

grade bonds. These findings have to be taken into consideration for a reliable risk management.

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COMPARATIVE PREDICTABILITY OF FAILURE OF FINANCIAL INSTITUTIONS USING MULTIPLE MODELS

The impact of failure of financial institutions is beyond just the failure of a public corporation. The failure of financial institutions in the USA, is a clear evidence that the greater macro impact is beyond just the failure of few financial institutions. It can bring down the entire economy and can have global devastating impact. By realizing the grave systemic risk of the failure, US government is forced to intervene and bail out many institutions for greater macro-economic reasons. It raises the view that perhaps the current regulating policies and methods are lacking efficiency in predicting the possibility of failure ahead of time and hence not effective in preventing that to happen. In this research we apply several existing methods of institutional failure and test the signaling ability of each method in predicting the bankruptcy well ahead of time.

The objective is to investigate four different sets of variables that have been employed including, by two rating agencies, Moody (10 accounting ratios) and Standard and Poor (8 accounting ratios), one by Altman (4 accounting ratios for non-manufacturing firms) and the one proposed by – Vaziri (17 accounting ratios). More than 200 banks over the period of 2000 to 2010 are considered in this study. Several methodologies including discriminant and logistic analyses are applied on each set of variables to develop four models one corresponding to each set. The models are then used to perform the in-sample and out-sample prediction of bank financial distress or failure. The attempt will be made to check which model will provide a higher accuracy of prediction and earlier warning to the potential banking crisis.

Ten defaulted banks have been selected for the construction of three stress testing models (Moody's System, S&P System, and Vaziri's Model) with the further statistic analysis of the testing. We apply Moody's financial ratios, Standard and Poor's financial ratio, vaziri's financial ratio, Altman's Z score and then applying logit model and discriminant analysis, we test each of these model's predictive ability for future use.

We chose 4 following methodologies to investigate financial distress and bankruptcy which are Moody's, Standard and Poor's, Vaziri's and Z-score Model. They will be a guideline in analyzing financial ratios of select Thai banks to detect failure potential.

We analyze the reasons like changes in market, policy, economy, and political influence which have led to bankruptcy. Banks or financial institutions from Europe, United States and Asia are considered as samples. Samples are taken from same period to analyze the effect of different methods. The results from this analysis should help us find the most significant method that could be used to identify the risk, so that necessary action could be taken to prevent the effect or reject the project which could lead to bankruptcy in the future. This research would also offer policy recommendations for regulating agencies as to which factors should be analyzed deeply and how to implement a preventive measure ahead of any potential problems.

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EUROPEAN BANKING EFFICIENCY: A PANEL COST FRONTIER APPROACH

In this paper we test banking efficiency across European Union countries in the wake of the recent crisis.

We opt to use the intermediation approach and taking into account the specific character of the bank production activities and the available data, we define a cost frontier function considering three outputs (total loans, total securities and other earning assets) and the prices of three inputs (borrowed funds, physical capital and labour). Our data are taken from the Bankscope database, which is recognised as one of the best sources, since it includes data for all EU countries and guarantees standardisation and comparability, providing data on banks accounting for around 90 % of total assets.

We compare the results obtained for different samples of European Union countries: all European Union members (EU-27), the “old” members (EU-15) and those that joined the Union during the last decade (EU-12) for the time period 1994–2008 and for the years after the introduction of the single currency (2000–2008).

For all panels, our estimations point to the dominance of the borrowed funds to explain the evolution of the total cost and the relatively low weight of the other two inputs (physical capital and labour), which reveal a mixed and unclear influence on the cost. This confirms the intermediation approach and the very specific characteristics of the banks' production process, since it