpose of this book is to discuss the related issues of globalization and the financial system from an interdisciplinary perspective. The unique approach of this publication brings together the globalization of financial institutions, innovative solutions for risk assessment, and models as well as reflective behavioral approaches simultaneously.

The authors of the chapters in this publication have accepted inclusion of their respective manuscripts. This book, consisting of 19 chapters, is divided into four Parts: *Globalization and Financial Crisis*, *International Trade and Banking*,

Financial Innovations and Regulations, and Behavioral Finance and Risk Assessment.

In the first part, the contributors have also accepted a challenge for developing ideas for introducing the globalization process on the financial system.

In the second part, the authors discussed the pertinent issues related to the effects of globalization on international trade and banking.

In the third part, an innovative approach to financial competitiveness and risk management in capital markets has been developed through assessing ideas of improving service quality and implications of innovation strategies on financial institutions.

Consequently, in the last part of this book, the authors formulated a unique approach by developing distinguishing solutions to behavioral issues in finance and risk management.

Chapter 1 focuses on the role of state in a globalizing world economy. In this chapter, it has been aimed to assess the transformation process within the framework of globalization in terms of the responsibilities by the state in economy. This study, which provides a theoretical framework, discusses the roles the globalizing economy assigns to the state and how the state changes the governing and financing tools. In this study, the role of the state in the transformation process has been analyzed.

Chapter 2 focuses on financial globalization and the effects of monetary policy. The aim is to discuss the impact of globalization and monetary policy on different markets and parts of the economy. In the first part of the paper, the main instruments of monetary policy are explained. The question of how global factors will become an important part of domestic nations will be one of the main focuses in this part. Also, the role of central banks and their policies on developed countries is another issue that will be put forth. In the second part, the main focus will be on the volatility of the foreign exchange rate. Moreover, the 2008 financial crisis will be analyzed in perspective of Euro area countries. Finally, the main arguments for recovery from the financial crisis are another issue that will be discussed.

Chapter 3 evaluates the second recession and its impact on the US Economy and Global economic activity. This chapter advocates that the global economy has not yet fully recovered from the financial crisis of December 2007 and that second recession known as the *double dip* recession has affected the world economy. This chapter examines the major factors responsible for the emerging trends and its impact on the US economy in particular and the global economy in general.

Chapter 4 shows the impact of globalization on Sub-Saharan Africa (SSA). This chapter also examines the connection between the process of globalization and SSA with emphasis placed on its impact on growth and poverty reduction in relation to other regions. Within a theoretical framework, the existing literatures on the implications of globalization on economic growth and poverty were reviewed. This chapter argues that SSA has not fared so well in spite of the high integration of its member countries. This chapter suggests that SSA economies should try to maximize the benefits of globalization by adopting and developing strong production bases that are predicated on value-added products, export

structures diversification, development of manufactured export capacity, and the political-will to implement these policies among others.

Chapter 5 is based on the claim that there is a strong relationship between the process of globalization and the transmission of financial risk. The 2008–2009 financial crisis which began in the USA was one of the greatest economic crisis in history. Although the crisis started in 2007 in advanced economies, its effects still linger and no one can foresee the end of crisis. This chapter aims to illustrate the linkage between the globalizing process of the financial system and the roots of the global economic crisis. This chapter evaluates the roots of the global economic crisis and illustrates that liquidity redundancy, credit defaults, securitization, the lack of transparency; the poor evaluations of rating agencies and weak supervisory entities were some causes of the global economic recession.

Chapter 6 develops a historical overview on the issue of political instability for Turkish banking system. This chapter discusses changes in the structure of the economy, financial system, and banking sector since the Ottoman Empire up until today's modern Turkey. This chapter provides the reader with an overview of the political instability, financial crises experienced in the country, and what has changed in the banking sector over the past 700 years.

