RISK GOVERNANCE & CONTROL: Financial markets and institutions

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In this article author investigates the causal relationship between the life insurance sector, financial development and economic growth in South Africa for the period 1990 to 2012. Researcher makes use of life insurance density as the proxy for life insurance development, real per capita growth domestic product as the proxy for economic growth and real broad money per capita as the proxy for financial development. Author tests for cointegration amongst the variables by applying the Johansen procedure and then proceed to test for Granger causality based on the vector error correction model (VECM). The results confirm the existence of at least one cointegrating relationship amongst the variables. The results indicate that the direction of causality runs from the economy to the life insurance sector which is consistent with the "demand-following" insurance-growth hypothesis. There is also evidence of causality running from the economy to financial development which is consistent with the "demand following" finance-growth hypothesis.

This paper investigates the geography of piracy and the common socio-economic circumstances that underlie the causes of piracy based in Somalia. The international law on piracy is briefly explained and the legal uncertainties mentioned. Statistics of piracy are provided and major incidents related. The main security measures taken are listed, costs to the shipping industry quoted and the economic consequences for international trade outlined. The paper concludes with a discussion of the long term solutions in Somalia, including three goals: restoring central authority in the country, creating a stable and safe social environment and re-establishing formal economic and financial systems.

The paper investigates stress test for risk assessment under Basel framework applied in banking industry.

This study attempts to determine whether this mispricing of financial derivatives is present in the South African derivatives market. This will be achieved through the valuation of options on single stock futures using the put-call parity relationship. The theoretical fair values obtained, is compared to the actual market values over a period of three years, that is, from 2009 to 2011. The results show that arbitrage opportunities do present themselves for the chosen shares. Further research may involve more shares over a longer period to determine whether any pattern may exist which may form the basis of an arbitrage trading strategy.

The study investigates if there is a causality relationship between banking sector development and FDI inflows in Botswana. Though quite a number of authors have written on the subject, there appears to be no consensus on the directional causality between banking sector development and FDI inflows into the host country. At the moment, three dominant perspectives exist regarding the relationship between banking sector development and FDI inflows into the host country. The first perspective says that banking sector development attracts FDI inflows into the host country. The second perspective suggests that there is a positive feedback effect between banking sector development and FDI inflows whilst the third perspective maintains that there is no direct causality relationship between the two variables. The results from this study are consistent with the third perspective that says there is no direct causality relationship between banking sector development and FDI net inflows. This confirms that the long run relationship between banking sector development and FDI net inflows is an indirect one and the two set of variables affect each other indirectly through other factors in Botswana.

This paper aimed at identifying the leading credit risk indicators in the South African banking context as well as the development of an integrated leading credit risk indicator model. A content analysis was used as a data extraction methodology and structural equation modelling was used as a data analysis methodology. The results obtained indicated that utilising the structural equation modelling, gross savings, and prime overdraft rates, number of judgements, business insolvencies and unemployment rates were formulated as leading economic and market (external) indicators of credit risk in the South African banking context. Similarly, utilising the principal component analysis, bank asset quality, bank asset concentration as well as bank trading and hedging activities were formulated as leading bank specific (internal) indicators of credit risk in the South African banking context. The Integrated Leading Credit Risk Indicator Model (ICRIM) was formulated utilising the accepted leading credit risk indicators. The ICRIM parameters were benchmarked against the generally accepted fit indices such as the RMSEA, comparative fit (baseline comparison) as well as the Hoelter and its results output were found to be consistent with these generally accepted fit indices.