

BANK

RESEARCH AND ANALYSIS REPORT OF THE EXHIBITION OF FINANCIAL INDUSTRY, BANK & BANKING



IN THE NAME OF GOD

Research and analytical report of the financial industry exhibition (Bank)

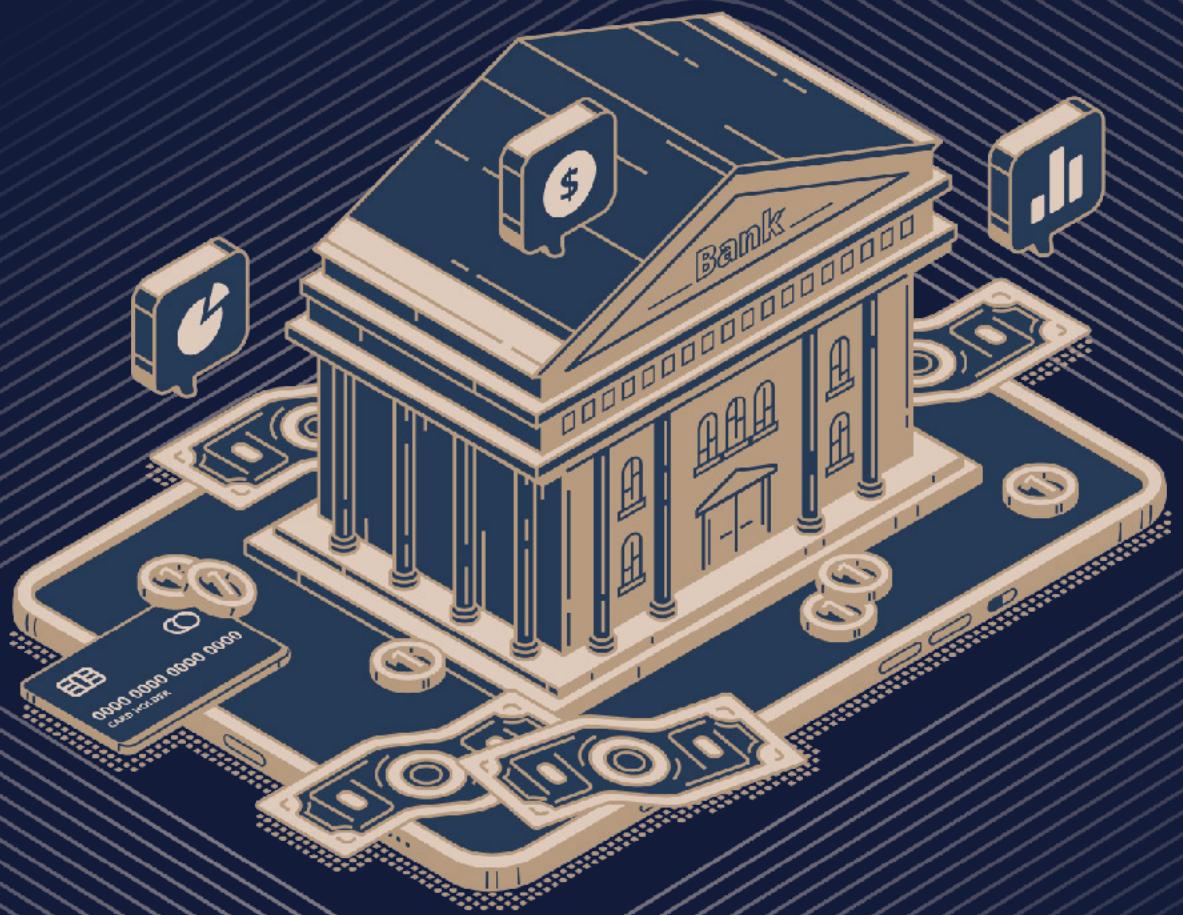
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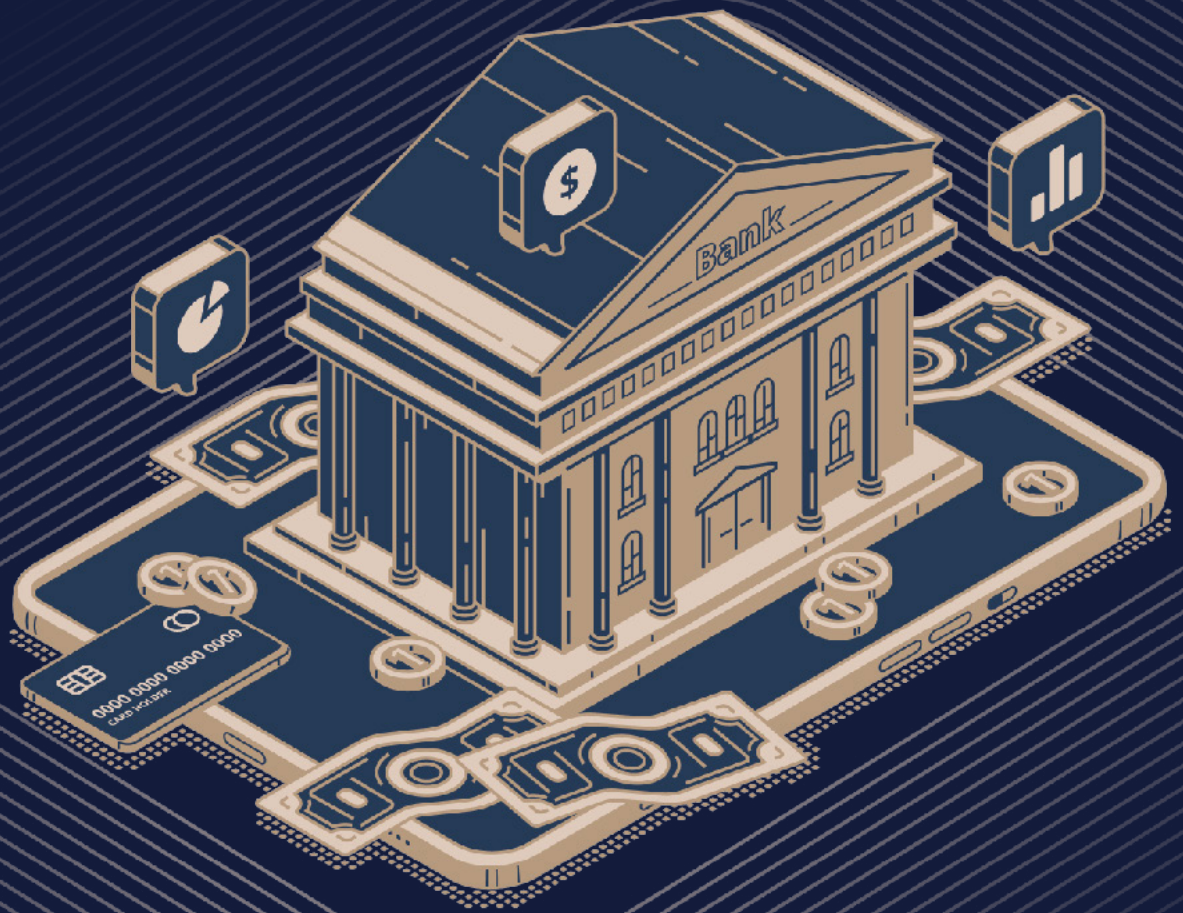
BANKING ECOSYSTEM AND THE BANKING INDUSTRY

BANKING ECOSYSTEM AND THE BANKING INDUSTRY

The banking industry serves as a fundamental pillar of the global economy, playing a crucial role in facilitating economic, commercial, and social activities. Banks operate not only as financial institutions but also as entities that provide public trust and ensure economic stability. The banking ecosystem refers to the network of institutions, individuals, technologies, regulations, and interactions that work together to form a dynamic and efficient financial system. This ecosystem includes commercial banks, central banks, non-bank financial institutions, financial technology companies (FinTech), regulatory bodies, and customers. The industry impacts economic growth and sustainable development both directly and indirectly by offering financial and credit services, facilitating transactions, managing financial risks, and providing capital for various projects.

As one of the most complex and vital components of the global economy, the banking and financial ecosystem provides a wide range of services through the interplay and synergy of various entities. This ecosystem faces numerous challenges and opportunities, ranging from technological changes and regulatory shifts to intense competition and economic fluctuations. Leveraging innovative opportunities and expanding into new markets can help strengthen and sustain this ecosystem, enhancing the role of banks in the economic and social development of societies.

Banking is a key element of any economy, playing a critical role in economic development and sustainability. Banks and financial institutions act as financial intermediaries, transferring funds from depositors to borrowers. This process not only helps finance projects and businesses but also facilitates liquidity flow and improves payment systems.

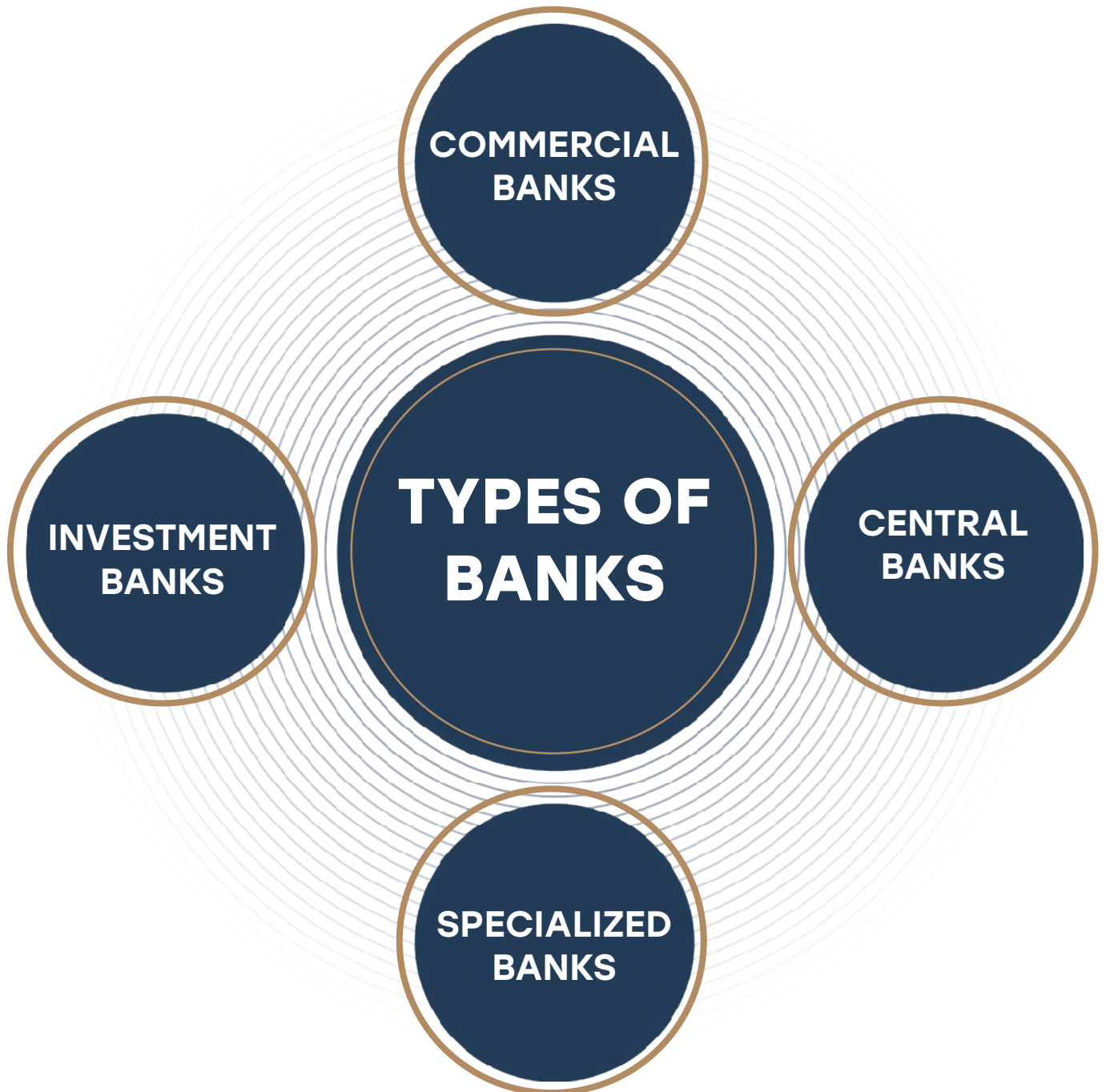


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TYPES OF BANKS

TYPES OF BANKS

Banks are categorized into different types, each serving specific functions and roles in the economy:



Commercial banks are the primary type of banks that offer a wide range of services, including accepting deposits, providing loans, and managing current and savings accounts. They serve both individual customers and businesses.

Commercial banks are institutions established to provide financial and credit services to clients, including individuals and corporations. These banks play a crucial role in the economy by collecting deposits and granting loans, thereby facilitating financial and economic circulation.

► Functions and Services of Commercial Banks

1 Deposits Collection

- o Current Accounts: These accounts allow customers to withdraw their money frequently and without restriction.
- o Savings Accounts: These accounts are for individuals who want to save their money and earn interest.
- o Fixed Deposit Accounts: These accounts allow customers to deposit money for a specific period in exchange for higher interest rates.

2 Loans and Advances

- o Short-term and Long-term Loans: Commercial banks provide loans for various needs, such as purchasing homes, investing, and business expansion.
- o Overdraft Facilities: Banks allow customers to withdraw more money than they have in their accounts, up to an agreed limit.

3 Foreign Exchange Services

- o Commercial banks offer services related to currency exchange, issuing traveler's checks, and conducting international transactions.

4 Payment Services

- o Checks and Transfers: Commercial banks enable customers to use checks and bank transfers.
- o Credit and Debit Cards: Issuing credit and debit cards for electronic purchases and payments.

5 Liquidity Management

- o Commercial banks assist companies and organizations in effectively managing their liquidity, including corporate current accounts and payroll services.

► Importance of Commercial Banks in the Economy

1

Facilitating Money Flow

Commercial banks contribute to the flow of money and capital in the economy by collecting deposits and providing loans.

2

Supporting Businesses

These banks help support economic development and growth by offering loans and credits to businesses.

3

Increasing Economic Productivity

By facilitating access to financial resources, commercial banks play a significant role in enhancing economic productivity.

4

Creating Employment Opportunities

By facilitating the establishment and growth of businesses, commercial banks help create job opportunities.

Commercial banks are vital to the economy of any country. By providing a variety of financial and credit services, they assist in the circulation of money, business development, and economic growth. Their ability to attract deposits and extend loans makes them one of the most fundamental financial institutions in any economy.

INVESTMENT BANKS

Investment banks focus on activities related to financial markets and investments. They provide services such as securities issuance, financial advisory, and asset management. Investment banks play a crucial role in financing corporations and governments. These financial institutions offer a range of services in financial and advisory sectors. Unlike commercial banks, which provide traditional banking services such as deposit-taking, lending, and account management, investment banks concentrate on corporate financing, financial advisory, and asset management. The following provides a comprehensive overview of the services and roles of investment banks:

► Financial and Strategic Advisory

Investment banks offer advisory services to companies and organizations on strategic and financial decisions. This includes advice on mergers and acquisitions (M&A), financial restructuring, and major investment decisions.

► Corporate Financing

Investment banks assist companies in raising capital through the issuance of securities (such as stocks and bonds). They act as intermediaries between issuers and investors and assume the risks associated with the market.

► Asset Management

Investment banks also engage in managing clients' assets. This includes overseeing large investments, managing investment portfolios, and providing advisory services to enhance investment returns.

► Trading and Market Making

These banks are involved in trading securities, currencies, commodities, and other financial instruments in financial markets. They also engage in market making, which involves buying and selling securities continuously to maintain market liquidity.

► Financial Research and Analysis

Investment banks provide financial analysis and market research to help clients make more informed investment decisions. This research typically includes analyses of companies, industries, and macroeconomic conditions.

► Wealth Management Services

Some investment banks offer wealth management services to high net worth individuals. This includes personal financial planning, investment advisory, and fiduciary services.



► Advantages of Investment Banks

- Access to Large Capital Resources: These banks have the ability to attract and aggregate substantial amounts of capital.
- Specialized Expertise: Professional teams and experienced experts work in these banks.
- Extensive Network: Investment banks have extensive networks that provide clients with access to various opportunities.



► Challenges and Risks for Investment Banks

- Market Risk: Rapid changes in financial markets can negatively impact these banks' activities.
- Credit Risk: Clients may fail to meet their financial obligations.
- Operational Risk: Systemic, legal, or personnel errors can pose significant challenges.

Investment banks play a critical role in global financial markets, and their capabilities in risk management and strategic advisory can significantly contribute to economic growth and development.

Central banks play a crucial role as the overseers and regulators of the banking system in each country. They are responsible for implementing monetary policies, controlling interest rates, and maintaining financial stability. Additionally, central banks act as the lender of last resort to commercial banks. The following outlines the roles and responsibilities of central banks in detail:

► Monetary Policies

Central banks are responsible for implementing monetary policies, which involve regulating interest rates and controlling the money supply. These policies are used to manage inflation, stabilize the national currency, and promote economic growth.

- **Interest Rates:** Central banks can influence lending and borrowing by adjusting interest rates. Increasing interest rates can reduce borrowing and consumption, thereby lowering inflation. Conversely, decreasing interest rates can stimulate the economy by increasing consumption and investment.
- **Open Market Operations:** The central bank buys and sells government securities to control the money supply and interest rates.

► Financial Stability

Central banks are tasked with ensuring the stability of the financial system. This is achieved through the supervision and regulation of financial institutions and banks.

- **Bank Supervision:** Central banks closely monitor the performance of banks to ensure compliance with regulations and to mitigate systemic risks.
- **Prudential Regulations:** These include capital and liquidity requirements for banks designed to reduce financial risks and ensure banks can handle financial shocks.

► Lender of Last Resort

Central banks act as the lender of last resort during financial crises, providing financial assistance to banks and financial institutions to prevent their failure and maintain financial stability.

- **Liquidity Facilities:** The central bank can offer emergency liquidity to banks facing temporary difficulties.

► **Exchange Rate Management**

Some central banks manage the exchange rate to prevent extreme fluctuations and maintain economic stability. This can involve intervening in the foreign exchange market to buy or sell foreign currencies.

► **Currency Issuance**

Central banks are responsible for issuing the national currency. They print and distribute physical money (coins and banknotes) and manage the distribution of cash within the economy.

► **Foreign Exchange Reserves**

Central banks manage the country's foreign exchange reserves, which can include gold and foreign currencies. These reserves are used to support the national currency and manage international obligations.

► **Government Services**

Central banks provide financial services to governments, including managing government accounts, assisting in tax collection, and handling government debt.

► **Economic Research and Statistics**

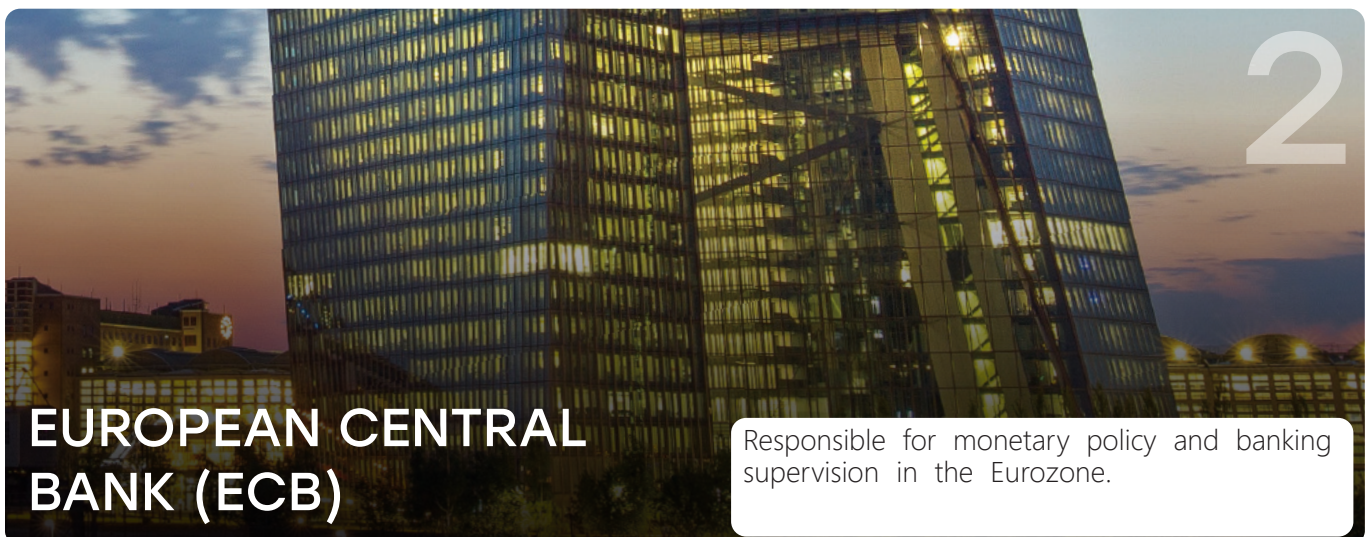
Central banks conduct extensive research and statistical activities to provide accurate information and in-depth analysis for policy decisions.

► **Payment and Settlement Systems**

Central banks play a critical role in regulating and overseeing payment and settlement systems to ensure that financial transactions are conducted securely and efficiently.

Central banks are pivotal in maintaining economic stability and supporting the overall financial system. Their responsibilities encompass a broad range of functions, all of which are essential for the effective functioning of both national and global economies.

► Examples of Prominent Central Banks Around the World





BANK OF JAPAN

Responsible for monetary policy and banking regulation in Japan.



PEOPLE'S BANK OF CHINA

The central bank of China, playing a crucial role in formulating monetary and financial policies in the country.

Central banks are vital institutions in the financial and economic systems of their respective countries. They play a key role in maintaining and strengthening national and global economies by implementing monetary policies, supervising and regulating financial institutions, and ensuring financial stability.

SPECIALIZED BANKS

Specialized banks are financial institutions that focus on specific areas of economic activity or particular customer needs. Unlike commercial banks, which offer a wide range of financial services to all types of customers, specialized banks provide more targeted, but limited services. These banks play a significant role in strengthening various economic sectors and addressing specific customer needs. Below are some of the main types of specialized banks and their roles in the banking ecosystem:

► Types of Specialized Banks

Development Banks ◀

o National Development Banks: Established to support national development projects and infrastructure. For example, an agricultural development bank provides loans and credits for agricultural and rural projects.

o International Development Banks: These banks assist in the economic development of different countries. Examples include the World Bank and the Asian Development Bank (ADB).

Investment Banks ◀

o These banks provide financial services related to investment, including financial advisory, project financing, and issuing securities. Examples include Goldman Sachs and JPMorgan.

Housing Banks ◀

o These banks focus on financing housing projects and providing mortgage loans to individuals and businesses. For example, the Housing Bank in Iran is a prominent example of this type of bank.

Agricultural Banks: ◀

o These banks provide financing for agricultural projects, offer loans to farmers, and support rural development. The Agricultural Bank of Iran is one such example.

Islamic Banks

- o These banks provide financial services in accordance with Islamic Sharia principles. For instance, Islamic banks avoid interest-based transactions and operate based on profit and loss sharing.

Specialized Commercial Banks

- o These banks provide financing and services to specific sectors of industry or businesses, such as technology, energy, or automotive sectors.

Role of Specialized Banks in the Banking Ecosystem

1. Expertise and In-Depth Knowledge

- o Specialized banks have deep expertise in their specific areas of focus, allowing them to better understand and address the unique needs of their clients.