Chapter 7 demonstrates the impact of augmented FDI on the performances of Turkish Banks. This chapter investigates the relationship between foreign investment and bank productivity in Turkey from 1992 to 2010 by examining and dissecting the DEA Malmquist index scores of 17 commercial banks. Four questions are posited at the center of this study: What are the productivity scores of foreign invested private commercial banks? How was it affected by increased FDI? Did foreign investors target more productive and profitable banks to invest in? What are the most important components of productivity growth: technical progress, efficiency gains, better management, or the realization of scale economies? In this chapter, major results of this study include (i) productivity scores of foreign invested banks are higher than domestic banks before the time of foreign investment, (ii) the most significant factor on the total factor productivity change (TFPC) is the technological change (TC) and bank-specific factors are important, and finally (iii) no significant relationship found between FDI and the Malmquist components.

Chapter 8 analyzes the role of financial determinants on the bank profits in the Turkish Banking Sector. A comparative analysis has been conducted to predict the bank profits using Support Vector Regression (SVR) and Linear Regression (LR) models. The results illustrate that *Net Interest Income After Specific Provisions / Total Operating Income*, *Non-Interest Income / Non-Interest Expense*, *Provision For Loan or Other Receivables Losses / Total Assets* predictors have the most relative importance on SVR while *Non-Interest Income / Non-Interest Expense*, *Provision For Loan or Other Receivables Losses / Total Assets* predictors have it on LR. On the datasets containing these predictors, performances of SVR and LR models were compared based on Root Mean Square Error (RMSE) and Mean Absolute Error (MAE) metrics. The findings present that SVR predicts the level of bank profits better than classical LR model based on both metrics.

Chapter 9 underlines the importance of calculating Turkey's trade potential in the OIC Market through the Estimator Selection Process. This chapter argues that computing the actual trade potential can not only account for the dynamic change in trade orientation of the country but also presents a guideline for policy makers and firms. This chapter describes a gravity model estimated by multiple alternative estimators to assure the econometric credibility. This chapter focuses on (i) choosing the most adequate estimator possible for the case through an estimator selection process, (ii) computing the trade potential of Turkey in the OIC market, and (iii) revealing to what extent the trade potential has been actualized up to now.

Chapter 10 discusses the evolution of the European Union as a trade bloc. This chapter shows the role of the European Union as an enormous power in world trade and argues that the huge size of its market, its experience in negotiating international trade agreements, the creation of the single market and the creation of the single currency-Euro have turned the European Union into one of the most important trade blocs in the world. This chapter examines the historical development and evolution of the European Union as a trade bloc. First the concept of trade bloc and regional economic integration are examined. In this study, the establishment of the Single Market and European Monetary Union has been evaluated. Finally the impacts of the Euro on the Single Market, the current and future strategies for the Single Market have been discussed.

Chapter 11 builds on the application of Lean Six Sigma methodology in design and improvement of financial services. This chapter builds on the insights of practitioners regarding the relationship between competitiveness and the improvement of financial services based on Lean Six Sigma methodology. This chapter underlines that Six Sigma is not only applicable to manufacturing but also to the services sector. With growing competition in the financial services sector, Six Sigma principles can be used to cut costs, increase efficiency and thereby help companies to stay afloat in the global economy. This chapter outlines how Lean Six Sigma principles can be used to continuously improve service operations with special emphasis on financial institutions such as Banks, Insurance Companies, Individual Pension Systems, Brokerage Firms and others. A demonstrative case is also provided on how the principles can be applied in the context of a Pension Company.

Chapter 12 is based on the pros and cons of financial innovation. This chapter gives an overview of how financial innovation has been one of the most influential factors in shaping today's financial system and the world economy. It starts with a brief review of financial innovative literature and addresses the determinants of financial innovation. The next section examines the current debate regarding financial innovation and concludes with a discussion for the future of these new financial products and processes.

Chapter 13 addresses the impacts of information technologies on financial institutions. This chapter illustrates the tools facilitating the Exchange of goods and services between economic units and information technological systems comprising of an institutional and organizational roof, operative processes and communication networks that are important for the effective functioning of the

financial system and economy. This chapter aims to analyze the role of information technology and its impacts on the performance of financial institutions. As a conclusion, in this research, it has been revealed that the primary target of financial institutions, using information technology at various levels is to ensure the most appropriate data flow within the institution by these technologies, ensuring interdepartmental information exchange and coordination, swift and cheap access to information, following up on innovations, and ensuring communications with service sectors.