2. Financing Specialized Projects:

- o They can provide necessary financial resources for large and specialized projects that commercial banks might not be willing or able to finance.

3. Facilitating Economic Development:

- o Development and agricultural banks play a crucial role in supporting economic development through loans and credits for development and rural projects.

4. Providing Long-Term Capital:

- o Investment and development banks can supply long-term capital required for significant and infrastructure projects, contributing to sustainable economic growth.

5. Supporting Innovation and Technology:

- o Specialized banks in the technology sector can support startups and innovative companies by providing financial resources for research and development.

6. Sustainability and Social Responsibility:

- o Islamic banks and other institutions that adhere to ethical and social responsibility principles can have positive social and environmental impacts.

Specialized banks, by focusing on specific needs and sectors, play a vital and indispensable role in the banking and economic ecosystem. They contribute to achieving economic and social goals by providing tailored financial services, facilitating economic development, and supporting significant and specialized projects. Through their expertise and in-depth knowledge, these banks act as engines of development and innovation.

CORPORATE BANKING & INVESTMENT

While microbanking focuses on providing services to individuals and small businesses, corporate and investment banking addresses the more complex and macro sectors of the economy. This branch of banking plays a vital role in financing large corporations, governments, and public institutions, and facilitating capital market activities. Understanding the different dimensions of this field, especially with regard to economic and financial dynamics Global and domestic, are very important for analyzing the financial ecosystem.

► Definition and Scope of Corporate Banking

Corporate banking refers to the set of financial services provided by banks to large corporations, conglomerates, governments, and public institutions. These services go beyond just ordinary lending and include:

- **Financing and credit:** Providing syndicated loans, lines of credit, revolving credit facilities, and other financing instruments for working capital needs, project finance, and business development.
- **Treasury Management:** Assisting companies in managing cash flows, optimizing liquidity, and managing currency and interest rate risks. This includes services such as electronic payment systems for companies, managing multiple accounts, and short-term investment of surplus funds.
- **Trade Finance:** Facilitating international trade transactions through instruments such as letters of credit, bank guarantees, and foreign exchange transfers. These services reduce the risks associated with foreign trade for importers and exporters.
- **Relationship Management Services:** Corporate banks have dedicated Relationship Managers who serve as the main point of contact for corporate clients and strive to identify and meet their complex financial needs.

► Definition and Scope of Investment Banking

Investment banking refers to more complex financial activities that take place mainly in the capital market and include the following:

- **Mergers and Acquisitions (M&A) Advisory:** Investment banks advise companies on the acquisition, sale, or merger processes with other companies. This includes valuing companies, identifying potential targets, and negotiating the terms of the transaction.
- **Underwriting & IPOs:** Investment banks help companies and governments raise capital through the issuance of securities (stocks, bonds) in the capital markets. They play a pivotal role in the underwriting process (buying securities from the issuer and selling them to investors), setting prices, and marketing the securities. This includes initial public offerings (IPOs) of companies' shares on the stock exchange.
- **Asset Management:** Some sectors of investment banking manage investment portfolios for institutional clients, public entities, and high-net-worth individuals. This includes the management of investment funds, pension funds, and other financial institutions.
- **Strategic Financial Consulting:** Providing financial advice to companies on capital structure, debt restructuring, and other strategic financial decisions.
- **Trading in the capital market (Sales & Trading):** includes the activities of buying and selling securities (stocks, bonds, currencies, commodities) on behalf of clients or for the bank's own account.

The Role of Corporate Banking and Investment in Economic Development

- **Facilitating capital attraction for companies:** This sector of banking is the main channel for large corporations and governments to attract the capital necessary for development, innovation, and investment in large projects. Without these services, large-scale economic growth would be severely limited.
- **Capital market boom:** Investment banking activities, especially underwriting and transactions, contribute to the growth and maturity of the capital market. An active and efficient capital market allows for optimal capital allocation and increased economic transparency.
- **Increased productivity and efficiency in the economy:** Mergers and acquisitions (M&A) can lead to increased efficiency in industries through synergy, cost reductions, and the combination of corporate strengths. Investment banks play a key role in facilitating these processes.
- **Financing of infrastructure and national projects:** Large development projects (such as petrochemicals, steel, transportation) that require huge investments are often financed through project financing organized by corporate banks.

- **Managing macroeconomic risks:** Corporate banks help companies protect themselves from economic fluctuations by providing risk management tools (such as hedging exchange rate or interest rate risk), which leads to greater macroeconomic stability.

4 ► **Future Challenges and Trends in Iran and the World**

Challenges in Iran:

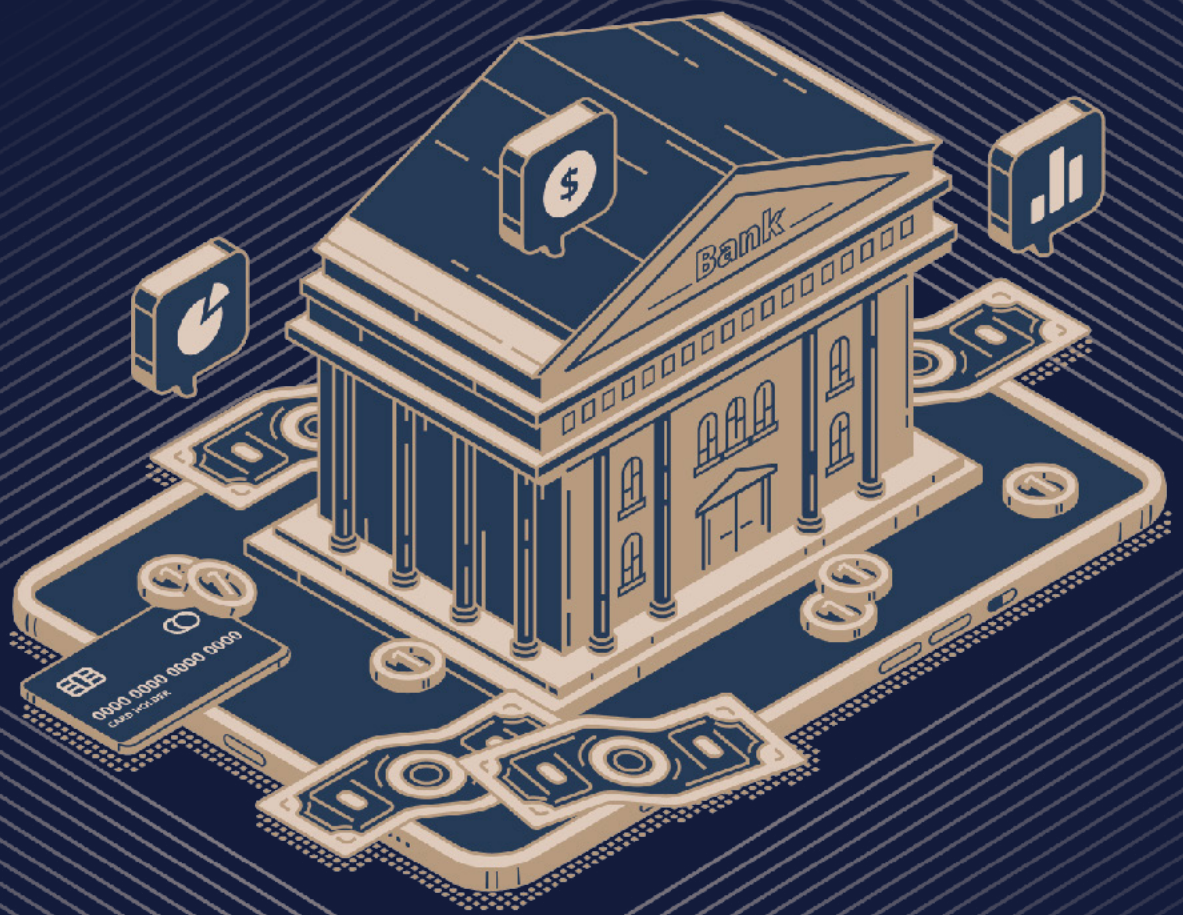
- **International Sanctions and Restrictions:** Sanctions have severely restricted Iranian banks' access to global financial markets to raise capital and provide international investment banking services. This has led to the isolation of this sector from the banking industry.
- **Lack of adequate development of the debt market:** The debt market (bonds and sukuk) in Iran is not yet mature, which limits long-term financing instruments.
- **Uncertain business environment:** Economic volatility, high inflation, and policy uncertainty make it difficult for companies to plan for the long term and reduce the demand for investment banking services.
- **Competition with Direct Financing:** In Iran, part of the financing of large companies is still done through government repayments or direct relationships with certain entities, which reduces competition for banks.

Global Trends:

- **Digitization and Automation:** Using artificial intelligence, machine learning, and big data analytics to automate financial analysis, modeling, and risk management processes in corporate banking and investment.
- **Focus on ESG and sustainable financing:** Corporate and investment banks are increasingly focusing on financing projects with environmental, social and governance (ESG) considerations and developing green financial instruments (Green Bonds).
- **Blockchain and Asset Tokenization:** The potential of blockchain to tokenize securities and non-tradable assets (such as real estate) can lead to increased liquidity, reduced transaction costs, and greater access to capital.

- **Increased competition from fintech companies and tech giants:** Big tech companies (such as Amazon or Google) and some fintechs are entering parts of the finance and capital management market that increase competition.
- **More specialized advisory services:** As the complexity of markets increases, the demand for more specialized advisory services in the areas of M&A, financial restructuring, and specific risk management is increasing.

Conclusion Corporate and investment banking not only serves as a source of profitability for banks, but also as a major driving force for large-scale economic development. This sector plays a vital role in the health and growth of the economy by facilitating capital attraction for companies and governments, boosting the capital market, and helping to manage financial risks. In Iran, despite serious challenges Caused by sanctions and special economic conditions, there is great potential for the development of this sector, especially through the development of the debt market, the improvement of the business environment, and the use of new technologies. Focusing on these areas can help banks strengthen their role in supporting the growth and sustainability of the national economy.



3

CORE FUNCTIONS OF BANKS

—● CORE FUNCTIONS OF BANKS ●—

Banks play a vital role in the economy, and their primary functions can be divided into several essential areas. These functions include accepting deposits, granting loans, facilitating fund transfers, managing risk, and providing diverse financial services.

One of the main functions of banks is to gather deposits from individuals and businesses. These deposits can be in the form of checking accounts, savings accounts, or term deposits. Banks encourage depositors by offering interest on these deposits.

Banks utilize the collected financial resources to provide loans and credit to individuals, companies, and governments. These loans can be used for various purposes such as purchasing homes, expanding businesses, or meeting everyday needs.

Banks enable customers to transfer funds from one account to another. These transfers can be within the same bank (intra-bank) or between different banks (inter-bank).

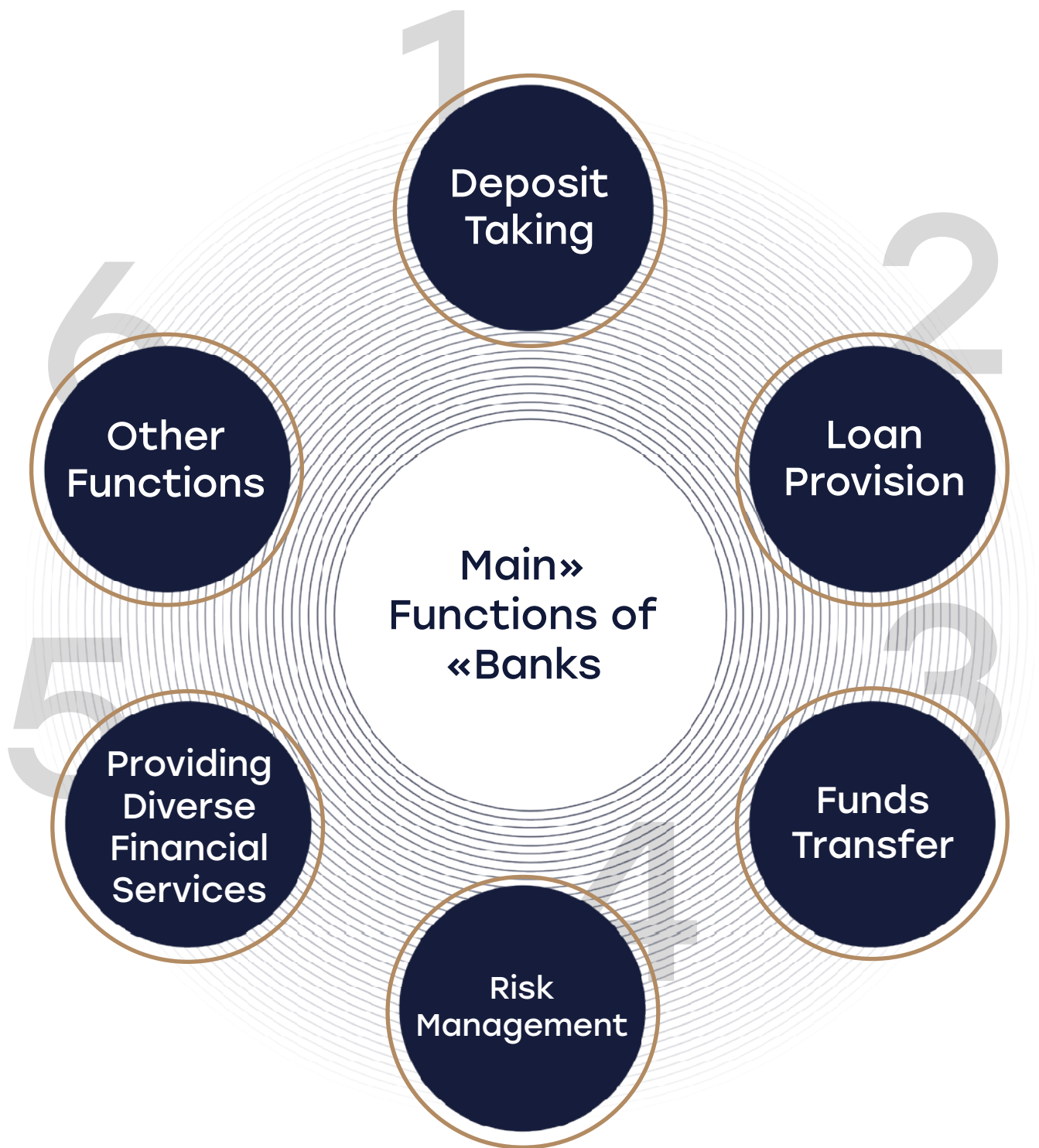
Banks play a crucial role in facilitating various payments, including bill payments, salaries, and daily purchases. The use of bank cards and electronic payment systems are among the services banks provide in this area.

Banks assist in managing various risks for their customers through insurance services and diverse financial products. This includes life insurance, health insurance, and asset insurance.

Banks offer financial advice in areas such as investment, financial planning, and asset management. This guidance helps individuals and businesses achieve their financial goals.

Through the processes of lending and investing, banks generate liquidity in the economy and have a significant impact on the money supply. Central banks, by supervising and regulating commercial banks, control the liquidity of the entire banking system.

These functions underscore the importance and extensive impact of banks on the stability and growth of a country's economy. By providing these services, banks not only help improve the financial situation of individuals and businesses but also play a crucial role in the overall development of the economy.



Banks play a crucial role in the economy by accepting deposits, which serve as their primary financial resources. These deposits can be categorized into various types, including current accounts, savings accounts, and time deposits. Effective deposit mobilization is essential for banks as it enables them to provide services and extend loans. Below is a detailed explanation of the types of deposits, their benefits, and methods of mobilizing deposits.

► Types of Deposits

1 ► Current Accounts

Current accounts allow customers to withdraw funds at any time. These accounts are ideal for individuals who require frequent transactions.

Features

- No restrictions on withdrawals
- Generally offer little to no interest
- Provide checkbooks to customers
- Access to online and mobile banking services

2 ► Savings Accounts

Savings accounts are designed for individuals who wish to save money while earning interest.

Features

- Interest is paid on the deposited amount
- Withdrawal restrictions are less than those for current accounts
- Access to funds in emergencies
- Incentives through monthly or annual interest payments

3 ► Time Deposits

Time deposits are held for a fixed period (e.g., one year or more) and offer higher interest rates. Customers cannot access these funds before the term ends without incurring a penalty.

Features

- Higher interest rates compared to savings accounts
- Fixed deposit period
- Penalty for early withdrawal

► Benefits of Deposit Mobilization for Banks

Banks play a crucial role in the economy by accepting deposits, which serve as their primary financial resources. These deposits can be categorized into various types, including current accounts, savings accounts, and time deposits. Effective deposit mobilization is essential for banks as it enables them to provide services and extend loans. Below is a detailed explanation of the types of deposits, their benefits, and methods of mobilizing deposits.

Stable Financial Resources

Deposits are a primary source of funding for banks, enabling them to lend to various borrowers and participate in economic activities.

Reduced Financing Costs

Deposits generally come with lower interest rates compared to other sources of funds, such as interbank loans or external investments.

Increased Liquidity

By attracting more deposits, banks enhance their liquidity, allowing them to meet customer financial needs more efficiently.

Enhanced Public Trust

Banks that successfully attract more deposits typically enjoy greater public confidence and higher credibility in the market.

► Methods of Deposit Mobilization

Advertising and Marketing

Banks utilize various media channels to advertise the benefits and conditions of deposit accounts, aiming to attract new customers.

Improved Services

Banks can attract more customers by offering a range of services and enhancing service quality, including online and mobile banking, and financial advisory services.

Incentive Programs

Offering incentives such as higher interest rates, cash prizes, and discounts on banking fees can encourage customers to deposit their funds.

Branch Expansion

Opening new branches in different areas increases customer access to banking services and can lead to a higher volume of deposits.

Public Relations and Customer Engagement

Effective communication with customers through face-to-face meetings, phone calls, and informative emails helps build trust and retain existing customers.



CHALLENGES IN DEPOSIT MOBILIZATION

Intense Competition Costs

Banks face significant competition from other financial institutions, which can make it challenging to attract deposits.



Economic Fluctuations Costs

Economic volatility can impact people's willingness to deposit funds. During economic downturns, individuals may be less inclined to save.



Interest Rate Changes Costs

Fluctuations in interest rates can affect deposit attraction. Low interest rates may deter individuals from depositing funds in banks.

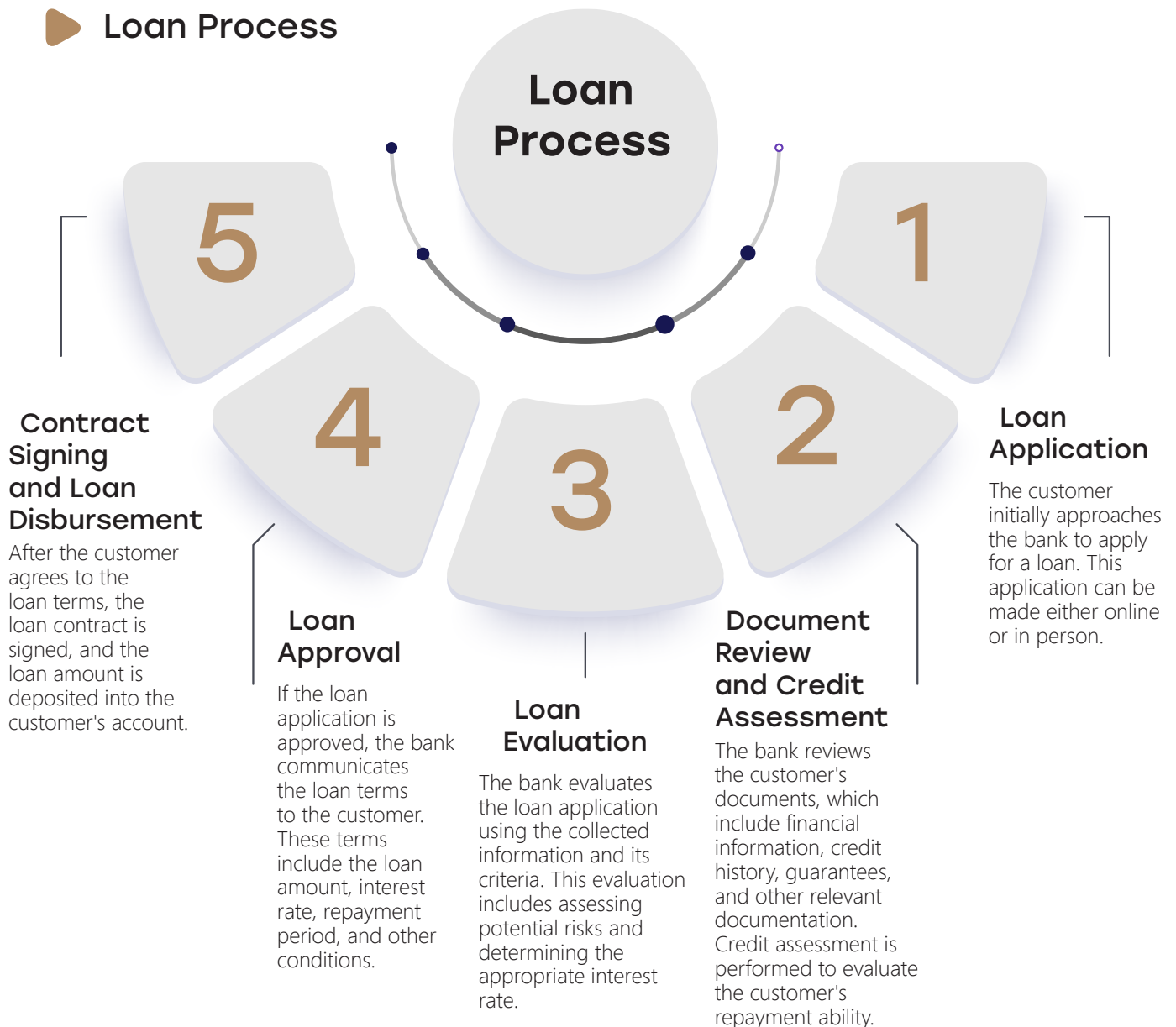


Deposit mobilization is a fundamental function of banks, crucial for their financial stability and liquidity. Banks can attract more deposits by offering diverse services, effective marketing, incentive programs, and improving service quality. However, they must also navigate challenges such as intense competition and economic fluctuations through careful management and strategic planning.


LENDING


One of the primary functions of banks is lending to individuals, businesses, and governments. Loans can be categorized into short-term, medium-term, and long-term types. This activity is crucial for the economy and societal development, as loans help individuals and businesses meet financial needs, invest, and contribute to economic growth. Below is a detailed overview of the loan process, types of loans, and their role in the economy.


► Loan Process





► Types of Loans

- 

1 Personal Loans
These loans are used for personal financial needs such as purchasing a car, home repairs, medical expenses, and education.
- 

2 Mortgage Loans
These are provided for buying or constructing residential properties and typically come with long repayment periods.
- 

3 Business Loans
These loans are used for personal financial needs such as purchasing a car, home repairs, medical expenses, and education.
- 

4 Industrial Loans
These are provided for buying or constructing residential properties and typically come with long repayment periods.
- 

5 Agricultural Loans
These loans support the agricultural sector and finance activities related to farming and livestock.

► Role of Loans in the Economy

- 1. Encouraging Investment:** Loans enable individuals and businesses to invest in new projects, contributing to economic development.
- 2. Increasing Consumption:** Consumer loans allow individuals to purchase more goods and services, leading to increased demand and market growth.
- 3. Supporting Entrepreneurship:** Business and industrial loans help entrepreneurs turn their ideas into reality and start new ventures.
- 4. Economic Stabilization:** Loans can assist in stabilizing the economy during downturns and prevent severe declines in economic activity.



CHALLENGES AND RISKS



Default Risk

One of the major challenges for banks is the risk of non-repayment of loans by customers, which can lead to financial losses.



High Interest Rates

High interest rates may reduce the repayment ability of borrowers and increase the risk of defaults.



Inflation

Inflation can diminish the real value of loans and negatively impact loan repayment.



Lending is a key tool for facilitating economic growth and improving the financial situation of individuals and businesses. With proper management and risk assessment, banks can play a significant role in sustainable economic development.

PAYMENT AND TRANSFER SERVICES

Banks provide various services for transferring funds between accounts and processing payments. These services include electronic funds transfer, checks, credit and debit cards, and online payment systems.

- **Electronic Funds Transfer (EFT):** Fast and secure money transfer between accounts.
- **Checks:** Financial documents that allow the holder to withdraw funds from their account.
- **Credit and Debit Cards:** Electronic payment tools that customers can use for purchases.

Fund transfer is a fundamental function in the banking industry and national banking ecosystems, involving the movement of money between different bank accounts, whether within a single bank or between different banks. This process is essential for payments, loans, purchases, and many daily financial activities. Below are the details of fund transfer processes and their types within the banking system.

► Types of Fund Transfers

1 Intra-bank Transfers

Account-to-Account Transfer

Moving money between two accounts within the same bank.

Card-to-Card Transfer

Transferring funds between two bank cards from the same bank.

2 Inter-bank Transfers

Saman (Saman Settlement System)

- An interbank payment system that performs transactions instantly without delay.
- Suitable for large amounts and immediate settlements.

Payam (Electronic Batch Settlement)

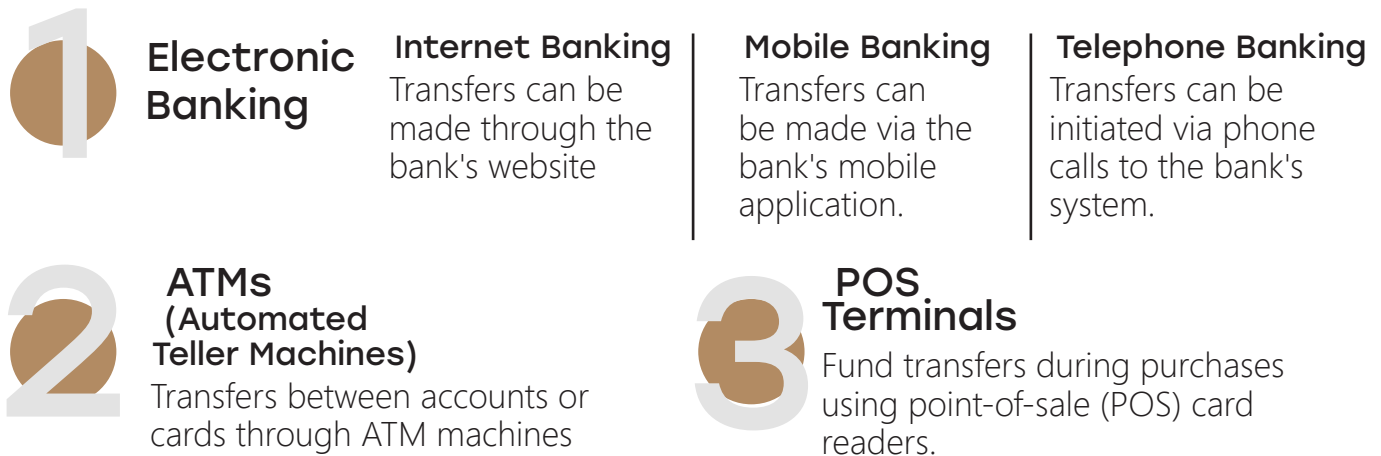
- A system that processes fund transfers in batches several times a day.
- Suitable for smaller amounts and scheduled batch settlements.

3 International Fund Transfers

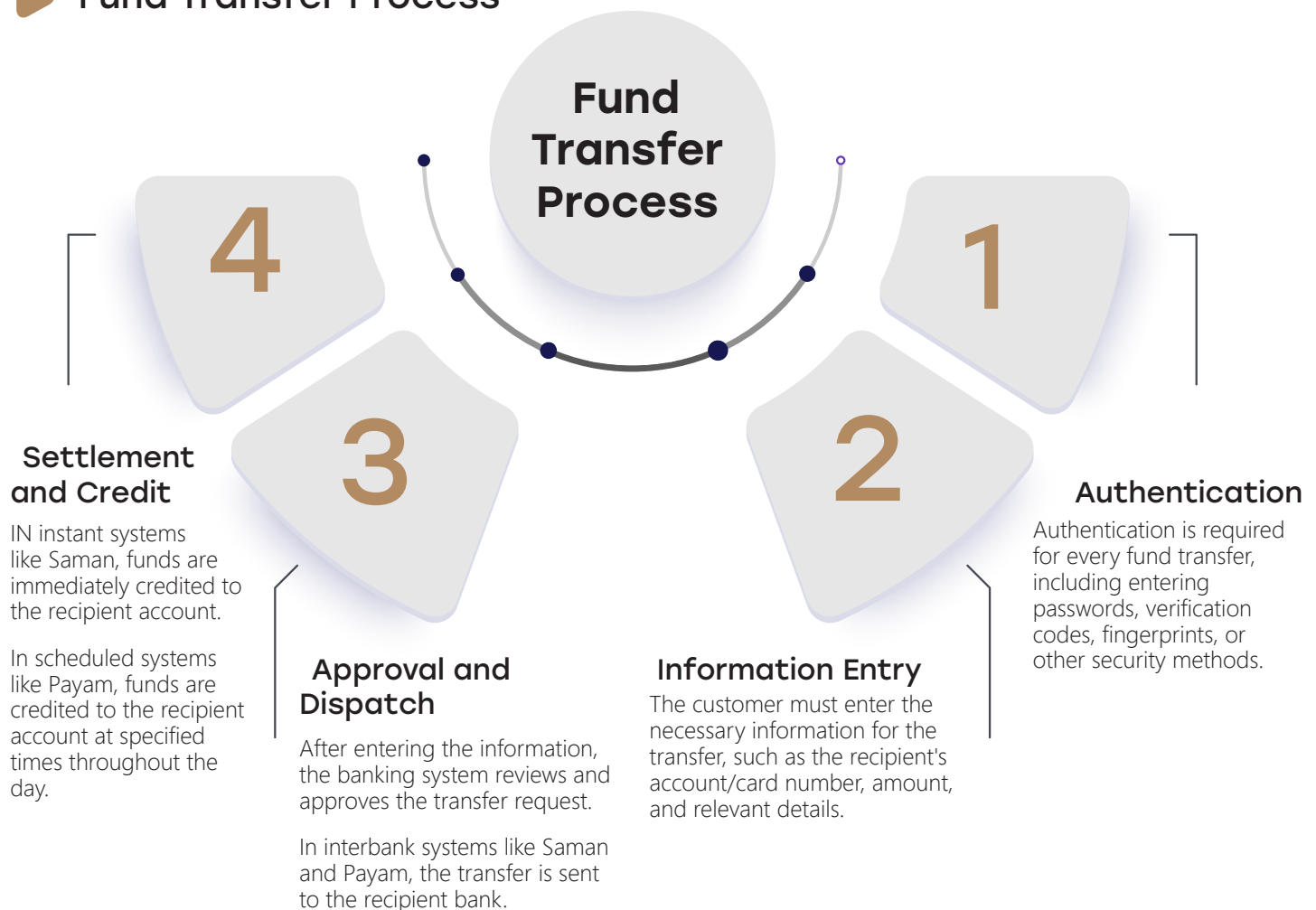
SWIFT (Society for Worldwide Interbank Financial Telecommunication)

- A global system for international money transfers.
- Involves sending and receiving financial messages between banks and financial institutions worldwide.

► Tools and Methods of Fund Transfer



► Fund Transfer Process





► Benefits of Electronic Fund Transfers

- Speed and Efficiency: Rapid and effective fund transfers without the need for physical presence.
- Easy Access: Ability to perform transfers anytime and from anywhere.
- Cost Reduction: Lower costs compared to traditional methods such as checks and money orders.
- Security: Use of advanced authentication methods and robust security systems to prevent fraud and misuse.



► Challenges and Considerations

- Security: Risks related to hacking and unauthorized access to accounts.
- System Reliability: The need for stable and uninterrupted systems to ensure reliable fund transfers.
- Infrastructure Costs: Costs associated with establishing and maintaining the necessary infrastructure for electronic transfers.

Fund transfer is a vital component of modern banking systems, significantly enhancing efficiency and facilitating financial operations for individuals and businesses. The development of new technologies and improved banking infrastructure helps advance these services and enhances the customer experience.

Banks engage in managing the financial risks associated with their operations, which includes identifying, assessing, and controlling credit risk, market risk, and operational risk.

- Credit Risk: The risk that borrowers may fail to repay their loans.
- Market Risk: The risk of fluctuations in market conditions that can affect the value of assets.
- Operational Risk: The risk of losses resulting from internal failures such as system errors or fraud.

Risk management is a crucial component of the banking industry and financial ecosystem, with the primary goal of identifying, assessing, and controlling the various risks banks face. This process helps banks maintain their financial health and stability through the development of appropriate strategies and risk control policies.

► Types of Risks in Banking

1

Credit Risk

oThe risk arising from the inability of borrowers to repay their loans and financial obligations. This type of risk can result from borrowers' inability to meet their debt repayments.

2

Market Risk

oThe risk stemming from fluctuations in financial markets that can impact the value of a bank's assets and liabilities. This includes changes in interest rates, exchange rates, and security prices.

3

Operational Risk

oThe risk arising from failures in internal processes, information technology systems, human errors, or external events that can result in financial losses.

4

Liquidity Risk

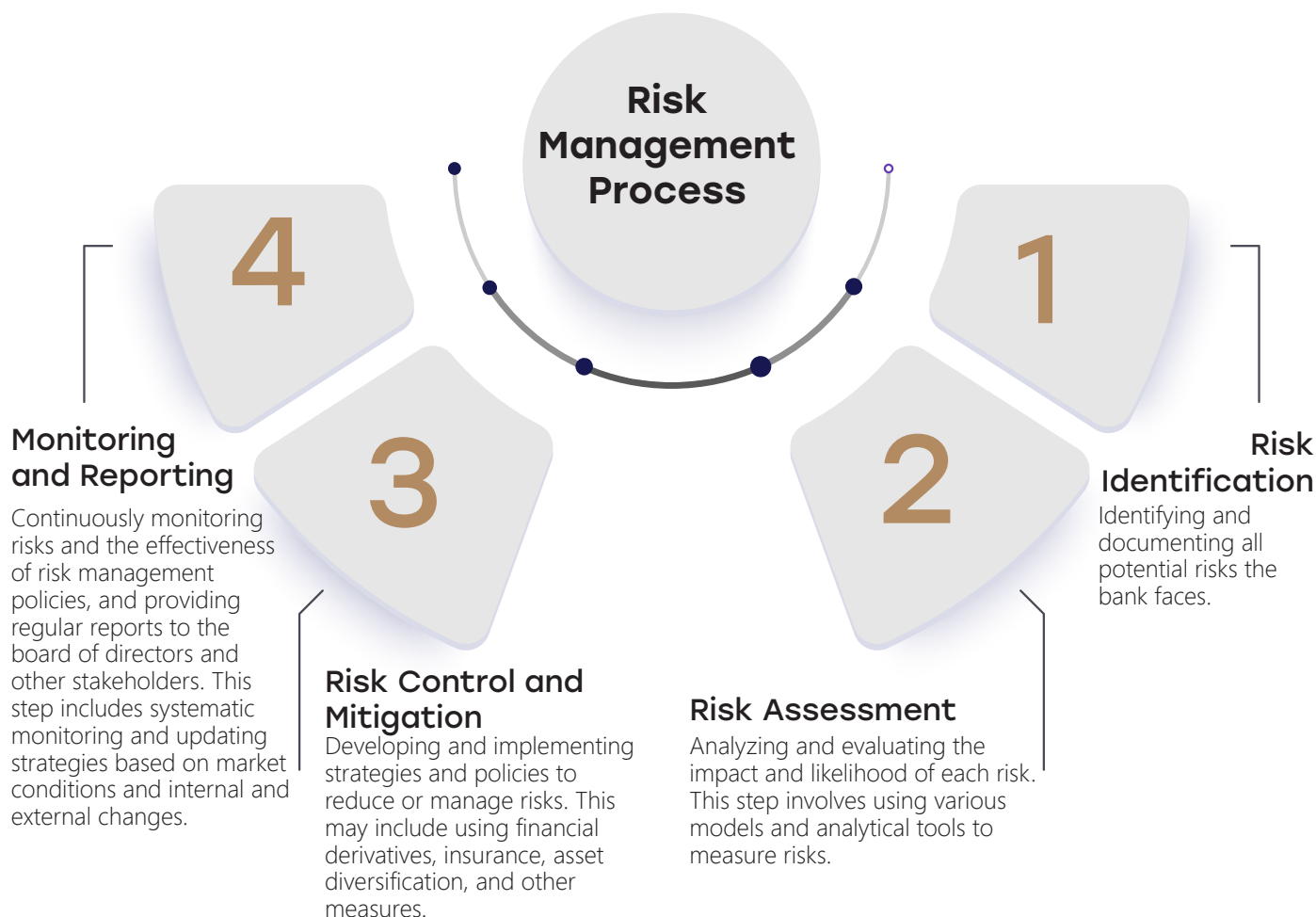
oThe risk of a bank's inability to secure enough liquidity to meet its short-term obligations. This type of risk can result from a bank's inability to quickly convert assets into cash.

5

Legal and Compliance Risk

oThe risk associated with violating laws and regulations or failing to comply with legal and regulatory standards, which can lead to penalties and financial losses.

► Risk Management Process



► Importance of Risk Management in Banking

Capital Protection

oEffective risk management helps banks protect their capital from unexpected losses.

Regulatory Compliance

oBanks are required to adhere to various laws and regulations, and effective risk management assists in complying with these requirements.

Financial Stability

oRisk management helps banks withstand financial crises and market fluctuations, maintaining their financial stability.

Performance and Profitability Improvement

oBy reducing and efficiently managing risks, banks can enhance their financial performance and increase profitability.

DIVERSIFIED FINANCIAL SERVICES

Providing diversified financial services is one of the primary functions of banks, encompassing a range of financial activities and products designed to meet various customer needs. These extensive financial services include investment advisory, wealth management, insurance, and brokerage services, as detailed below.

•**INVESTMENT ADVISORY:** Guidance for customers on various investment opportunities.

•**WEALTH MANAGEMENT:** Managing and growing the assets of wealthy clients.

•**INSURANCE:** Offering various types of insurance, such as life, health, and automobile insurance.

•**BROKERAGE SERVICES:** Buying and selling securities on behalf of customers.

▶ Bank Accounts

1

Current Accounts

Used for everyday transactions by individuals and businesses, typically featuring checkbooks and electronic payment capabilities.

2

Savings Accounts

Designed for saving money and earning interest, with higher interest rates compared to current accounts, and interest is usually calculated and paid monthly or annually.

3

Term Investment Accounts

Deposited for a fixed period (e.g., three months, six months, or one year) with a fixed interest rate. Early withdrawal may incur penalties.

▶ Loans and Credit Facilities

•**PERSONAL LOANS:** For personal financial needs such as purchasing a car, home repairs, education, etc. Conditions and interest rates vary based on the customer's creditworthiness and bank policies.

•**MORTGAGE LOANS:** Provided for purchasing or constructing residential properties, usually with longer repayment terms (e.g., 15 to 30 years) and lower interest rates.

•**BUSINESS LOANS:** Given to businesses for various financial needs such as business expansion, equipment purchases, and raw material procurement.

•**CREDIT LINES:** Allow customers to access credit up to a certain limit, which they can use gradually and pay interest only on the amount utilized.

► Payment and Fund Transfer Services

•**FUND TRANSFERS:** Banks offer various services for transferring funds between internal and international bank accounts, including international SWIFT transfers and domestic remittances.

•**BILL PAYMENTS:** Many banks provide bill payment services for utilities such as water, electricity, gas, and telephone through internet banking, mobile banking, and ATMs.

•**CREDIT AND DEBIT CARDS:** Banks issue credit and debit cards, allowing customers to make purchases and withdraw cash from ATMs.

► Investment Services

•**INVESTMENT ADVISORY:** Banks offer advisory services for investing in financial markets, stocks, real estate, and other investment opportunities.

•**INVESTMENT FUNDS:** Collect small investments from individuals and invest in various projects. Profits are distributed among investors.

•**BONDS AND STOCKS:** Banks facilitate the buying and selling of bonds and stocks, and in some cases, act as intermediaries.

► Insurance Services

•**LIFE AND INVESTMENT INSURANCE**

Banks often partner with insurance companies to offer life and investment insurance services to their customers.

•**GENERAL INSURANCE**

Includes automobile, home, health, and other insurance types, with banks acting as insurance representatives.

► Electronic and Digital Banking Services

•**INTERNET BANKING AND MOBILE BANKING**

These services enable customers to manage their bank accounts, pay bills, transfer funds, and perform other banking operations via the internet and mobile devices.

•**ELECTRONIC WALLET**

Allow customers to store and use electronic money for everyday purchases and online payments.

► Other Financial Services

•ISSUANCE OF GUARANTEES

Banks issue various guarantees, such as bid bonds, performance bonds, and other types.

•FOREIGN EXCHANGE SERVICES

Banks offer services for buying and selling foreign currencies, issuing traveler's checks, and processing foreign remittances.

Providing these services enables banks to meet the diverse financial needs of their customers and play a key role in economic development and improving the quality of life.

► Other Functions

In addition to their primary functions, banks perform several other roles such as credit creation, facilitating international trade, and acting as financial intermediaries between various economic units.

•CREDIT CREATION

Enhancing customers' purchasing power by providing credit.

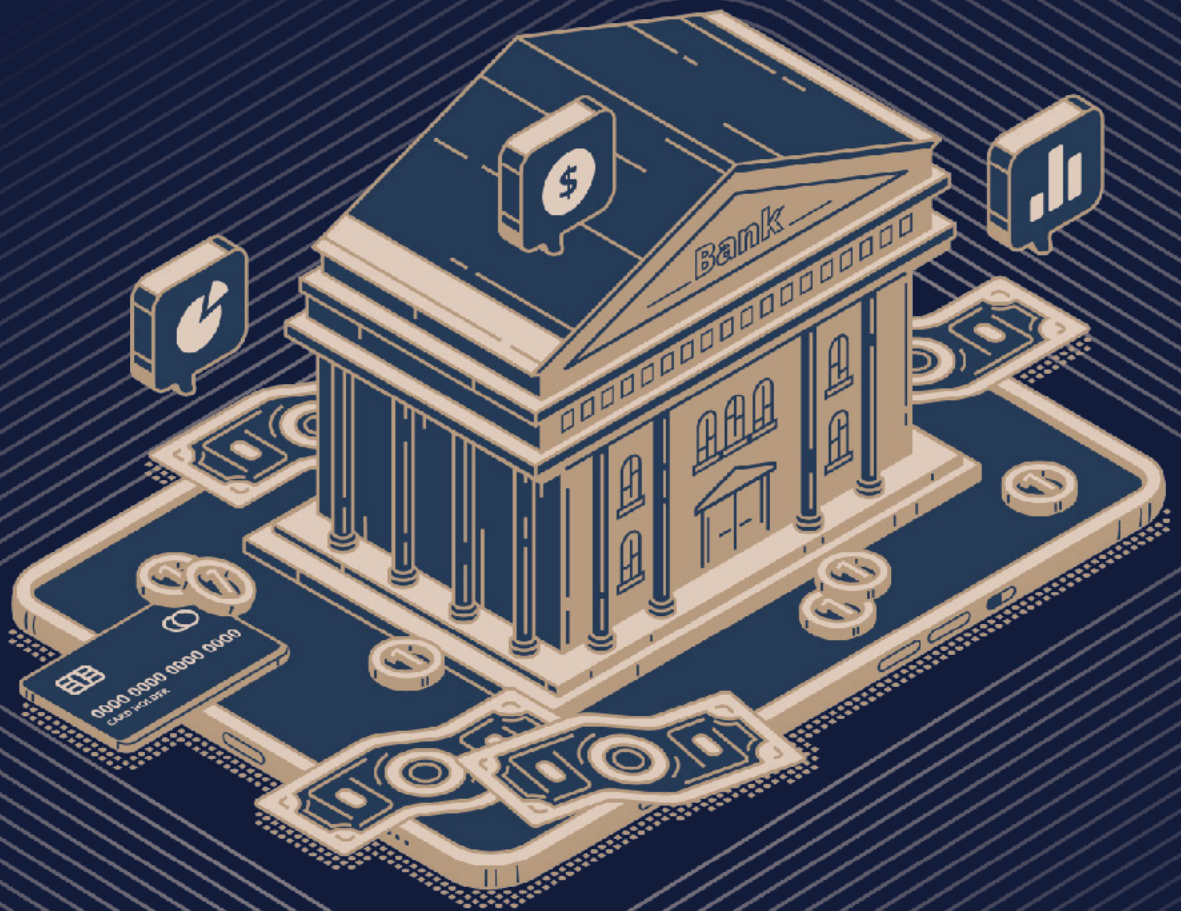
•FACILITATING INTERNATIONAL TRADE

Offering financial services to facilitate imports and

•FINANCIAL INTERMEDIARY

Collecting savings and allocating resources to different economic

As multifunctional financial entities, banks play a crucial role in economic stability and growth by providing a wide range of services and managing financial risks. Their core functions include attracting deposits, granting loans, transferring funds, managing risks, and offering various financial services, each of which impacts the economy and societal welfare both directly and indirectly.



ORGANIZATIONAL STRUCTURE OF BANKS

4

ORGANIZATIONAL STRUCTURE OF BANKS

Banks have a complex organizational structure consisting of various departments and units.



► Senior Management

Senior management plays a crucial and strategic role in the banking industry, directly influencing the performance and growth of banks and financial institutions. As one of the most important economic sectors, banking requires effective and professional management capable of making strategic decisions and handling the unique complexities of the industry. The following outlines the roles, responsibilities, and importance of senior management in the banking sector:

1 Defining Vision and Mission

Senior management is responsible for defining the bank's vision and mission. This vision and mission guide the overall direction of the bank and help set long-term goals. For banks, this vision may include objectives such as enhancing financial services, expanding branch networks, and increasing market share.

2 Developing Macro Strategies

Senior management is tasked with developing and formulating the bank's macro strategies. These strategies include planning for growth and development, risk management, developing new financial products and services, and entering new markets. Strategies must be developed considering market conditions, regulatory requirements, and industry competition.

3 Risk Management

A fundamental responsibility of senior management is identifying, assessing, and managing various risks. These risks include credit risk, operational risk, market risk, liquidity risk, and regulatory compliance risks. Senior management must formulate appropriate strategies to mitigate and manage these risks.

4 Key Decision-Making

Senior management is responsible for making key and strategic decisions that can significantly impact the future of the bank. These decisions may include large investments, mergers and acquisitions, structural changes, and entry into new markets.