Chapter 14 includes information about the development of the regulatory framework of securities market supervision, Post-GFC. The objective of this chapter is to analyze changes in securities market supervision and regulation by investigating the impacts of the 2008 global financial crisis (GFC) on the conceptual framework of securities market supervision (SMS). First, this chapter identifies the theoretical framework of the SMS prior to the GFC. Next this chapter observes some key developments of SMS post-GFC. Finally, this chapter concludes that the philosophy of the SMS has experienced substantial evolution post-GFC. Accordingly, a new conceptual framework of market supervision is recommended. The twin-peak model is identified as the preferred model due to a wider view of systemic risk mitigation.

Chapter 15 explores the impact of globalization on bank guarantees. The author discusses the changing role of the *Letter of Guarantee* in banking industry. In this chapter, it has been shown that traditional guarantees such as mortgaging or accessory guarantor could not reduce the risk in the international trade and might put the business life in danger. This chapter evaluates the effect of financial globalization on attempts for unification of the rules on bank guarantees. *United Nations (UN) Convention on Independent Guarantees and Standby Letters of Credit* and *URGR "Uniform Rules regarding the Guarantees at Request"* has been criticized in this chapter.

Chapter 16 discusses and examines the financial distress and health from a behavioral approach. The purpose of this chapter is to explore the relationship between financial distress and health and financial behaviors among families in Ankara, controlling for socioeconomic characteristics, financial discussion with parents, negative financial events, and risk tolerance. The major findings of this study illustrated significant differences in financial distress levels by socioeconomic factors and financial behaviors. In addition, regression analysis showed that saving and self-reported health status was significantly related to financial distress when taking into account other factors.

Chapter 17 focuses on psychological factors affecting stock prices and related theories. The author of this chapter argues that globalization and the pervasiveness of Internet usage enabled investors to move their funds from market-to-market. This reality leads to a more diverse universe for investors and in order to better understand their varying rationales, it is essential to take factors influencing their decision making process into account. Behavioral finance explains some of these factors and this chapter examines and discusses some of the most important factors and theories affecting investor behavior in the literature.

Chapter 18 takes a contrary view of a board's involvement in risk management practices. This chapter bridges the gap between theory and practice of risk management in banks incorporated in Saudi Arabia. The main objective of this study is to investigate the risk management process by assessing the level of involvement of boards in risk management practices (RMPs). This study illustrates practical implications for boards in banks incorporated in Saudi Arabia by explaining the adoption of certain risk management strategies, and helping them understand how risk management behavior can maximize operating performance. In addition, it would help regulators and policy makers to develop a coherent and acceptable set of risk management tools and techniques.

Chapter 19 demonstrates the role of leadership and innovative strategies in the banking industry. This chapter focuses on the importance of leadership and developing competitive innovative strategies in the banking sector during the 2008–2009 financial crisis. This chapter illustrates the linkage between leadership and developing effective competitive strategies in the financial system. The most important issue for institutions in the financial system is to achieve a competitive advantage in a turbulent environment. In this chapter, leadership and innovative strategies in banking are closely connected to the success and sustainability in a competitive environment.

The roots of the 2008–2009 financial crisis and its reflections on capital markets were prior to previous studies in literature. However, the fluctuating nature of the capital markets pertaining to financial globalization has not been sufficiently connected to behavioral issues in finance yet. Therefore, it is important to develop an innovative and behavioral approach to issues in globalization of financial institutions. In this regard, the impact of financial globalization and crisis on investors' perceptions and institutional competitiveness has been assessed from an interdisciplinary perspective. The authors of these chapters in this book developed models for innovative solutions to issues in finance and banking by assessing critical case studies. Finally, this book includes colleagues and professionals from multicultural communities across the globe to design and implement innovative practices for the entire global society of banking and finance.

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