5 Performance Monitoring and Evaluation

Senior management oversees the overall performance of the bank and is responsible for evaluating the bank's performance based on set goals and criteria. This oversight includes reviewing financial results, assessing the performance of various departments, and measuring the achievement of strategic goals. Additionally, senior management must prepare financial reports and present them to shareholders and regulatory bodies.

6 Regulatory Compliance

Banks are subject to stringent oversight by regulatory bodies and various regulations. Senior management must ensure that all bank activities comply with current regulations and laws. This includes adhering to anti-money laundering regulations, investment regulations, and risk management requirements.

7 Human Resource Management

Senior management must focus on attracting, developing, and retaining skilled and committed personnel. This includes training and development programs, creating career progression paths, and managing employee performance. Additionally, fostering a positive organizational culture and supporting employees to enhance performance is a key responsibility.

8 Stakeholder Relationship Management

Senior management must establish and maintain effective and constructive relationships with various stakeholders, including shareholders, customers, regulatory bodies, and other financial institutions. These relationships help build trust and strengthen collaborations, which can enhance the bank's image and reputation.

9 Innovation and Digital Transformation

The banking industry is rapidly evolving, and senior management must pursue innovation and digital transformation. This involves developing and implementing new technologies, improving banking systems, and offering digital financial services to customers. Senior management must devise strategies to leverage opportunities arising from digital transformation.

10 Sustainable Development

Senior management should pay attention to sustainable development and social responsibilities. This includes implementing corporate social responsibility programs, managing environmental impact, and enhancing ethical standards across all bank activities.

11 Enhancing Efficiency and Productivity

One of the responsibilities of senior management is to improve efficiency and productivity at all levels of the bank. This involves optimizing processes, reducing costs, and increasing investment returns. Senior management should seek innovative solutions to enhance the bank's efficiency and productivity.

Senior management in the banking industry plays a vital and decisive role. This level of management, with a combination of knowledge, experience, and leadership skills, is capable of guiding the bank towards strategic goals and long-term success. Given the complexities and challenges specific to this industry, senior management must possess the ability to make intelligent and strategic decisions and continuously seek to improve performance and innovate within the bank.

► Financial Department

The financial department is responsible for managing the bank's finances, preparing financial reports, and overseeing cash flows. Additionally, this department handles financial risk analysis and evaluation.

In the banking industry and financial ecosystem, the financial department is crucial for controlling costs, enhancing productivity, and ensuring the financial health of banks. This department includes several sub-units and key responsibilities, which are detailed below:

1

Accounting and Financial Reporting

General Accounting

Recording and documenting all financial transactions of the bank, including receipts and payments, and preparing financial statements (balance sheet, income statement, cash flow statement).

Financial Reporting

Preparing financial reports in accordance with accounting standards (such as IFRS or GAAP) and submitting them to regulatory bodies and shareholders.

2

Treasury Management

Liquidity Management

Ensuring the bank has sufficient cash to meet its short-term and long-term obligations.

Investment Management

Allocating financial resources to various investments to achieve desirable returns and manage risk.

3

Financial Risk Management

Credit Risk

Evaluating and managing risks arising from the potential inability of customers to repay loans.

Market Risk

Managing risks associated with market fluctuations, such as changes in interest rates and exchange rates.

Operational Risk

Identifying and managing risks arising from inefficiencies in processes, systems, and personnel.

4

Internal Controls and Compliance

Internal Controls

Establishing and monitoring internal control systems to prevent fraud and financial misconduct.

Compliance

Ensuring adherence to national and international financial and banking regulations.

5

Financial Planning and Budgeting

Financial Planning

Developing short-term and long-term financial plans to achieve strategic goals.

Budgeting

Preparing and monitoring annual and periodic budgets and analyzing financial performance against the budget.

6

Capital and Debt Management

Capital Management

Securing and managing the capital needed for the bank's growth and development.

Debt Management

Managing short-term and long-term debt to optimize financial costs and control risk.

7

Financial Analysis and Performance Evaluation

Financial Analysis

Assessing the bank's financial performance using financial ratios and various analyses.

Performance Evaluation

Measuring the productivity and efficiency of different departments and branches of the bank and proposing improvement solutions.

8

Investor Relations

Shareholder Communication

Maintaining continuous communication with shareholders and providing transparent and accurate information about the bank's financial status and performance.

Stock Value Management

Taking necessary actions to maintain and enhance the bank's stock value in the market.

9

Tax Management

Tax Planning

Developing and implementing tax strategies to optimize tax expenses.

Tax Compliance

Ensuring compliance with national tax laws and timely submission of tax returns.

10

Financial Technology (Fintech) and Innovation

Technology Utilization

Leveraging new technologies to improve financial processes and increase efficiency.

Financial Innovation

Developing new financial products and services to attract new customers and enhance customer satisfaction.

These functions and responsibilities collectively contribute to improving financial health, efficiency, and transparency in the banking industry, ensuring the stability and growth of banks in a competitive and complex environment.

► Operations Department

The operations department in the banking industry and banking ecosystem refers to a set of processes, activities, and systems performed to provide banking services to customers and manage internal bank functions. This department plays a vital role in the efficient and effective functioning of banks. Below are detailed aspects of the banking operations department:

Transaction Processing

1

Payment and Fund Transfers

Includes managing financial transactions through bank accounts, credit and debit cards, electronic transfers, and international payments.

Connection to Payment Networks

Such as credit card networks (Visa, MasterCard), fund transfer networks (SWIFT), and local and international payment networks.

Account Management

2

Opening and Closing Accounts

Creating new accounts for customers and managing the process of closing old accounts.

Maintenance and Updating of Account Information

Recording and managing customer information to ensure accuracy and updates.

Cash Management

3

Cash Flow Monitoring

Managing bank cash reserves and ensuring sufficient liquidity for daily operations.

Management of Deposits and Loans

Monitoring customer loans and deposits, managing repayments and interest.

Customer Services

4

Customer Support

Providing support services to customers via telephone, email, online chat, and in-person.

Handling Complaints and Issues

Effectively investigating and resolving customer complaints and issues.

Risk Management and Compliance

5

Risk Identification and Management

Identifying risks associated with banking operations and implementing appropriate measures to mitigate them.

Compliance with Regulations and Laws

Ensuring compliance with all local and international banking and financial regulations.

Information Technology and Systems

6

Banking Systems Management

Developing and maintaining software and hardware systems to support banking operations.

Information Security

: Protecting customer data and information against security threats and hackers.

Reporting and Data Analysis

Financial and Operational Reporting

Identifying risks associated with banking operations and implementing appropriate measures to mitigate them.

Data Analysis

Ensuring compliance with all local and international banking and financial regulations.

Training and Development of Human Resources

Employee Training

Conducting training courses to enhance skills and knowledge of employees in various banking operation areas.

Professional Development

Planning for professional development and career advancement of employees.

The operations department in banks comprises a diverse set of processes and activities that work cohesively to provide better services to customers and effectively manage internal resources. Due to its critical importance and high impact on overall bank performance, this department requires precise management, advanced technology, and skilled human resources.

► Credit Department

The credit department in the banking industry is one of the most important and sensitive components of the organizational structure, focusing on granting loans and financial credits to customers and businesses. This department plays a key role in financing the economy and managing risks associated with loan granting. Below is a detailed description of this department:

1

Roles of the Credit Department

Customer Credit Assessment

Analyzing and evaluating the financial status of customers to determine loan repayment capability.

Determination of Loan Terms

Setting loan amounts, interest rates, repayment periods, and other loan terms based on risk assessment.

Risk Monitoring and Management

Monitoring granted loans and managing risks related to non-repayment.

2 Loan Granting Process

Loan Application Submission

Analyzing and evaluating the financial status of customers to determine loan repayment capability.

Initial Evaluation

Initial review of the loan application to ensure completeness of documents and information.

Financial Analysis and Evaluation

Performing financial and credit analyses based on submitted documents and customer credit history.

Determination of Loan Terms

Based on assessments, loan terms are specified.

Final Approval

Loan approval decision by the credit committee.

Loan Disbursement

If finally approved, the loan is disbursed to the customer's account.

3 Organizational Structure of the Credit Department

Credit Department Manager

Overall responsibility for managing and overseeing the performance of the credit department.

Credit Analysts

Conducting financial and credit analyses to evaluate loan applications.

Credit Officers

Responsible for communicating with customers and providing financial advice.

Credit Committee

A group of senior managers and experts making final decisions on loan approvals.

4 Types of Loans and Credits

Personal Loans

Loans provided to individuals for various purposes such as home purchase, vehicle purchase, or living expenses.

Commercial Loans

Loans provided to businesses to meet operational financial needs, purchase equipment, business expansion, etc.

Commercial Credits

Lines of credit and financial facilities provided to businesses for financing commercial activities.

5 Credit Risk Management

Credit Scoring Systems

Use of credit scoring models to assess credit risks of customers.

Use of Collateral

Using collateral and guarantees to reduce the risk of loan non-repayment.

Continuous Monitoring of Loans

Monitoring the status of granted loans and continuously evaluating customers' financial status.

6

Importance of the Credit Department in the Economy

Financial Support for Economic Activities

Supporting the growth and development of businesses and increasing production and employment.

Management of Financial Risks

Reducing risks associated with loans and increasing financial stability of the bank.

Enhancing Access to Financial Resources

Providing financial resources to individuals in need of loans but lacking sufficient financial capability.

The credit department, through the precise execution of its tasks and processes, plays a crucial role in economic stability and growth, as well as effective financial risk management.

► Risk Management

The risk management department in the banking industry plays a vital role in ensuring the stability and financial health of banks and financial institutions. This department helps maintain the financial and operational health of banks by identifying, analyzing, monitoring, and managing various types of risks. Below are more details about the function and importance of this department:

1

Definition of Risk Management

Risk management refers to the process of identifying, analyzing, and responding to risks faced by an organization. The aim is to reduce the negative impacts of risks and optimize opportunities.

2

Types of Risks in Banking

Credit Risk

The likelihood of non-repayment of loans and financial obligations by customers.

Operational Risk

Risks arising from internal failures, system breakdowns, human errors, or external incidents.

Market Risk

Includes risks related to market fluctuations such as interest rates, exchange rates, and stock prices.

Liquidity Risk

The risk of a bank's inability to meet the required liquidity for financial obligations in a timely manner.

Reputation Risk

The probability of damage to a bank's reputation due to negative events or improper management.

Legal and Regulatory Risks

Risks arising from non-compliance with financial and banking laws and regulations.

3

Risk Management Processes

Risk Identification

Identifying and documenting potential risks.

Risk Monitoring and Control

Designing and implementing strategies to mitigate or control risks.

Risk Assessment

Analyzing the likelihood and impact of each risk.

Risk Reporting

Continuous and accurate reporting to senior management and other stakeholders.

4

Tools and Techniques of Risk Management Banks use various tools and techniques for risk management, including

Financial and Statistical Models

Using complex models for risk prediction and analysis.

Risk Management Information Systems (RMIS)

Specialized software for data collection and analysis.

Development of Internal Policies and Procedures

Creating guidelines and internal policies to reduce risks.

5

Role of Risk Management in Decision Making

Risk management provides necessary information to senior bank management for making strategic and tactical decisions. This information helps banks make smarter decisions in the face of environmental and economic changes, and prevent potential losses.

6

Importance of Risk Management in Banking

Maintaining Financial Stability

Helping to prevent financial crises and maintain economic stability.

Compliance with Regulations

Ensuring compliance with international and domestic financial and banking regulations.

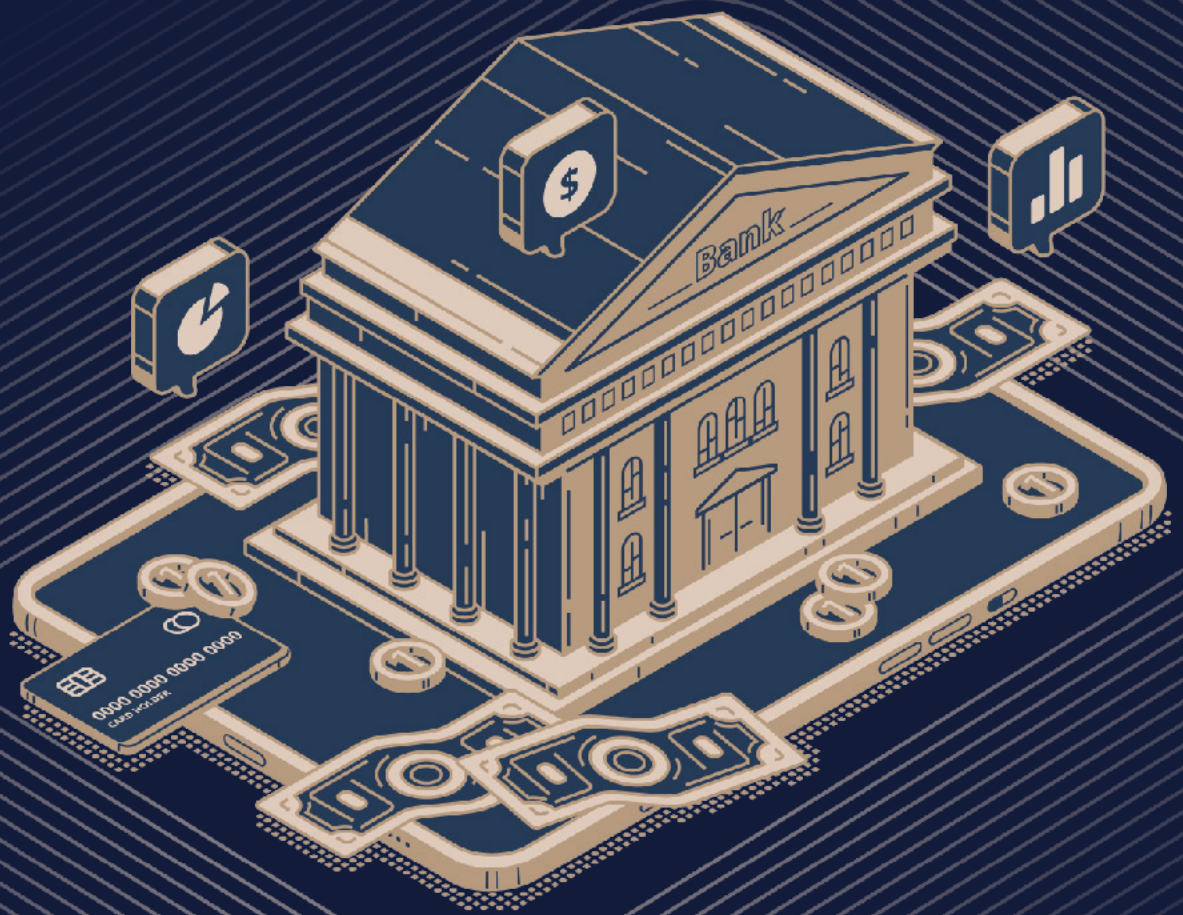
Increasing Public Confidence

Building trust and confidence among customers and stakeholders.

Improving Efficiency and Productivity

Increasing operational efficiency and productivity of banks.

Risk management, as one of the pillars of modern banking, plays an undeniable role in maintaining and strengthening the financial and operational health of banks. By identifying and effectively managing risks, this department helps banks withstand various challenges and risks, and achieve sustainable growth and development.



5

BANKING LAWS AND REGULATIONS

BANKING LAWS AND REGULATIONS

Banking laws and regulations consist of a set of principles and rules established by governments and regulatory bodies to regulate and oversee the activities of banks and financial institutions. These regulations are designed to ensure financial health, maintain public trust, and prevent corruption and misuse within the banking system. Below, we explore the various aspects of these laws and regulations in detail.

► Objectives of Banking Laws and Regulations

- **PROTECTION OF DEPOSITORS:** A primary goal of these regulations is to protect depositors' funds from financial risks and mismanagement.
- **FINANCIAL STABILITY:** To establish and maintain stability within the financial system and prevent financial crises.
- **PREVENTION OF MONEY LAUNDERING AND TERRORIST FINANCING:** To prevent the misuse of the banking system for illegal activities.
- **CONSUMER PROTECTION:** To ensure fair and transparent treatment of banking customers.

PRUDENTIAL REGULATIONS

Banking laws and regulations consist of a set of principles and rules established by governments and regulatory bodies to regulate and oversee the activities of banks and financial institutions. These regulations are designed to ensure financial health, maintain public trust, and prevent corruption and misuse within the banking system. Below, we explore the various aspects of these laws and regulations in detail.

► Capital Regulations

These regulations require banks to maintain a certain amount of capital as a buffer to absorb potential losses, ensuring they can meet their obligations during financial stress. Key components of capital regulations are:

Capital Adequacy Ratio (CAR)

The minimum ratio of a bank's capital to its risk-weighted assets. For example, under the Basel III framework, banks must maintain a minimum capital adequacy ratio of 8%.

Tier 1 Capital

The core capital of a bank, including paid-up capital and retained earnings.

Tier 2 Capital

Supplementary capital, including long-term debt and other financial instruments.

► Liquidity Regulations

Banks must maintain sufficient liquidity to meet unexpected withdrawals by depositors. Key tools for liquidity management include:

Liquidity Coverage Ratio (LCR)

A requirement for banks to hold liquid assets sufficient to cover net cash outflows over a 30-day period.

Net Stable Funding Ratio (NSFR):

A requirement for banks to have stable and long-term funding sources.

► Leverage Regulations

These regulations are designed to prevent excessive leverage in the banking system. The leverage ratio sets the minimum capital relative to a bank's total assets.

► Disclosure and Transparency

Banks are required to disclose their financial and operational information transparently, enabling shareholders, depositors, and regulatory bodies to assess the bank's condition. This includes the regular publication of financial reports, risk disclosures, and compliance with prudential standards. Prudential regulations play a crucial role in maintaining the health and stability of the financial system. By strengthening capital bases, optimizing risk management, maintaining sufficient liquidity, and ensuring transparency and disclosure, these regulations

help mitigate the likelihood of financial crises and sustain public trust in the banking system. Adherence to these regulations by banks and effective supervision by regulatory bodies are essential for the stability and robustness of the banking sector.

CONDUCT REGULATIONS

Conduct regulations in the banking sector are a set of laws, principles, and guidelines aimed at maintaining ethical standards, transparency, and fiduciary responsibility in the operations of banks and financial institutions. These regulations ensure public trust in the banking system and prevent financial misconduct and professional malpractices. Detailed aspects of these regulations include:

► Fundamental Principles of Professional Conduct

Integrity and Honesty

All bank employees must act with integrity and honesty in all their dealings with customers and colleagues. Customer information must be kept confidential and shared only in legally permissible circumstances.

Transparency

Banks must provide accurate and clear information to customers to enable informed financial decision-making. This includes clearly disclosing any fees, charges, or interest rates.

Accountability

Banks must be accountable for their actions and any harm caused to customers. Internal procedures and policies should be in place to prevent misconduct.

Fairness and Equality

Banks must treat all customers fairly and without discrimination, ensuring that rules and regulations are applied consistently to all.

ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM (AML/CFT) REGULATIONS

Know Your Customer (KYC) Costs

Banks are required to accurately identify and verify their customers' identities. This process includes collecting personal information, identification documents, and assessing the financial background of customers.

1

Suspicious Activity Reporting

Banks must report any suspicious financial activities to relevant authorities. Internal systems and software are used to detect unusual transaction patterns.

2

Employee Training

Banks must conduct regular training programs for their staff on AML/CFT regulations, equipping them to identify and report suspicious activities.

3

CORPORATE GOVERNANCE REGULATIONS

Transparent Organizational Structure

Banks should have a clear organizational structure with well-defined roles and responsibilities. The establishment of various committees such as risk, audit, and compensation committees is mandatory.

1

Internal Controls and Risk Assessment

Internal control systems should be designed to identify and manage various risks. Regular assessments of internal policies and procedures should be conducted for continuous improvement.

2

Financial Reporting Transparency

Financial reports should be accurate, transparent, and timely. The use of international accounting standards (IFRS) for financial reporting is recommended.

3

CONFLICT OF INTEREST REGULATIONS

Identification and Management of Conflicts of Interest

Banks should have processes to identify and manage conflicts of interest. Employees must report any potential conflicts to their supervisors.

Prevention of Insider Information Abuse

There are laws and regulations to prevent the misuse of insider information by employees. Any financial transaction that could result in a conflict of interest must be reviewed and approved.

CUSTOMER SATISFACTION AND SERVICE REGULATIONS

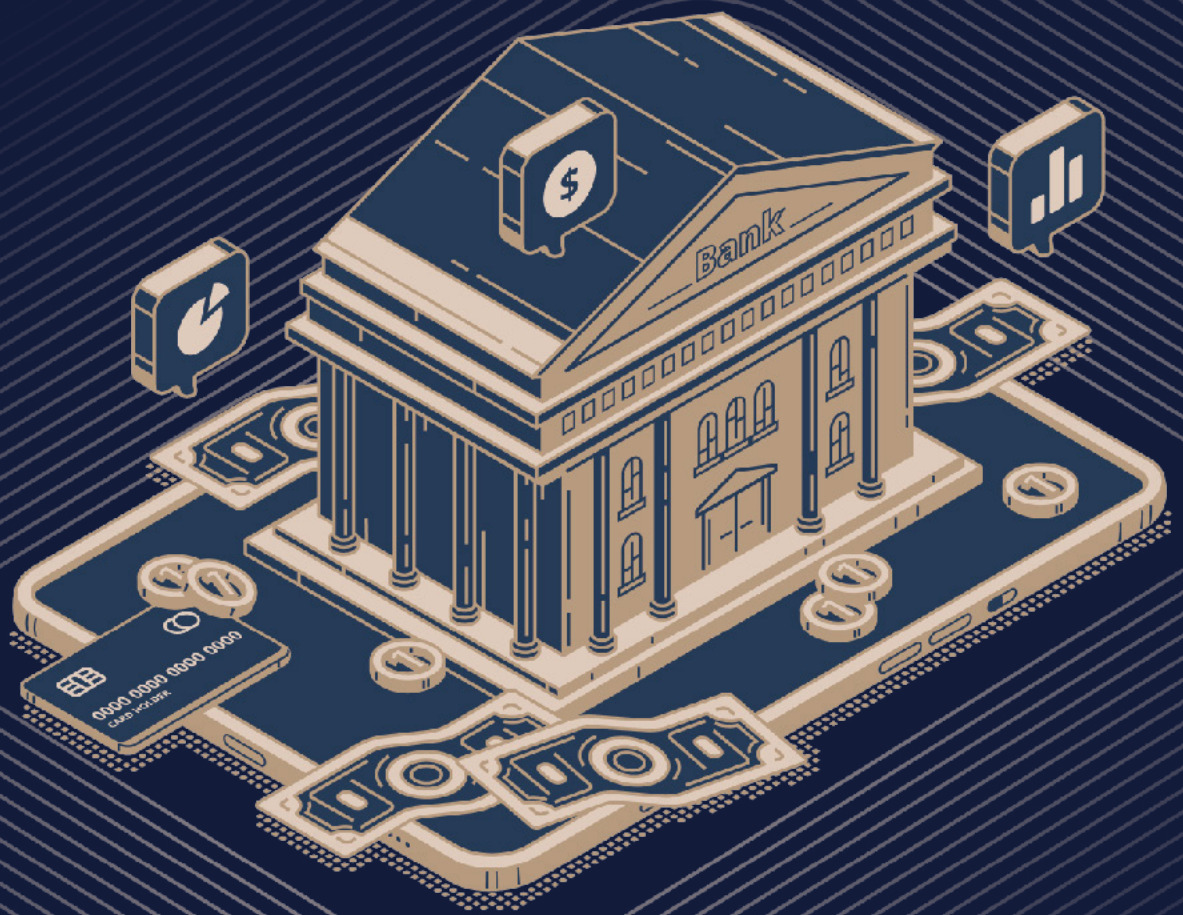
Handling Customer Complaints

Banks are committed to providing high-quality services to customers. Employees should undergo necessary training to offer optimal customer service.

Providing Quality Service

Banks should have effective systems for receiving and addressing customer complaints. The complaint handling process should be swift, transparent, and fair.

Conduct regulations in the banking sector play a crucial role in maintaining public trust, preventing misconduct, and ensuring the provision of fair and quality services to customers. The successful implementation of these regulations requires the cooperation and commitment of all bank employees and managers.



6

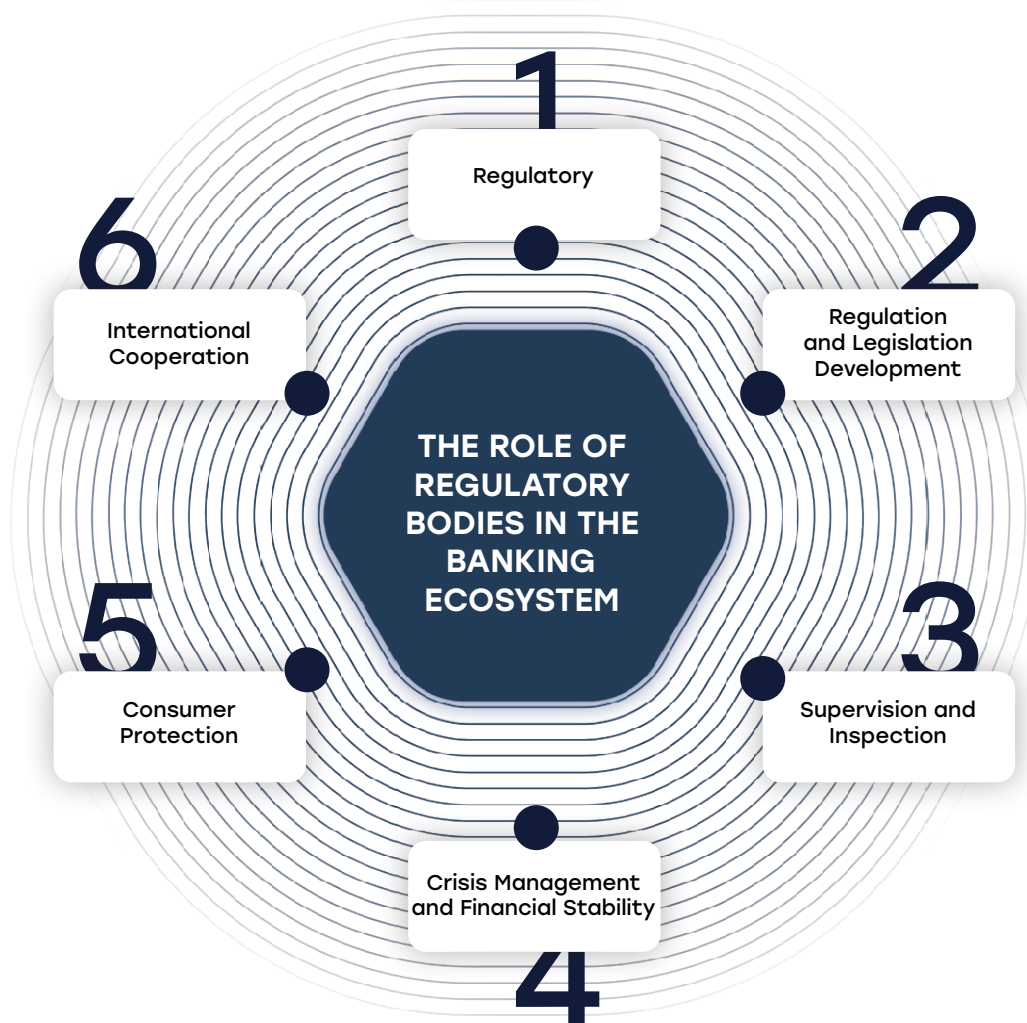
THE ROLE OF REGULATORY AUTHORITIES IN THE BANKING ECOSYSTEM

THE ROLE OF REGULATORY AUTHORITIES IN THE BANKING ECOSYSTEM

Regulatory authorities hold a crucial and multifaceted role in the banking industry and its ecosystem. Their responsibilities include:

- 1. REGULATION:** Establishing laws and guidelines to ensure the stability and integrity of the financial system.
- 2. SUPERVISION AND ENFORCEMENT:** Monitoring compliance with these regulations and taking corrective actions when necessary.
- 3. ENSURING FINANCIAL STABILITY:** Safeguarding the financial system against crises and systemic risks.
- 4. CONSUMER PROTECTION:** Ensuring fair treatment of customers and protecting their rights.
- 5. COMBATING MONEY LAUNDERING AND TERRORIST FINANCING:** Implementing measures to prevent illegal financial activities.

Each of these roles is critical in maintaining the health and stability of the banking system.



► Regulatory Authorities and Regulation

Regulatory authorities in each country bear the primary responsibility for setting regulations and policymaking in the banking industry. These entities include central banks, ministries of finance and economy, and independent regulatory bodies such as financial market supervisory organizations. The main duties of these authorities are:

Developing and enforcing banking regulations

Supervising the performance of banks and financial institutions

Managing systemic risks and overseeing financial stability

Protecting the rights of financial consumers

► Development of Regulations and Laws

Banking regulations and laws are formulated by regulatory authorities and encompass various directives that banks must follow. Key areas covered by these regulations include:

● Capital Requirements

Setting minimum capital levels banks must maintain to ensure their financial stability.

● Liquidity Regulations

Mandating banks to hold a certain level of liquidity to deal with financial crises.

● Compliance Regulations

Requiring banks to adhere to anti-money laundering and counter-terrorism financing laws.

● Disclosure and Transparency

Obligating banks to provide clear and regular financial reports to regulatory bodies and the public.

► Supervision and Inspection

Regulatory authorities regularly and periodically inspect banks to ensure compliance with regulations. This supervision includes reviewing financial statements, assessing risks, and conducting financial stress tests. If any violations or issues are found, regulatory authorities can impose corrective and punitive measures.

► Crisis Management and Financial Stability

One of the key roles of regulatory authorities is managing financial crises. These bodies must have emergency plans and tools to address financial crises and prevent their spread to the banking system. Such measures include establishing deposit insurance funds, providing emergency loans to banks, and implementing appropriate monetary policies.

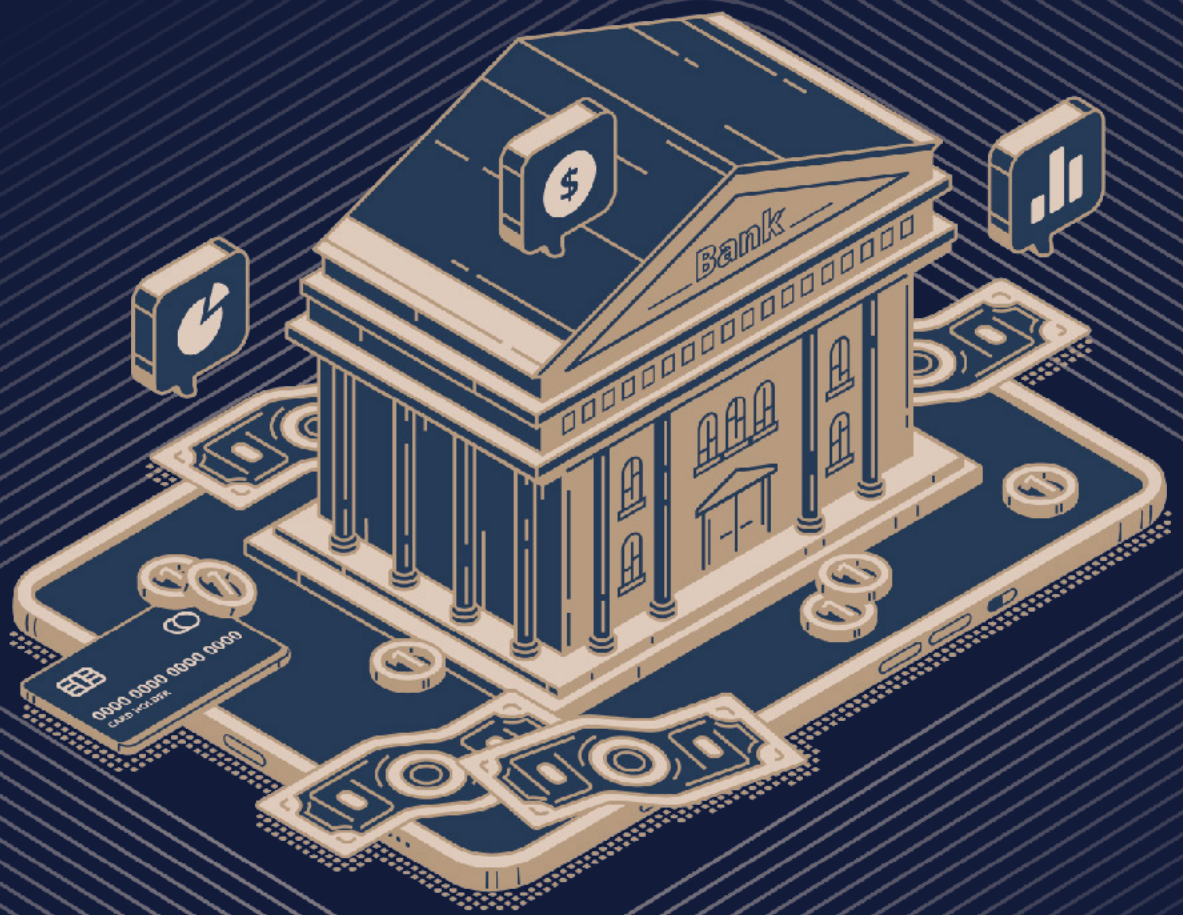
► Consumer Protection

Regulatory authorities are responsible for safeguarding the rights of financial consumers. This protection includes ensuring transparency in financial contracts, protecting customers against unfair practices, and providing equitable and non-discriminatory access to financial services.

International Cooperation

Given the globalization of financial systems and banking, regulatory authorities from different countries must collaborate to ensure the stability and health of the global banking system. This cooperation involves sharing information, coordinating regulations, and participating in international regulatory organizations like the Bank for International Settlements (BIS) and the International Monetary Fund

Regulation and policymaking in the banking industry and the banking ecosystem play a crucial role in ensuring financial stability and protecting consumer rights. This process, carried out through the collaboration and coordination of regulatory authorities and banks, includes the formulation of regulations, supervision and inspection, crisis management, and consumer protection. The ultimate goal of these measures is to create a secure, transparent, and stable banking system that can effectively meet the financial needs of society.



THE ROLE OF TECHNOLOGY IN THE BANKING INDUSTRY AND ECOSYSTEM

7

THE ROLE OF TECHNOLOGY IN THE BANKING INDUSTRY AND ECOSYSTEM

The banking industry has long been one of the most stable and conservative industries, but in the last two decades, no industry has been as affected by revolutionary technological developments as banking. Technology is no longer just a supporting tool for banking operations, but the main driving force of change, innovation, and the competition has become. From the advent of electronic banking in the 1990s to the explosion of artificial intelligence and blockchain in today's era, technology has fundamentally transformed the way banks interact with customers, manage risks, and provide financial services. This section delves into various dimensions of the role of technology in the banking industry and the banking ecosystem globally.

Digital Transformation and the Foundations of Modern Banking

E-Banking and Mobile Banking:

The starting point of this transformation was the emergence of electronic banking, which allowed customers to access banking services through the Internet. They made money transfers, bill payments, and loan applications readily available. This transformation not only increased the efficiency of banking operations, but also facilitated access to financial services for millions of people around the world, especially in less developed regions. Today's mobile banking apps have become personal financial control centers through which users can budget, track their spending, and even receive personalized financial advice.

Online and Instant Payment Systems:

The development of online and instant payment systems is one of the most important technological achievements in banking. Rapid payment networks such as Faster Payments in the UK, SEPA Instant Credit Transfer in Europe, and RTP in the US have made it possible to transfer funds between accounts in a fraction of a second and 24 hours. This speed and efficiency is critical not only for individual customers but also for businesses and e-commerce. In addition, the proliferation of online payment gateways, QR code payments, and NFC (Near Field Communication) technology that allows contactless payments from a mobile phone or smartwatch have made the payment experience much simpler and more secure.

Robotic Process Automation (RPA):

RPA allows banks to automate repetitive, rule-based tasks that were previously performed by humans. These tasks can include processing forms, entering data, matching accounts, and even some aspects of adaptive reporting. RPA not only speeds up operations and reduces errors, but it also allows employees to focus on higher-value-added tasks. This technology serves as an intermediate step toward more complete automation using artificial intelligence.

Artificial Intelligence (AI) and Machine Learning (ML): The Mastermind of Future Banking

Artificial intelligence and machine learning are key players in today's banking transformation. These technologies have the ability to analyze huge amounts of data and can uncover patterns and insights that are impossible for humans.

Personalization and customer experience:

AI allows banks to provide financial services and products in a highly personalized manner by accurately analyzing customer behavior, needs, and preferences. AI chatbots and virtual assistants provide 7/24 high-performance customer support. These systems can answer frequently asked questions, provide financial guidance, and even in Processes of opening an account or applying for a loan. This level of personalization increases customer satisfaction and increases their loyalty.

Advanced Validation and Risk Management:

AI and ML have revolutionized the way credit risk is assessed. Banks can also analyze non-traditional data (such as bill payment behavior, online shopping history, and even social media activity – while respecting privacy) using machine learning algorithms, rather than relying on traditional and restrictive models. This leads to more accurate risk assessments, reduced default rates, and loan provision. It helps segments of society that were previously overlooked by traditional models (such as freelancers or freelancers). In addition to credit risk, AI is also used in identifying and managing other risks, such as operational risk, market risk, and liquidity risk.

Detection and Prevention of Fraud and Money Laundering (AML/CFT):

One of the most important applications of AI in banking is to strengthen systems for detecting and preventing fraud, anti-money laundering, and combating the financing of terrorism. Learning Algorithms The machine can detect suspicious transaction patterns that indicate illegal activities with very high accuracy and speed. These systems are constantly learning from new data and are able to identify emerging threats, which helps banks comply with strict regulations and reduce financial penalties.

Optimization of operations and predictive analysis:

AI can optimize a bank's internal processes from human resource allocation to portfolio management and forecasting market trends. Predictive analysis using ML allows banks to predict market patterns and make more informed investment decisions. Also, in optimizing ATM networks, managing customer queues at branches (if applicable) And even proactive maintenance of IT systems is also applicable.

Blockchain and Cryptocurrencies: Transformational Potentials

Blockchain technology, which was initially recognized as the underpinning of cryptocurrencies such as Bitcoin, has vast potential beyond just cryptocurrencies in the banking industry.

Interbank Settlement and Transfer:

Blockchain can revolutionize the processes of interbank settlement and international payments. By using distributed ledgers (DLTs), it is possible to reduce settlement time from days to real-time, eliminate intermediaries, and dramatically reduce costs. This technology provides greater transparency and security in financial transactions.

Trade Finance and Trade Finance:

Blockchain can simplify complex and time-consuming processes in trade finance. Using smart contracts and distributed ledgers, business documents such as letters of credit and guarantees can be recorded and tracked digitally and immutably, which helps reduce fraud, increase speed, and increase transparency.

Digital Identity:

Blockchain can help create self-sovereign identity systems. These systems allow people to have more control over their personal data and share it securely with banks and other service providers. This can make authentication (KYC) and anti-money laundering processes simpler and more efficient.

Tokenized Securities:

Tokenizing assets and securities on the blockchain can democratize and streamline the issuance, trading, and settlement processes. This increases the potential for the creation of new financial markets and access to capital for companies and retail investors.

Central Bank Digital Currencies (CBDCs):

Many central banks around the world are exploring or testing CBDCs . These currencies, which are digital versions of fiat money and are issued directly by the central bank, can help increase the efficiency of payments, reduce settlement costs, and increase financial inclusion.

Open Banking and Financial Ecosystems

New collaboration models:

Open banking, which allows for the secure sharing of financial data (with customer satisfaction) using APIs, has led to the creation of new collaboration models between banks, fintechs, and other companies. This approach is pushing the boundaries of traditional banking and moving towards integrated financial ecosystems .

Third-party innovation:

Open banking allows fintech companies and independent developers to create innovative services on the basis of banking data and infrastructure. These services can include personal financial management applications, financial product comparison platforms, smart budgeting tools, and financial solutions for small businesses.

Embedded Finance:

This process means the intangible integration of financial services into non-financial processes and everyday platforms, for example, the ability to apply for a loan at the moment of buying a car from a showroom, or travel insurance when booking a flight. Open banking provides the necessary infrastructure for the realization of this concept, enabling banks to provide financial services at customer touchpoints.

Competition and Customer Choice:

Open banking increases competition in the financial industry and offers customers more choices. Customers can easily switch between different financial service providers and benefit from the best offers.

► **Supporting Infrastructure and Technologies**

Cloud Computing:

Banks are increasingly migrating their infrastructure to cloud environments. Cloud computing provides greater flexibility, scalability, and operational efficiency, allowing banks to innovate more quickly and reduce operational costs. Security and versatility in the cloud are key concerns associated with security solutions. Advanced and proprietary financial clouds are being fixed.

Big Data and Data Analytics:

Data is the new oil in the banking world. The ability to collect, store, process, and analyze vast amounts of data is critical to deeper understanding of customers, identify trends, and optimize decision-making. Big data infrastructure is the primary basis for AI and machine learning applications .

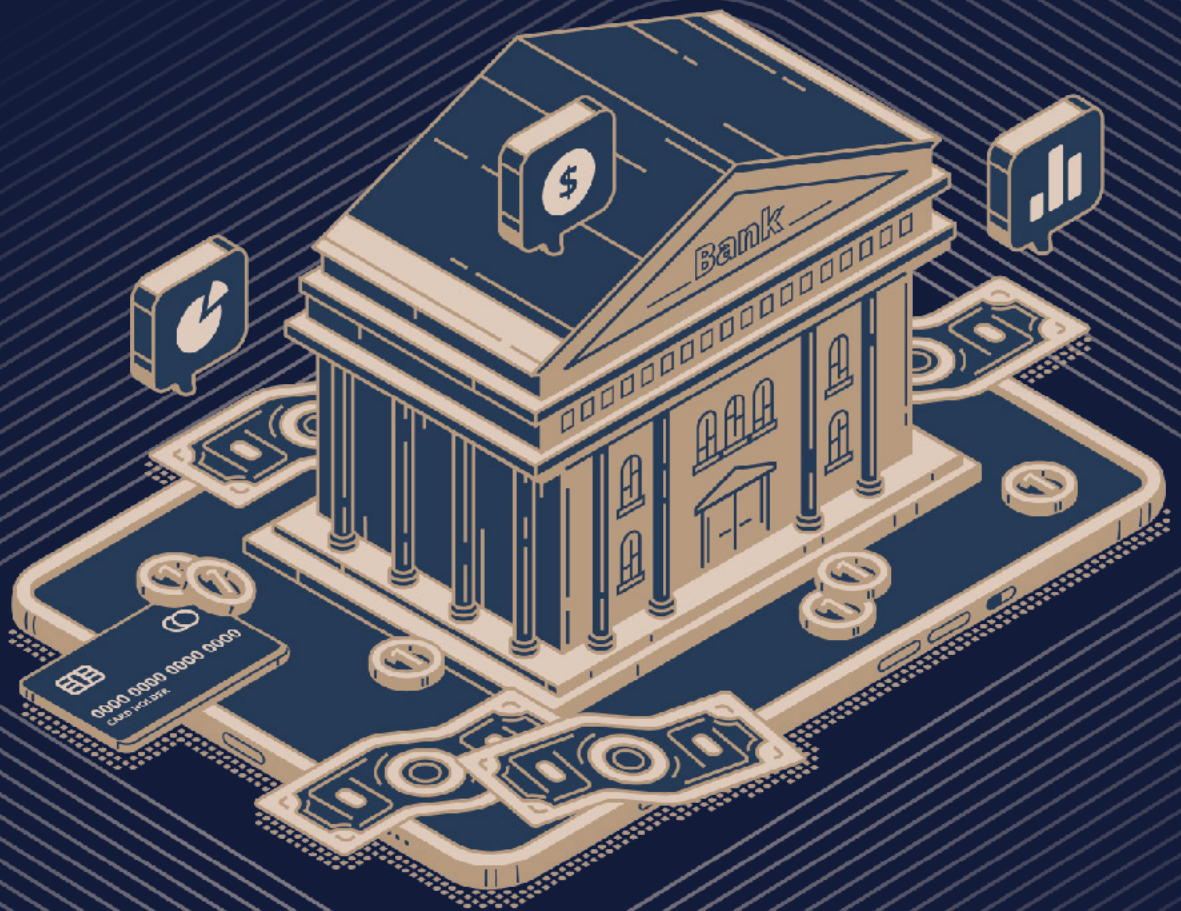
Cybersecurity and Data Protection:

With increasing dependence on technology, cybersecurity has become a critical concern. Banks are constantly exposed to sophisticated cyberattacks. Investing in advanced security technologies, cyber threat intelligence, and employee training to protect sensitive customer data and prevent fraud is of utmost importance.

RegTech and SupTech technologies:

RegTech (Regulatory Technology) technologies help banks meet regulatory requirements more efficiently, including in the areas of anti-money laundering and reporting. Meanwhile, SupTech (Supervisory Technology) allows regulatory bodies to monitor banks more effectively and proactively using data and artificial intelligence.

At the end of this section, we must emphasize that technology is the main driving force in the transformation of the global banking industry, and its role has changed from a support tool to a decisive factor in competition, innovation, and customer experience. From electronic and mobile banking to artificial intelligence, blockchain, and open banking models, each of these technologies have the potential to create enormous transformations. Banks that can respond to these changes quickly and flexibly will be on the path to growth and sustainability. This will require continuous investment in technology, the development of specialized workforce, the transformation of organizational culture, and collaboration with the fintech ecosystem. The future of banking will be a digital, data-driven, and customer-centric future where technology plays a pivotal role in providing more efficient, secure, and inclusive financial services. Banking, Stock Exchange & Insurance Expo is a great opportunity to share this knowledge and shape a shared future. This is the industry.



CHALLENGES AND OPPORTUNITIES OF THE BANKING INDUSTRY AND THE BANKING ECOSYSTEM

8

CHALLENGES AND OPPORTUNITIES OF THE BANKING INDUSTRY AND THE BANKING ECOSYSTEM

The banking industry in any country is considered the backbone of its economy and plays a vital role in allocating resources, facilitating transactions, and managing financial risks. However, like many other critical industries, banking also faces a set of unique challenges and opportunities that are essential for strategic planning and sustainable development. This section deals in detail with the most important challenges and opportunities facing the banking industry and the banking ecosystem, especially in Iran.



1 Structural and macroeconomic challenges

Inflation and economic fluctuations:

One of the biggest challenges facing banks is in countries like Iran that do not have a stable economy and face issues such as high inflation rates and severe economic fluctuations. These factors have a direct impact on people's purchasing power, the value of bank assets, and the profitability of the facility. High inflation can lead to a decrease in the willingness to make long-term deposits, while fluctuations in exchange rates and commodity prices increase the credit risk of borrowers. These conditions make managing banking risks, especially credit risk and interest rates, complex and difficult.

Deferred debts and doubtful receivables:

The high volume of deferred government and non-governmental debts to banks is one of the biggest challenges of the banking system. These receivables reduce the ability of banks to grant new facilities and play their role in financing the economy. This issue not only negatively affects the profitability of banks, but can also lead to a liquidity crisis in some banks. Roots of this problem can be found in economic recessions, non-repayment of facilities by companies and individuals, and sometimes weaknesses in validation processes.

International sanctions and operational restrictions:

Today, one of the methods—of developing countries to exert pressure on different countries is to impose various sanctions and restrictions—. Countries such as Iran, Russia, Syria, etc. They are grappling with these problems. The economic sanctions imposed on countries have severely restricted their banks' access to international financial markets and global payment systems. This issue not only affects the foreign trade of countries, but also the ability of banks to attract foreign capital, establish brokerage relationships with foreign banks, and has disrupted the provision of international services to its customers. The consequence of these restrictions is increased money transfer costs, complexities associated with international trade, and loss of growth and development opportunities in global markets.

Government Intervention and Directive Policies:

Government interference in banking processes, setting mandated interest rates, and requiring banks to pay facilities in certain sectors can reduce the efficiency and competitiveness of banks. These policies are sometimes contrary to the principles of the free market and banking profitability and can lead to diversion of resources and increase systematic risks.

Corporate governance and transparency:

Issues related to corporate governance, financial transparency, and accountability in some banking institutions have created challenges to increase public confidence and foreign investment. The lack of adequate transparency in the financial statements and operations of some banks can harm the stability of the banking system.

► **Challenges of Technology and Digitalization**

Cybersecurity:

As digital banking expands and the use of online platforms increases, cybersecurity threats have also increased increasingly . Hacker attacks, phishing, and internet scams not only lead to a loss of customer trust, but can also cause significant financial losses to banks. The need to continuously invest in security infrastructure and train employees and customers is an ongoing challenge for banks.

Competition with fintechs and neobanks:

The arrival of fintech companies and the rise of neobanks have created new competition in the banking industry. These new players are threatening the traditional market share of banks by focusing on innovation, providing more agile and cheaper digital services, and a better user experience.

Outdated Technological Infrastructure:

Many traditional banks still use outdated and inefficient systems, which hinder innovation and the delivery of advanced digital services. Upgrading and replacing this infrastructure requires huge investments and complex digital transformation processes, which can be time-consuming and costly.

Data privacy:

As the volume of customer data increases, privacy and information security are a significant challenge. Banks must ensure that sensitive customer data is protected from unauthorized access and misuse, which requires strict compliance with international regulations and standards.

Challenges related to human resources and organizational changes

Shortage of technology professionals:

Due to the rapid growth of technology in the banking industry, the shortage of specialized manpower in areas such as artificial intelligence, data analytics, cybersecurity, and software development is a serious challenge. Banks face difficulty in attracting and retaining these talents to compete with technology companies.

Resistance to change:

In large, traditional organizations such as banks, resisting technological and cultural changes can hinder progress and innovation. Educating employees, changing organizational culture, and motivating the adoption of new technologies is a difficult and time-consuming process.



► Opportunities Arising from Digital and Technology Transformation

Digital Banking and Neobanks:

The development of digital banking and the emergence of neobanks have provided a unique opportunity for banks to expand their services and improve the user experience. Offering services such as online account opening, mobile payments, budget management, and personalized financial consulting, can facilitate the attraction of new customers, especially the younger generation.

Artificial Intelligence (AI) and Big Data Analytics:

The use of AI and big data analytics provides vast opportunities to improve decision-making, increase efficiency, and personalize banking services. Through data analysis, banks can more accurately assess credit risk, design new products tailored to customers' needs, and optimize their internal processes. Chatbots AI for customer support and fraud detection systems are just a few examples of AI applications in banking.

Blockchain and Cryptocurrencies (with a Regulatory Approach):

Despite regulatory challenges, blockchain technology has great potential to increase transparency, security, and efficiency in banking processes. Using blockchain in areas such as identity verification, checkout, and supply chain management can reduce costs and speed up processes. Due to the cautious approach of the regulator in Iran, limited but growing opportunities in this field (such as the use of national cryptocurrencies or blockchain platforms for specific purposes) can be created.

Open Banking:

The concept of open banking, which allows for the secure sharing of financial data with customer satisfaction, creates new opportunities for collaboration between banks and fintech companies. This model can lead to the provision of innovative and integrated services , improved customer experience, and the development of a dynamic financial ecosystem.

Market Opportunities and Demographic Changes

Attracting the young and digital generation:

Due to the young and tech-savvy population in different countries, banks have the opportunity to attract this segment of society by providing digital services and user-friendly applications. This generation expects financial services to be easily accessible through digital channels.

Developing financial services for small and medium-sized businesses (SMEs):

Small and medium-sized businesses are the driving force of the economy and have special financial needs. Banks can increase their market share and contribute to economic growth by designing credit and service products tailored to this sector. Digital platforms can accelerate the process of lending to SMEs .

Increased financial literacy:

As financial literacy increases in society, the demand for more sophisticated financial products and investment advice increases. Banks can strengthen their role as reliable financial advisors by providing financial education and advisory services.

► Opportunities arising from changing approaches and collaborations

Partnerships with fintechs:

Instead of merely competing with fintechs, banks can collaborate with them. Investing in fintech startups, creating fintech accelerators, or integrating fintech services into banking platforms can benefit both parties. These collaborations can help banks benefit from fintech innovations, and Fintechs should also use the infrastructure and large customer base of banks.

Changes in regulation:

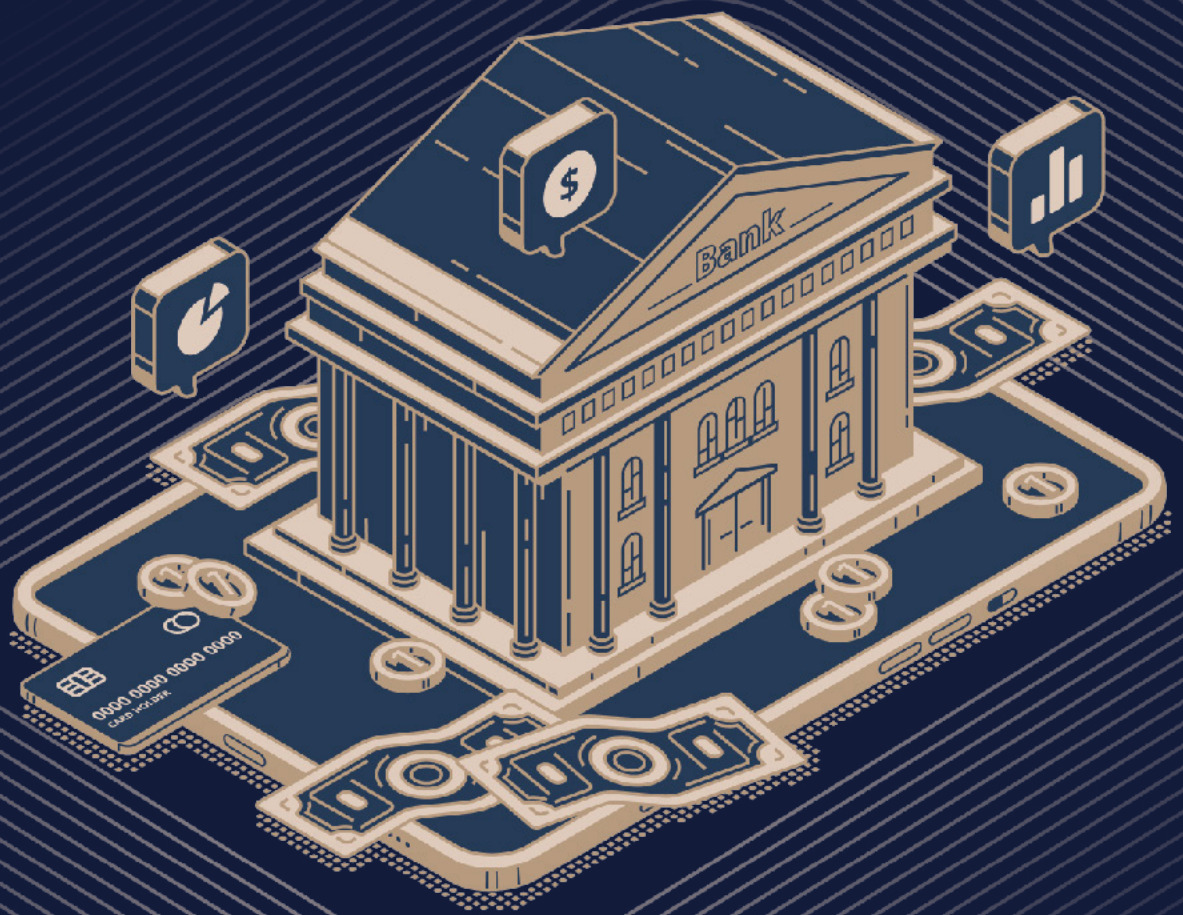
Due to the rapid changes in technology and the market, the regulator is also working to update the rules and regulations. These changes can create opportunities to innovate and provide new services within legal frameworks. The active participation of banks in the legislative processes can help to form regulations that both support financial stability and encourage innovation.

Corporate Social Responsibility (CSR) and Green Banking:

As public awareness of environmental and social issues increases, banks have the opportunity to improve their image and attract informed customers by focusing on green banking, providing facilities for sustainable projects, and developing socially responsible products.

► Conclusion

The banking industry in Iran is at a turning point. The challenges ahead, both structural and technological, are significant and require smart and strategic management. However, there are also great opportunities on the horizon, including digital transformation, demographic changes, and the potential for new collaborations. Banks that can respond quickly and flexibly to these changes will be on the path of growth and sustainability. Investing in technology, developing specialized manpower, improving corporate governance, and focusing on customer needs will be key strategies to succeed in this competitive and evolving environment. Exhibitions such as banking, stock exchange, and insurance are a great opportunity to exchange ideas, learn about innovations, and build strategic partnerships to overcome challenges and exploit opportunities in this vital industry.



9

BANKING IN IRAN

Historical Overview of Banking in Iran

Before the Achaemenid Empire, people deposited their money in temples and with princes. The Achaemenids, after conquering the wealthy kingdom of Lydia—known for minting coins—and Babylon, which had specific laws under Hammurabi for lending and accepting deposits, introduced new economic systems and promoted the use of coined money in Iran.

The inception of banking in Iran can be traced back to the establishment of private banks such as «Egibi and Sons» during the Achaemenid period. Founded by Jacob, a Jewish immigrant residing in Babylon, this bank engaged in activities similar to modern banking, including providing loans, accepting deposits, creating bank accounts, and issuing checks.

In 1887, the first foreign bank in Iran, the «New Oriental Bank,» based in London, began operations without government approval, establishing six branches across the country. This bank introduced the first current account in Iran that accrued interest. After three years, it transferred its assets to the newly established Imperial Bank of Persia.

The Imperial Bank of Persia, founded in 1888 by British entrepreneur Baron Julius de Reuter, who also established the Reuters news agency, obtained a 60-year concession from Naser al-Din Shah for its operations, including the exclusive right to issue banknotes. The bank commenced its operations in 1890 with an initial capital of one million pounds and was subject to British law. In 1930, the exclusive right to issue banknotes was purchased from this bank and transferred to the newly established Bank Melli Iran.

Following the Imperial Bank, foreign nationals continued to hold concessions to establish banks in Iran. The Concession for 75 years was granted to a Russian national, leading to the establishment of the «Loan Bank of Iran» in 1891. The bank's assets were transferred to the Iranian government in 1922 and later merged with the Agricultural Bank in 1933.

In 1924, «Bank Sepah» was established with an initial capital of 3,883,950 rials from the military retirement fund. It began operations in Rasht, offering credit services to merchants and military personnel. The same year saw the establishment of the «Iranian Collateral Institution,» which provided low-interest loans against movable collateral. Initially under the Ministry of Finance, it was later transferred to Bank Melli Iran and renamed «Bank Kargoshaei.»

In 1927, the National Consultative Assembly passed a law permitting the establishment of Bank Melli Iran, which began operations in September 1928 in Tehran. The first director of Bank Melli, Dr. Kurt Lindenblatt, and his deputy, Vogel, came from Germany. One of the bank's significant actions was revoking the Imperial Bank's right to issue banknotes, leading to the issuance of Bank

Melli's banknotes from 1932 onwards.

Iran's first private bank, «Bank of Commerce Iran,» was established as a public joint-stock company. By the mid-1950s, five more private banks were established: Omran, Saderat, Tehran, Insurance Commerce, and Pars.

The Central Bank of Iran (CBI) was established in 1960, 73 years after banking activities began in Iran, assuming functions like issuing currency and government banking from Bank Melli Iran. The CBI is responsible for managing the country's monetary and credit systems and overseeing the banking sector.

In 1979, following the Islamic Revolution, the Iranian government nationalized all banks to safeguard depositors' rights and national capital, ensuring the repayment of public deposits. The nationalization was followed by mergers to consolidate capital, resulting in, for example, the formation of Bank Tejarat from 11 banks and Bank Mellat from 10 banks. Today, Iran's banking system consists of six commercial banks: Bank Melli, Bank Saderat, Bank Tejarat, Bank Mellat, Bank Sepah, and Bank Refah, and three specialized banks: Bank Keshavarzi (Agriculture), Bank Maskan (Housing), and Bank San'at va Ma'dan (Industry and Mines).

Currently, banking in Iran has evolved beyond traditional practices, embracing electronic banking and IT advancements, with banks continuously offering new services to remain competitive.

► Structure and Organization

Iran's banking industry is divided into two main categories:

- **Commercial Banks**

These include state-owned, national, and private banks that provide general banking services such as lending, deposits, and money transfers.

- **Specialized Banks**

These focus on specific sectors like agriculture, housing, and industry, such as the Agricultural Bank and the Industry and Mine Bank.

► Regulation and Supervision

The banking system in Iran is regulated by the Central Bank of the Islamic Republic of Iran (CBI), responsible for setting regulations, supervising banks, and implementing monetary and foreign exchange policies. Following the 1979 Islamic Revolution, Iran's banking was fully converted to Islamic banking, which prohibits interest (usury) and employs Islamic financial instruments like Musharakah (partnership), Mudarabah (profit-sharing), and Ijarah (leasing).

► Islamic Banking

Iranian banking operates on Islamic principles, emphasizing fairness, profit and loss sharing, and the elimination of interest in transactions. The contracts used in Iranian banking include:

- **CIVIL PARTNERSHIP AND MUDARABAH:** For financing commercial projects.
- **MURABAHA:** For purchasing goods and assets.
- **IJARAH WITH OWNERSHIP CONDITION:** For financing the acquisition of long-term assets.

► Sanctions and International Impact on Iran's Banking Industry

Iran's banking industry has been severely affected by international economic and financial sanctions in recent decades, especially in recent years. These sanctions, often imposed due to nuclear and regional issues, have not only affected the foreign relations of Iranian banks, but have also challenged their domestic operations and ability to support the country's economy. Accurately understanding these impacts for It is vital to understand the current situation and outline the future prospects of banking in Iran.

1

The nature and scope of sanctions

The sanctions imposed on Iran include a wide range of restrictions imposed by governments, international organizations (such as the United Nations at times), and large financial institutions. These sanctions mainly include:

- **Disconnection from international payment systems:** The most important and effective part of the sanctions is cutting off Iranian banks' access to global financial networks such as SWIFT and dollar and euro settlement systems . This has effectively deprived Iranian banks of the possibility of conducting normal and direct international transactions and has isolated them from the global financial system.

- **Asset freezing:** A significant part of the assets of Iran's Central Bank and commercial banks have been frozen abroad, which has led to a reduction in the foreign exchange and liquidity resources needed to import and manage the country's economy.
- **Restrictions on brokerage relationships:** Foreign banks are reluctant to establish or maintain brokerage relationships with Iranian banks due to fear of heavy fines by international supervisory bodies (especially the U.S. Treasury Department). This, even in cases where there is no direct sanctions, leads to excessive caution and self-sanction by foreign banks.
- **Ban on financing and investment:** Sanctions have also prevented Iranian banks from accessing international capital markets to attract capital or finance development projects. This puts the burden of financing the economy on domestic resources and the domestic banking system, which itself faces many challenges.
- **Ban on technology imports:** Some sanctions also include bans or restrictions on access to advanced banking technologies and financial software, which can challenge the process of modernization and digitization of banks.

2 Effects on domestic banking operations

Sanctions have not only affected banks' foreign relations, but also their domestic operations and their role in the national economy:

- **Increased money transfer costs:** In order to conduct international trade transactions, Iranian banks and businessmen have been forced to use more complex, indirect, and costly channels such as money exchanges or the use of financial intermediaries in friendly countries. In addition to increasing costs, these methods also carry security and operational risks.
- **Decrease in the volume of foreign trade and access to foreign currency:** Banking restrictions have directly affected the volume and speed of the country's foreign trade. This issue has also fueled the shortage of foreign exchange and fluctuations in the exchange rate in the domestic market and has a negative effect on the country's economic stability.

- **Problems in financing large projects:** Large infrastructure and development projects in the country, which usually require huge investments and foreign financing, have faced serious difficulties due to sanctions. This leads to a slowdown in the development process and an increase in pressure on domestic resources.
- **Isolation from the world's modern knowledge and technology:** Lack of communication with major banks and international financial institutions has deprived Iranian banks of access to the latest innovations, global standards, and up-to-date knowledge in the field of banking. This can lead to technological and managerial backwardness in the long run.
- **Increased Compliance Risk:** Iranian banks are forced to face high compliance risks (the risk of non-compliance with international laws and regulations) in order to circumvent sanctions and maintain limited channels of exchange. This can lead to potential penalties for foreign partners and increase their caution in cooperating with Iran.

3 Opportunities and approaches to coping

Despite the severity and scope of the sanctions, Iran's banking industry has not sat idly by and has been trying to adapt and create opportunities out of these challenges:

- **Strengthening domestic banking and self-sufficiency:** Sanctions have led to the further development and strengthening of domestic banking infrastructure and services. Banks have been forced to increase their capacities in the field of domestic payments, financing indigenous projects, and providing services to domestic companies.
- **Development of indigenous payment technologies:** In response to the suspension of access to international networks, the development of indigenous payment systems and technologies such as Shaparak, SHETAB, and Satna was quickly pursued. These systems have greatly increased the efficiency of the domestic payment network and can be used as an infrastructure for regional cooperation in the future.

- **Expanding banking relations with friendly and regional countries:** Iran has tried to establish bilateral banking relations with countries that have a different approach to sanctions. Establishing bilateral monetary treaties and using national currencies in trade with these countries is one of the ways to deal with dollar and euro restrictions .
- **Increased expertise in AML/CFT:** Although sanctions have been challenging, they have forced banks to strengthen their AML/CFT infrastructure and know-how. This, if sanctions are eased, can help them keep up with international standards.
- **The use of cryptocurrencies and new technologies to circumvent sanctions (with regulatory challenges):** In recent years, there has been talk of using cryptocurrencies to facilitate international transactions and circumvent sanctions. Although this field still faces serious regulatory challenges and price fluctuations, it has potential for the future, especially in the field of national digital currencies or blockchain platforms controlled by the Central BankAre.
- **Active economic diplomacy:** Iran is constantly trying to find ways to ease sanctions and normalize international banking relations through economic diplomacy. Any progress in this area will bring great opportunities for Iran's banking industry to flourish.

International sanctions have put Iran's banking industry in a complex and challenging situation. These constraints have drastically increased the need for innovation, resilience, and versatility in banks. However, these same challenges have opened up opportunities for self-sufficiency, strengthening domestic infrastructure, and the development of indigenous solutions as well. The future of Iran's banking industry depends on the industry's ability to effectively manage the risks posed by sanctions, exploit emerging technological opportunities, and continue efforts to normalize international relations.

Technology and Electronic Banking in Iran

The role of technology in Iran's banking industry has transformed from a supporting element to a driving and transformative factor over the past two decades. Electronic and digital banking has not only changed the way banking services are provided, but has also transformed customer expectations. In 2024, technology is not only a competitive advantage, but also a necessity for survival and growth in this industry.

Fundamental Developments in Iran's Electronic Banking

- **Expansion of electronic payment infrastructure:** Iran has made significant progress in the field of electronic payment infrastructure. Shetab (for bank cards) and Shaparak (for store terminals and internet payment gateways) networks have high efficiency in facilitating everyday transactions. SATNA (for large interbank settlements) and Paya (for micro and regular payments) systems have also helped to improve the efficiency of money transfers.
- **The growth of internet and mobile banking:** Almost all Iranian banks have developed robust internet banking platforms and mobile applications. These platforms offer a wide range of services, including balance viewing, money transfers, bill payments, recharge purchases, and facility management. The widespread acceptance of these services by the public reflects the high capacity of society to embrace technology.
- **Variety of services on the mobile platform:** Mobile payment applications, beyond traditional banking services, have also provided new features such as QR code payments, toll payments, and ticket purchases. These services have facilitated people's daily lives and drastically increased the share of electronic payments.
- **The Rise of Neobanks and Fintechs:** In recent years, we have witnessed the emergence of fintech companies (financial technologies) and even neobanks in Iran. These new players, with a focus on innovation, providing more agile digital services, and a better user experience, have created new challenges and opportunities for traditional banks. They mainly operate in areas such as payments, digital validation, and micro-investment.

2 Artificial Intelligence (AI) and Big Data Analysis: A New Wave of Technology in Iranian Banking

- **Personalize service and customer experience:** AI allows banks to better understand customer needs and behaviors by analyzing their data and provide more personalized services. From financial recommendations to credit products tailored to consumption patterns, AI can elevate the customer experience to a new level.
- **Improved Validation and Risk Management:** The use of AI algorithms in the analysis of credit data helps banks to assess the credit risk of borrowers more accurately. This not only helps reduce outstanding receivables, but also speeds up the process of granting facilities.
- **Fraud detection and prevention:** AI-powered systems can detect suspicious patterns in transactions and react quickly to fraudulent or money laundering attempts . This increases the security of transactions and customer trust.
- **Process Automation and Increased Efficiency:** Artificial intelligence and business process robotics (RPA) can automate many repetitive and time-consuming processes in banks, from processing documents and forms to answering frequently asked customer questions. This automation leads to reduced costs and increased operational efficiency.
- **Chatbots and virtual assistants:** The use of AI chatbots in e-banking portals and mobile apps allows customers to quickly answer their questions and receive the services they need, without having to contact human support.

3 Challenges facing the development of technology in Iranian banking

Legacy Systems: Many traditional banks continue to use outdated and inefficient software and hardware systems. Upgrading and replacing this infrastructure requires massive investments, careful timing, and sophisticated management, which can be an obstacle to innovation.

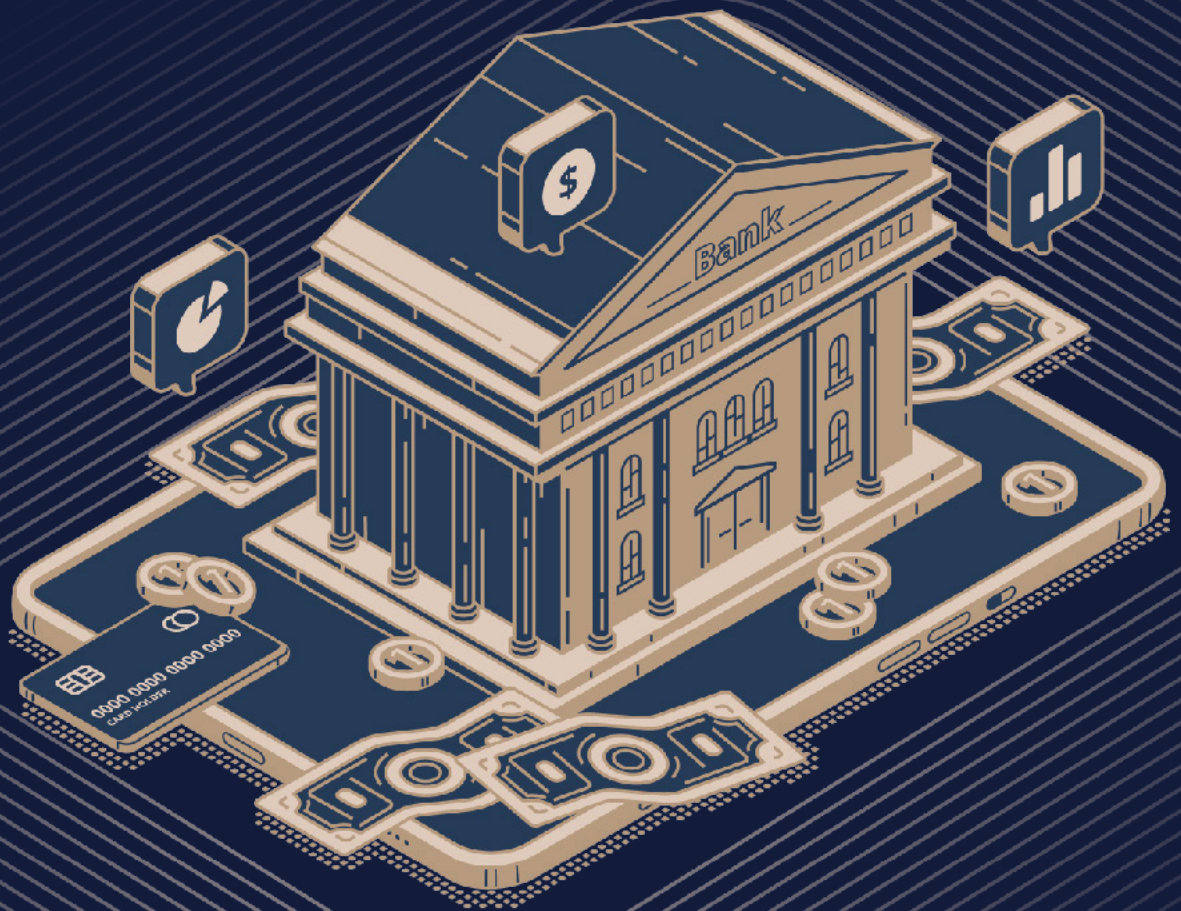
- **Cybersecurity and Growing Threats:** With the proliferation of digital services, banks have become more attractive targets for cyberattacks. Keeping customer data secure, countering phishing, ransomware, and other cyber threats is an ongoing and costly challenge. The need for continuous investment in advanced security systems and employee training is vital.
- **Shortage of specialized manpower:** The development and implementation of advanced technologies such as artificial intelligence and blockchain requires experienced experts in the fields of data science, cybersecurity, and software development. Attracting and retaining these talents in Iran's competitive market is an important challenge for banks.
- **Regulation and regulation:** With the rapid pace of technological developments, regulatory bodies (such as the central bank) face the challenge of developing appropriate regulations to maintain financial stability, protect customers, and encourage innovation. Sometimes, the pace of technological change outpaces the speed of regulation.
- **Data Management and Privacy:** The huge volume of customer data necessitates the need for efficient data management systems and strict compliance with privacy laws. Ensuring the confidentiality and security of customers' information is an important concern for banks.
- **Resistance to change and organizational culture:** In some traditional banks, resistance to the adoption of new technologies and cultural changes caused by digitization can hinder progress. Training, culture-building, and motivating employees are essential for digital transformation.

4 Future Opportunities in Technology and Electronic Banking in Iran

- **Open Banking and APIs:** The implementation of the open banking model, which allows for the secure sharing of data through APIs (Application Programming Interfaces) with customer satisfaction, creates new opportunities for collaboration with fintechs and the development of innovative services. This model can lead to the emergence of integrated financial ecosystems .

- **Blockchain technology and cryptocurrencies (with a regulatory approach):** Despite regulatory challenges, blockchain technology has great potential to increase transparency, security, and efficiency in banks' internal processes and even in international settlements (if sanctions are lifted). The development of national digital currency and blockchain-based platforms for specific purposes (such as validation or supply chain management) can be an opportunity.
- **Smart and contactless payments (NFC and QR Code):** The proliferation of NFC and QR Code-based payments can make the payment experience more convenient and faster for customers. These technologies have great potential, especially in urban environments and for microtransactions.
- **AI-Personalized Financial Services:** As AI matures further, banks will be able to provide financial services to customers in a fully personalized and proactive manner. These services include automated budget management, smart investment alerts and recommendations, and even the provision of instant microloans based on real-time validation.
- **Inclusive Banking:** Technology can help banks extend financial services to underprivileged segments of society or areas where access to bank branches is difficult. Mobile banking and digital statistics are key tools for the realization of inclusive banking.

Technology is the main driving force of transformation in Iran's banking industry. While there are challenges such as outdated infrastructure, cybersecurity, and a shortage of specialists, the opportunities arising from artificial intelligence, open banking, and other emerging technologies are very impressive. Banks that can make smart investments in technology, change organizational culture, And working with the fintech ecosystem to keep pace with these developments will not only ensure their survival, but can also play a key role in advancing the country's digital economy. Banking, Stock Exchange & Insurance Expo is a great opportunity to showcase these advancements and lay the groundwork for future collaborations.



COOPERATION AND COMPETITION BETWEEN BANKS AND FINTECHS

10

COOPERATION AND COMPETITION BETWEEN BANKS AND FINTECHS

The financial industry has witnessed an unprecedented transformation in recent years, mainly driven by the rise of financial technology companies (fintechs). These new players, leveraging cutting-edge technologies, innovative business models, and a strong focus on customer experience, have created significant challenges for traditional banks. Initially, the relationship between banks and fintechs is seen as mostly competitive. But with the passage of time, this approach has moved towards cooperation and coexistence. This section examines the dynamics of cooperation and competition between these two groups and its implications for the future of the banking industry.

▶ Fintechs: The Agent of Transformation and Competition

Fintechs are companies that use technology to improve or automate financial services. They have been able to penetrate segments of the market that traditional banks paid less attention to due to their complex structure, bureaucracy, or outdated infrastructure. The main reasons for the early success of fintechs are:

- **Agility and innovation:** Fintechs have a smaller, more flexible organizational structure that allows them to innovate more quickly and bring new products and services to market.
- **Focus on customer experience:** Many fintechs have dramatically improved the customer experience with simple user interfaces, user-friendly mobile applications and fast digital processes.
- **Lower operating costs:** Fintechs often lack extensive branch networks and legacy infrastructure, which allows them to provide services at lower costs.
- **Access to new markets:** Fintechs have been able to reach segments of society that were previously ignored by traditional banks (such as people without bank accounts or small businesses with specific financial needs).
- **Specialize in specific areas:** Some fintechs have become experts in highly specialized areas such as P2P lending, robo-advisors investment management, international payments, or cybersecurity.

2 ▶ Traditional Banks: Challenges and Advantages

Traditional banks, despite their antiquity and reputation, face challenges in dealing with fintechs:

- **Legacy Systems:** Outdated, complex, and costly IT systems are the main barrier to rapid innovation in banks.
- **Heavy regulation:** Banks are under tight regulatory scrutiny, which can slow down innovation processes.
- **Organizational culture:** A conservative organizational culture and resistance to change can prevent the rapid adoption of new technologies.

However, traditional banks also have significant advantages:

- **Trust and History:** Banks have a long history of customer trust and a long history of risk and capital management.
- **Wide customer base:** Banks have a huge customer base that fintechs need to spend a lot of money and time to attract.
- **Capital and Finance:** Banks have access to a wider range of capital and financial resources that allow them to invest in technology and innovation.
- **Licenses and Versatility:** Banks have the necessary licenses from the regulator and have extensive experience in complying with financial regulations and laws.

3 ▶ From Competition to Cooperation: New Communication Models

Over time, the purely competitive perspective has gradually given way to a coopetition approach. These collaborations can take place in different models:

- **Corporate Venture Capital:** Banks are increasingly investing in fintech startups. This strategy allows banks to access new technologies, benefit from their innovations, and at the same time, earn financial returns if the fintech is successful.
- **Acquisitions & Mergers:** Some banks buy fintech companies entirely to accelerate their digital transformation. This method allows the bank to add fintech expertise, technology, and manpower to its structure.

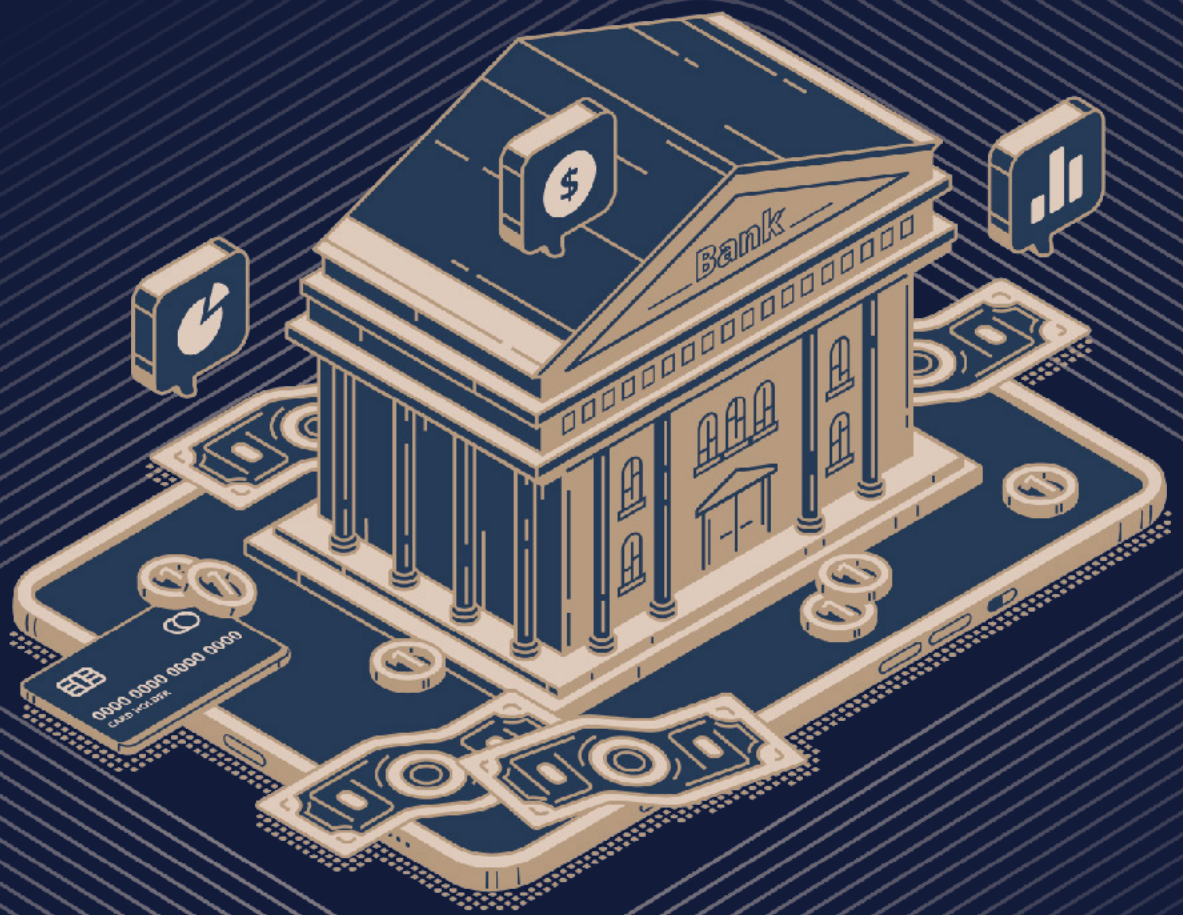
- **Accelerators & Innovation Labs:** Many banks have set up accelerators, accelerators or in-house innovation labs. These centers offer fintech startups space, mentorship, and even seed capital, and in return, they use their ideas and technologies to solve their problems.
- **Open Banking Models and APIs:** Open banking is a regulatory and technological framework that requires (or encourages) banks to share customers' financial data (with their consent) with third-party service providers (with their consent) through APIs. This model makes collaboration a necessity and allows fintechs to build on the banking infrastructure platform to provide innovative services. The benefits of this model for banks include access to rapid innovations, increased customer traffic, and the creation of new revenue models.
- **Setting up digital arms or subsidiary neobanks:** Some traditional banks set up fully digital brands or independent neobanks under their umbrella to compete effectively with neobanks. This approach allows them to provide customers with an agile and modern digital experience while maintaining their traditional infrastructure.
- **Whitelabel and strategic partnership models:** Banks can offer white-label fintech products and services to customers, or create strategic partnerships to provide shared services. For example, a bank can partner with a fintech company specializing in microlending to provide digital lending services to its customers.

Consequences and future of cooperation/competition

- **Improved Customer Experience:** The end result of collaboration and competition is to provide better and more personalized customer service. Customers benefit from more choices, simpler processes, and lower costs.
- **Increased innovation:** Both banks and fintechs are forced to continuously innovate due to competition and collaboration. This dynamic helps accelerate developments across the entire financial industry.
- **Changes in revenue models:** Banks need to revise their revenue models. Instead of relying solely on profits from facilities and deposits, they will move towards fee-based revenues from value-added services, data, and platforms.
- **Increasing regulatory complexity:** Regulatory bodies face the challenge of developing regulations that both encourage innovation and ensure financial stability and customer protection. Collaboration between banks and fintechs requires new regulatory frameworks.

- **Shaping Integrated Financial Ecosystems:** The future of the financial industry is moving towards creating vast ecosystems where banks, fintechs, and even non-financial companies (such as big tech companies) are connected through APIs and platforms to provide a comprehensive and integrated financial experience .
- **The Importance of Data and Security:** In these open ecosystems, data is highly valued. Proper data management, customer privacy, and cybersecurity become critical elements for trust and success.

The dynamics between banks and fintechs are shifting from mere competition to more complex and multifaceted collaborations. This transformation is leading to the formation of a more dynamic, innovative, and customer-centric financial ecosystem. By leveraging their advantages and leveraging the agility and technology of fintechs, traditional banks can maintain and even strengthen their position in the future. Ultimately, this coexistence will benefit customers and the overall growth of the financial industry, as the diversification of services brings reduced costs and increased efficiency. Banks that fail to keep up with this trend will face serious challenges in maintaining their market share and competitiveness.



11

THE ROLE OF THE CENTRAL BANK AND REGULATORY INSTITUTIONS IN THE DIGITAL AGE

THE ROLE OF THE CENTRAL BANK — ● AND REGULATORY INSTITUTIONS IN ● — THE DIGITAL AGE

With the advent of emerging technologies and the increasing growth of fintechs and neobanks, the role of central banks and regulatory bodies around the world has undergone a profound transformation. Their traditional task of maintaining financial stability, protecting consumers, and ensuring healthy competition must now be fulfilled in a completely new and complex digital environment. This section examines the challenges and opportunities facing regulators in the digital age and the approaches to manage these developments.

1 Emerging Challenges for Regulators

- **Speed of innovation vs. speed of regulation:** Technologies are evolving at an unprecedented pace, while the process of regulatory development is inherently slow and complex. This «pace gap» does not allow regulators to react quickly to new innovations, which can lead to «grey areas» in legislation or increase the potential for systemic risks.
- **Understanding and Assessing New Risks:** New technologies such as artificial intelligence, blockchain, and algorithmic financial instruments bring new risks that regulators must identify and assess. These risks can include cyber risks, data risks (privacy and security), algorithmic risks (systemic errors or discrimination), and operational risks arising from dependence on third-party service providers. They should be third-parties.
- **Cross-border nature of technologies:** Many fintech technologies, especially cryptocurrencies and payment platforms, are cross-border in nature. This makes it difficult for a national entity to exercise supervision and regulation and requires international regulatory cooperation.
- **Competition and financial inclusion:** Regulators must strike a delicate balance between encouraging innovation and competition, and maintaining financial stability and consumer protection. Overly strict rules can stifle innovation, while overly permissive rules can lead to instability and abuse. Also, the goal of financial inclusion and greater access to financial services should also be considered.
- **Lack of expertise and resources:** Regulatory bodies may lack sufficient expertise and resources to deeply understand and monitor complex technologies. Recruiting and retaining software engineers, data and cybersecurity professionals in government agencies can be challenging.
- **Lack of transparency in new business models:** Some fintech business models, due to their innovative and sometimes decentralized nature, can be less transparent, making them difficult to monitor.

► 2 Regulatory Approaches in the Digital Age

To address these challenges, central banks and regulators around the world have adopted innovative and flexible approaches:

- **Regulatory Sandbox:** This approach allows fintech companies to test their innovative products and services in a controlled and regulator-regulated environment. This helps regulators become familiar with new technologies while assessing their risks and developing appropriate regulations before they are widely deployed.
- **Innovation Hubs:** Many regulators have set up innovation hubs that serve as a point of contact for fintech companies to ask their regulatory questions and get guidance. These hubs help increase transparency and reduce barriers to entry for innovators.

Adaptive and Technology-Based Regulatory Frameworks (RegTech & SupTech):

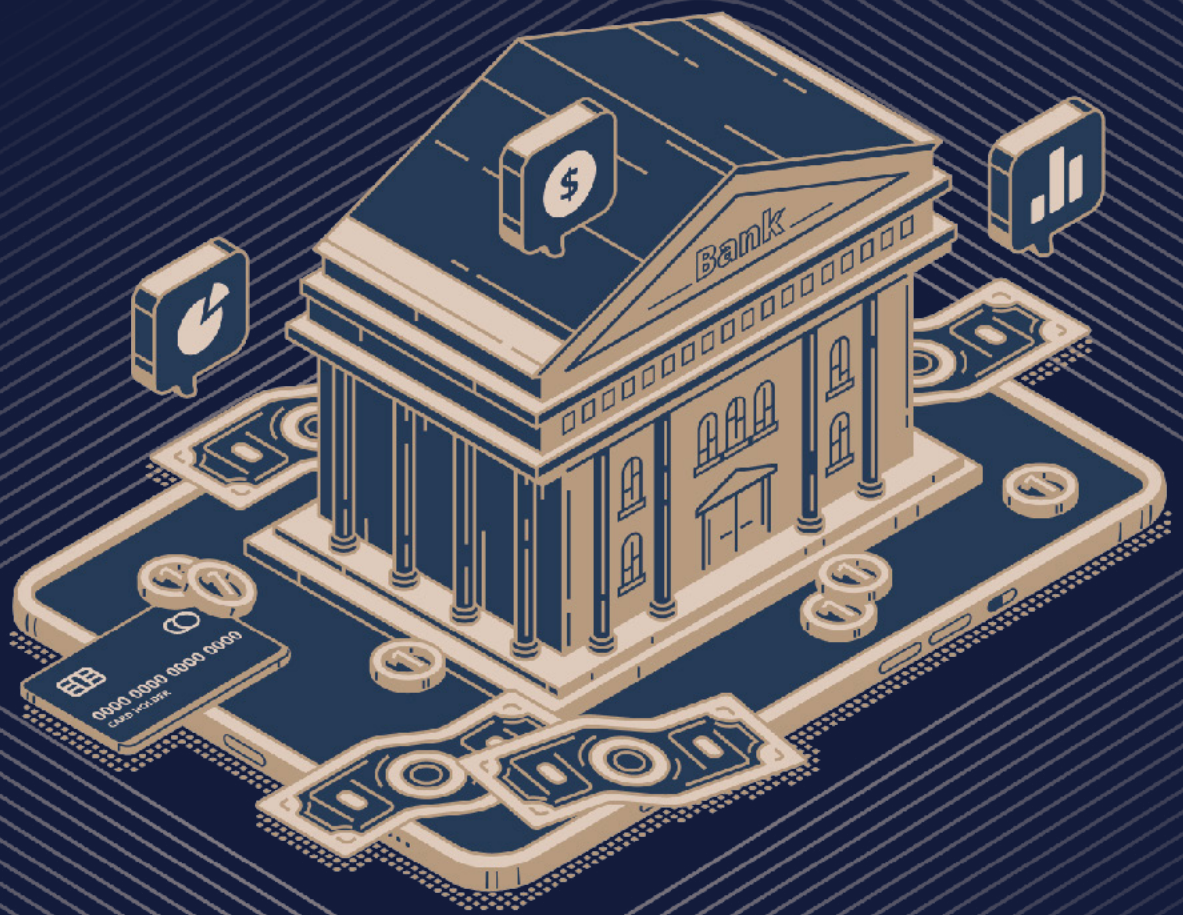
- **RegTech (Regulatory Technology):** The use of technology (e.g., artificial intelligence, blockchain, data analytics) to help financial institutions comply with regulations and compliance requirements. These technologies can automate and make their reporting processes, risk monitoring, and anti-money laundering more automated and efficient.
- **SupTech (Supervisory Technology):** The use of technology by the regulatory bodies themselves to improve monitoring and monitoring processes. This includes big data analysis to identify systemic risks, the use of artificial intelligence to monitor market behavior, and the automation of inspection processes. SupTech allows regulators to have more proactive and data-driven monitoring.
- **Risk-Based Approach:** Instead of applying the same rules to everyone, regulators are moving towards an approach where the intensity of supervision is proportional to the level of risk of activities and institutions. This approach allows low-risk innovations to advance more quickly.
- **International cooperation and standardization:** Due to the cross-border nature of many fintech services, cooperation between regulators of different countries for information exchange, harmonization of regulations, and development of global standards (especially in areas such as cryptocurrencies and anti-money laundering) is of great importance.
- **Developing regulations for central bank digital currencies (CBDCs):** Many central banks are exploring or testing CBDCs. The regulator's role in this regard includes designing the appropriate legal framework for these currencies, ensuring their security and privacy, and managing their impact on monetary policy and financial stability.

- **Data protection and privacy:** With the increase in data collection and analysis by fintechs and banks, regulators are increasingly emphasizing the protection of customers' personal data and respecting their privacy. Regulations such as the GDPR in Europe reflect this trend.
- **Financial Literacy and Consumer Protection:** Regulators should be actively involved in educating and increasing consumers' financial literacy so that they can make more informed decisions about using digital financial services and protect themselves from fraud and risks.

► The Role of the Central Bank in Iran and the Digital Age

In Iran, the Central Bank, as the main supervisory body, faces similar challenges and opportunities. International sanctions and special economic conditions have added more complexity to this role.

- **Focus on the digital rial:** The Central Bank of Iran is seriously pursuing the digital rial project, which could serve as a key tool to increase the efficiency of payments and perhaps as a solution for some cross-border transactions in the future. The supervisory role is vital in the design and secure implementation of this system.
- **Monitoring the payment ecosystem:** The Central Bank directly supervises electronic payment systems (SHETAB, Shaparak, Satna, Paya) and is responsible for ensuring their security and efficiency. In the digital age, this oversight must also include mobile payments, cardless payments, and other innovations.
- **Cautious approach to cryptocurrencies:** The Central Bank of Iran has a cautious approach to cryptocurrencies and emphasizes the need to develop legal frameworks for their activities (especially in the field of mining and exchanges). This approach is due both to concerns related to money laundering and terrorist financing, and because of the potential effects on monetary policy.
- **Supporting local fintechs:** The Central Bank, through its regulatory sandbox and innovation hubs, is trying to support the growth of local fintech companies and pave the way for financial innovations within legal frameworks.



12

THE FUTURE OF BANKING AND FINANCIAL ECOSYSTEM IN IRAN

THE FUTURE OF BANKING AND FINANCIAL ECOSYSTEM IN IRAN

The future of the banking industry in Iran is being shaped by a combination of domestic and international factors, including technological developments, demographic changes and customer expectations, macroeconomic policies, and geopolitical conditions. The industry, which has always been the backbone of the country's economy, is now on the verge of a profound transformation that will bring unprecedented opportunities and challenges. Understanding this path for key players The banking ecosystem, from traditional banks to emerging fintechs and regulatory bodies, is vital.

► **1 Technology and Innovation Perspective**

- **Artificial Intelligence and Machine Learning, the Mastermind of the Future:** The future of Iranian banking is strongly tied to the advancement and application of artificial intelligence (AI) and machine learning (ML). AI will not only play a role in automating internal processes (such as processing loans, opening accounts, and managing documents), but it will also be pivotal in analyzing huge customer data to provide personalized and predictive services. Suppose an AI system can suggest the best investment option or loan repayment plan based on a customer's consumption and income patterns, or Even before the customer's request, anticipate his need. AI will also dramatically increase efficiency in anti-money laundering (AML) and fraud detection, by identifying suspicious patterns and reducing human error.
- **Blockchain and cryptocurrencies, beyond cryptocurrency:** Despite regulatory challenges and existing uncertainties, blockchain technology has the potential to transform banking infrastructure. In the future, blockchain could be used as a distributed ledger for interbank settlements, facilitating validation processes (through decentralized digital identity), and even issuing digital securities. Discussion of «Digital Rial» or «Central Bank Digital Currency» (CBDC)) in Iran also shows interest in this technology, which can help improve the efficiency of domestic and even international payments in the future. This, especially in the context of sanctions, can provide new solutions for exchanges.
- **Open Banking and Integrated Financial Ecosystems:** The future of Iran's banking industry will move towards an open and collaborative ecosystem. Open banking will allow for the secure sharing of financial data with customer satisfaction by using APIs (Application Programming Interfaces). This model will allow fintech companies and even other banks to provide more innovative services on the basis of existing banking services. Imagine a financial management app that can collect your account data from multiple banks and provide a comprehensive picture of your financial situation, ora fintech validation platform can provide instant and personalized microloans by accessing your banking data (with your permission). This model is moving towards «embedded finance.» moves when financial services are imperceptibly integrated into the daily processes of life and businesses.

- **Internet of Things (IoT) and smart payments:** The expansion of the Internet of Things means that in the future, different devices (such as cars, smart home appliances, or even clothes) could automate payments. Banks should be prepared to provide the necessary infrastructure for these types of payments, from payments related to charging electric cars to paying for items from a smart refrigerator.

2 Changes in banking business models

- **Diminishing the role of physical branches and the growth of digital channels:** With the increase in the use of mobile and internet banking, the role of physical branches of banks will change. Branches will become centers of financial consulting, communication with key customers, and digital education centers instead of mere transaction-oriented centers. This change will require a physical and cultural rearrangement of branches.
- **Neobanks and agile banking models:** Neobanks (which often lack a physical branch) are rapidly attracting customers by providing fully digital services and a superior user experience. Traditional banks will have to revise their business models by modeling the agility and customer-orientation of neobanks. This could include creating independent digital departments within the bank, or even setting up subsidiary neobanks.
- **Focus on Customer Experience (CX) and Personalization:** In the future, the main competition among banks will be to provide the best customer experience. Banks need to fully personalize their services using data and technology. This includes offering the right financial products at the right time, targeted communication, and providing integrated financial solutions.
- **Inclusive Banking:** Technology provides access to banking services for the less privileged and remote areas. Mobile banking, validation with alternative data (such as mobile data and social networks), and the provision of microfinance products can help increase financial inclusion in Iran.
- **Green and sustainable banking:** As public awareness of environmental and social issues increases, green banking and sustainable financing will become increasingly important. In the future, banks will play a more active role in financing clean energy projects, environmentally friendly industries, and socially responsible investments.

3 The role of the regulator and the future of regulation

- **Adaptive and technology-based regulation (RegTech and SupTech):** Regulatory bodies will also need to adapt to the pace of technological developments. The use

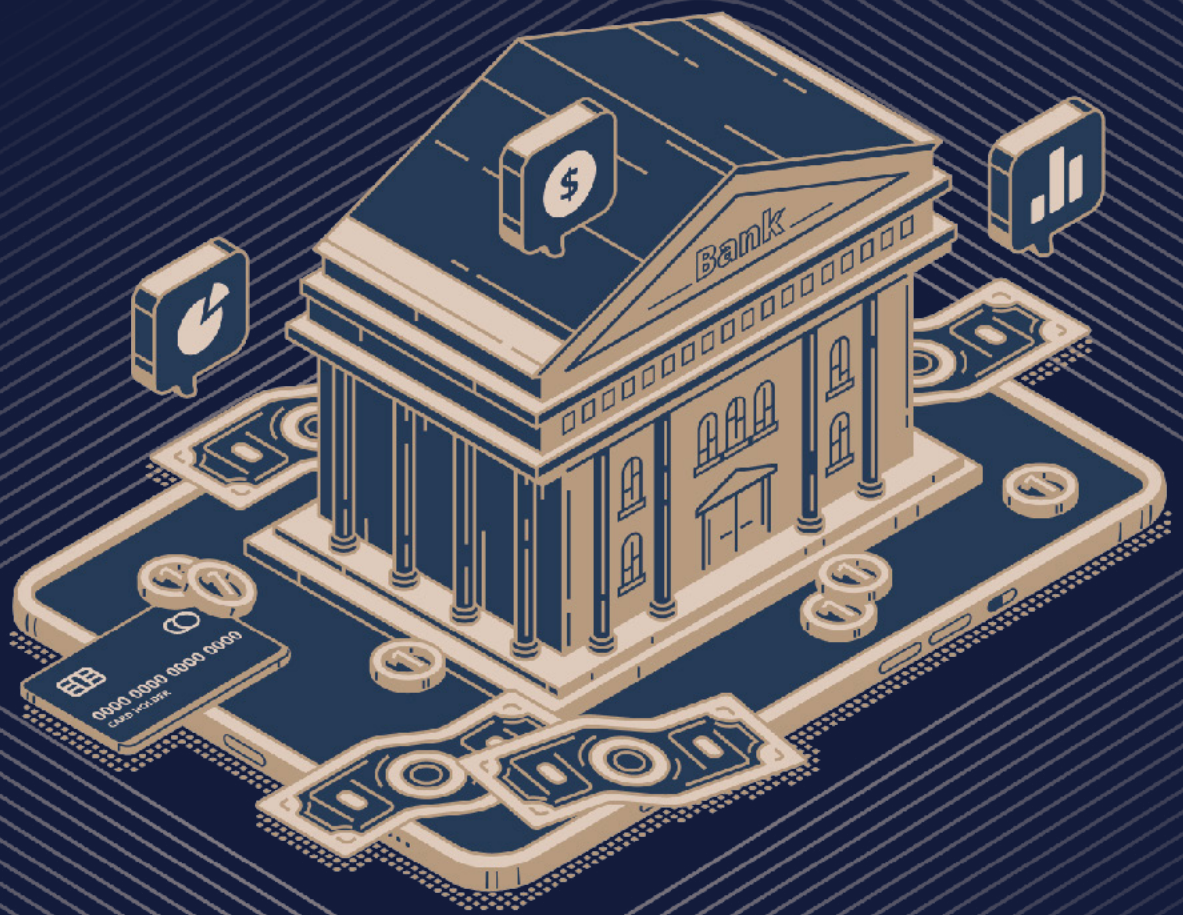
of RegTech (to help banks comply with regulations) and SupTech (to help regulators with supervision) technologies will be inevitable. This includes the use of AI to analyze regulatory reports, monitor risks, and detect violations.

- **Legal frameworks for innovation:** The regulator must develop flexible yet robust legal frameworks to support financial innovation, especially in areas such as blockchain, artificial intelligence, and open banking. Regulatory sandboxes (test spaces for new innovations with regulator supervision) can help facilitate this process.
- **Cybersecurity and Data Protection:** As digital banking grows, the importance of cybersecurity and protecting customers' data is increasing. The regulator should establish stricter cybersecurity standards and closely monitor their compliance.

► 4 Challenges Ahead in the Future Path

- **The digital divide and unequal access:** Despite the advancements, parts of society and geographic areas still do not have adequate access to high-speed internet and smartphones. This «digital divide» can prevent full financial inclusion.
- **Cultural and organizational resistance:** Shifting traditional business models to digital requires changing organizational culture, training employees, and overcoming internal resistances, which can be time-consuming and difficult.
- **International Sanctions and Restrictions:** Continued sanctions could limit Iranian banks' access to advanced global technologies, foreign investment, and international cooperation, which will affect the pace of transformation.
- **Attracting and retaining technological talent:** The competition to attract and retain experts in artificial intelligence, cybersecurity, and data science will be a significant challenge for banks.

Overall, the future of the banking industry in Iran will be a digital, data-driven, and customer-centric future. Banks will no longer be mere depository and facilitating institutions, but will become platforms for providing integrated and personalized financial services. The adoption of artificial intelligence, blockchain, and open banking models is the key to success in this direction. Regulatory institutions must also take a dynamic and forward-looking approach and provide the necessary frameworks for supporting innovation and maintaining financial stability. Banking, Stock Exchange & Insurance Exhibition is an opportunity for industry players to share their visions and take steps to build a brighter future in Iran's banking industry.



13

CHALLENGES OF IRAN'S BANKING ECOSYSTEM / DECLINING PUBLIC TRUST

CHALLENGES OF IRAN'S BANKING ECOSYSTEM / DECLINING PUBLIC TRUST

Iran's banking ecosystem, despite its pivotal role in the country's economy, has faced structural problems and deep challenges in recent years, which have led to a decline in public trust in this sector. These problems have not only negatively affected the efficiency of the banking system, but have also overshadowed the country's financial stability and stability. Future progress is essential.

1 The Roots of the Decline in Public Trust

- **Unauthorized Financial Institutions and Bankruptcies:** One of the fatal blows to public trust was the emergence and then the bankruptcy or merger of unauthorized financial institutions in the past years. These institutions attracted people's deposits by promising interest rates higher than the approved rate, but due to insufficient supervision and non-compliance with banking principles, faced serious problems. Their bankruptcy led to the loss of the capital of many depositors and the prolongation of the repayment process, which created a bitter memory in the public mind and created the impression that the banking system (even authorized banks) is not safe.
- **Interest rate fluctuations and instability:** Variable bank interest rate policies, especially setting order rates below inflation, have caused uncertainty for depositors. When depositors feel that the value of their money is depreciating due to inflation and the bank interest rate cannot compensate for this depreciation, the tendency to make long-term deposits decreases and moves towards parallel markets (such as currency, gold, or housing). This not only leads to the withdrawal of deposits from banks, but also fuels financial instability.
- **Low transparency and lack of accountability:** There are criticisms about the financial transparency of some banks and the lack of adequate accountability for problems and violations. Failure to release comprehensive and understandable information to the public, or the presence of ambiguities in financial statements, can fuel cynicism and mistrust. When people feel that there is not enough information available, speculation increases and trust is damaged.
- **Poor management of outstanding claims and corruption:** The high volume of outstanding and doubtful claims, especially in the case of certain individuals and institutions, has created the impression that the rules of validation and repayment are not the same for everyone. Rumors and reports about corruption in some of the processes of granting facilities, or the lack of serious follow-up of claims from large debtors, have severely damaged the credibility of banks.
- **Frequent changes in regulations and policies:** Frequent fluctuations and changes in banking and financial laws and regulations create an atmosphere of uncertainty for both customers and economic activists. This instability in policy-making makes long-term planning difficult and leads to mistrust.
- **Quality of service and user experience (especially in traditional banking):** In some cases, the quality of service provided in traditional bank branches, lengthy processes, and bureaucratic complexities have led to customer dissatisfaction. Failure to align with the expectations of the new generation looking for fast, digital services can lead to a decline in customer loyalty.

2 Effects of Diminishing Public Trust

- **Reduction of long-term deposits:** Distrust of the banking system, especially despite high inflation, leads people to short-term deposits or capital outflows from banks and enter unproductive markets. This reduces the resources needed to provide long-term facilities and productive investment .
- **Increased speculation and the growth of parallel markets:** The withdrawal of deposits from banks and entry into parallel markets such as currency, gold, and housing, fuels the increase in speculation and volatility in these markets, which in turn leads to economic instability and more inflation.
- **Difficulty in long-term financing:** When banks face the problem of attracting long-term deposits, their ability to finance industrial and infrastructure projects that require large and long-term investments is reduced.
- **Reducing the role of financial intermediaries of banks:** Ultimately, decreasing public confidence and capital flight from the banking system will lead to a weakening of the role of financial intermediaries of banks. This will lead to a decrease in the efficiency of resource allocation in the economy and a slowdown in the development process.

3 Strategies for Restoring Public Trust and Rebuilding the Banking Ecosystem

● Increasing Transparency and Corporate Governance

- **Regular and comprehensive publication of information:** Banks should publish their financial statements in more detail and in a form that is understandable to the public. This includes information on outstanding receivables, financial performance, and shareholding structure.
- **Strong Corporate Governance:** Strengthening the principles of corporate governance, including board independence, strong internal oversight, and accountability to shareholders and stakeholders, is essential to restore trust.
- **Serious fight against corruption:** Any allegations or cases of corruption must be pursued promptly, decisively, and transparently to ensure that no one is above the law.

● Stability in monetary and fiscal policies

- **Realistic interest rate policies:** The central bank should make deposits more attractive by adopting realistic interest rate policies commensurate with the inflation rate. This helps to reabsorb deposits and direct them towards production.
- **Reducing Directive Intervention:** Reducing government interference in credit processes

and setting mandated rates can help banks to act based on economic principles and risk assessment and achieve greater efficiency.

● **Improving the quality of bank assets**

- **Proactive management of outstanding receivables:** Banks and regulatory bodies should adopt more proactive strategies for collecting deferred receivables, including through legal and bargaining processes.
- **Restructuring the financial structure of banks:** If needed, some banks may need to restructure their financial structure and raise capital to improve their capital adequacy ratio and get out of the fragile situation.

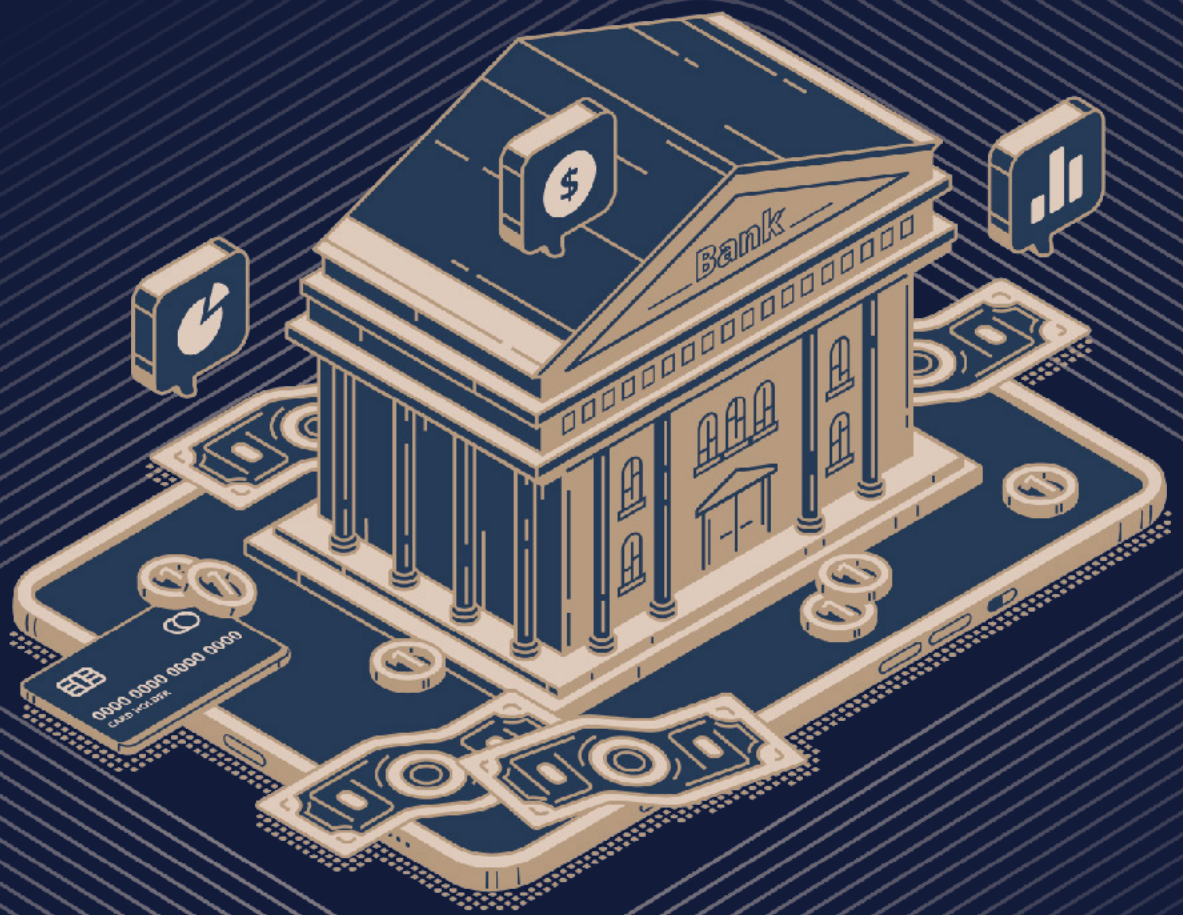
● **Strengthening supervision and regulation**

- **Preventive and comprehensive supervision:** The Central Bank should strengthen its supervision of financial institutions (including banks and fintechs) in order to prevent preventive problems and deal with violations quickly.
- **Transparent and Stable Laws:** Developing transparent, comprehensive, and sustainable laws and regulations that are in line with international standards helps to create a stable environment for banking activities.
- **Collaborate with and supervise fintechs:** Regulatory bodies should provide a framework for fintechs' activities that both encourage innovation and protect customer rights and financial stability.

● **Improve customer experience and digital innovation**

- **Investing in new technologies:** The use of artificial intelligence, data analytics, and process automation can help improve service quality, reduce time to operations, and personalize banking services, thereby increasing customer satisfaction and trust.
- **Shifting the approach from branch-oriented to customer-centric:** Banks need to redesign their services by focusing on customer needs and expectations, and make digital channels a top priority.
- **Financial Education and Literacy:** As the level of financial literacy in society increases, customers can make more informed decisions and be less influenced by unrealistic promises. Banks and regulatory bodies can play an active role in this regard.

The decline in public trust in Iran's banking ecosystem is a serious and multifaceted problem that has its roots in structural, policy-making, and sometimes managerial weaknesses and corruption. Restoring this trust requires a comprehensive and coordinated approach by all actors in the banking ecosystem: from the Central Bank and regulatory bodies to the banks themselves, fintechs, and even customers. Increasing transparency, stability in policies, serious struggle With corruption, improving asset quality, and investing in technology to provide better and safer services will be key to rebuilding public trust and putting Iran's banking industry on a path of sustainability and growth. This process will take time, but it is necessary and inevitable for banks to be able to play their vital role as reliable financial intermediaries again.



14

THE BANKING INDUSTRY AND ITS ROLE IN IRAN'S ECONOMIC DEVELOPMENT

THE BANKING INDUSTRY AND ITS ROLE IN IRAN'S ECONOMIC DEVELOPMENT

The banking industry in Iran has always acted as a vital artery of the economy and has played an irreplaceable role in economic development processes. Banks, beyond mere financial institutions, are known as the engine of growth, job creation, and improvement of living standards in the country. A deep understanding of this role, especially in the current situation of the Iranian economy, is essential for future policy-making and the country's development prospects.

The role of financial intermediary and resource allocation

The most pivotal role of banks is financial intermediation. Banks collect people's small and large deposits and direct them towards productive investments in various economic sectors. This process drives the vital cycle of the economy:

- **Production and Industry Financing:** A significant part of the banking facilities is allocated to manufacturing, industrial, agricultural, and service units. This financing allows industries to develop production capacities, purchase new machinery, modernize production lines, and increase productivity. In fact, without access to bank financing, many development projects and job creation in the country would never have come to fruition.
- **Support for Small and Medium Enterprises (SMEs):** SMEs are the driving force of many developing economies and the main source of job creation. Banks help these businesses grow, innovate, and increase their competitiveness by providing micro- and medium-sized facilities. These supports not only contribute to the sustainability of these units, but also lead to the creation of added value and local economic growth.
- **Financing infrastructure projects:** Large-scale national projects such as dams, power plants, road construction, and the development of ports and airports require a huge amount of capital, which is usually provided through bank financing (directly or through partnership bonds and sukuk). These infrastructures are the main pillars of the country's long-term development, and without them, sustainable economic growth will not be achieved.
- **Housing financing:** The housing sector is one of the largest sectors of the economy that is closely related to other industries. By granting housing purchase and construction facilities, banks not only help households to own shelter, but also help to boost related industries such as steel, cement, and construction services, thus creating jobs and stimulating aggregate demand in the economy.

► 2 Facilitating economic exchanges and trade

In addition to financial intermediation, banks play a pivotal role in facilitating domestic and foreign economic exchanges:

- **Electronic Payment Systems:** The development and expansion of electronic payment systems such as SHETAB, SHAPARAK, Satna, and Paya have greatly facilitated financial transactions in Iran. In addition to increasing the speed and security of transactions, these systems have also reduced transaction costs and contributed to greater transparency in transactions. Easy access to electronic payments has made micro and macro transactions very simple for citizens, including online shopping and bill payments.
- **Accounting and Settlement:** Banks ensure the accuracy and transparency of financial transactions by maintaining customers' accounts and conducting settlement processes. This role, especially for businesses, is vital in cash flow management and financial planning.
- **Foreign trade services:** Although sanctions have imposed restrictions, banks continue to play a role in facilitating foreign trade (through the opening of letters of credit, foreign exchange transfers, and guarantees). These services allow the import of raw materials and machinery needed by industries and the export of Iranian products.

► 3 Financial Risk Management

Banks, with the necessary expertise and infrastructure, play an important role in managing and reducing financial risks:

- **Liquidity risk management:** Banks prevent liquidity crises in the economy by managing the liquidity of deposits and facilities. They protect the financial system from liquidity shocks by maintaining sufficient reserves and using interbank market tools.
- **Credit risk management:** Banks try to minimize the risk of default by conducting rigorous processes of validation and risk assessment of borrowers. This ensures the stability of the financial system and prevents massive economic losses.
- **Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT):** Banks are at the forefront of combating illicit financial activities. By implementing AML/CFT regulations, banks help identify and report suspicious transactions, thereby contributing to the health and transparency of the national and international economy.

Challenges and opportunities for the developmental role of banks

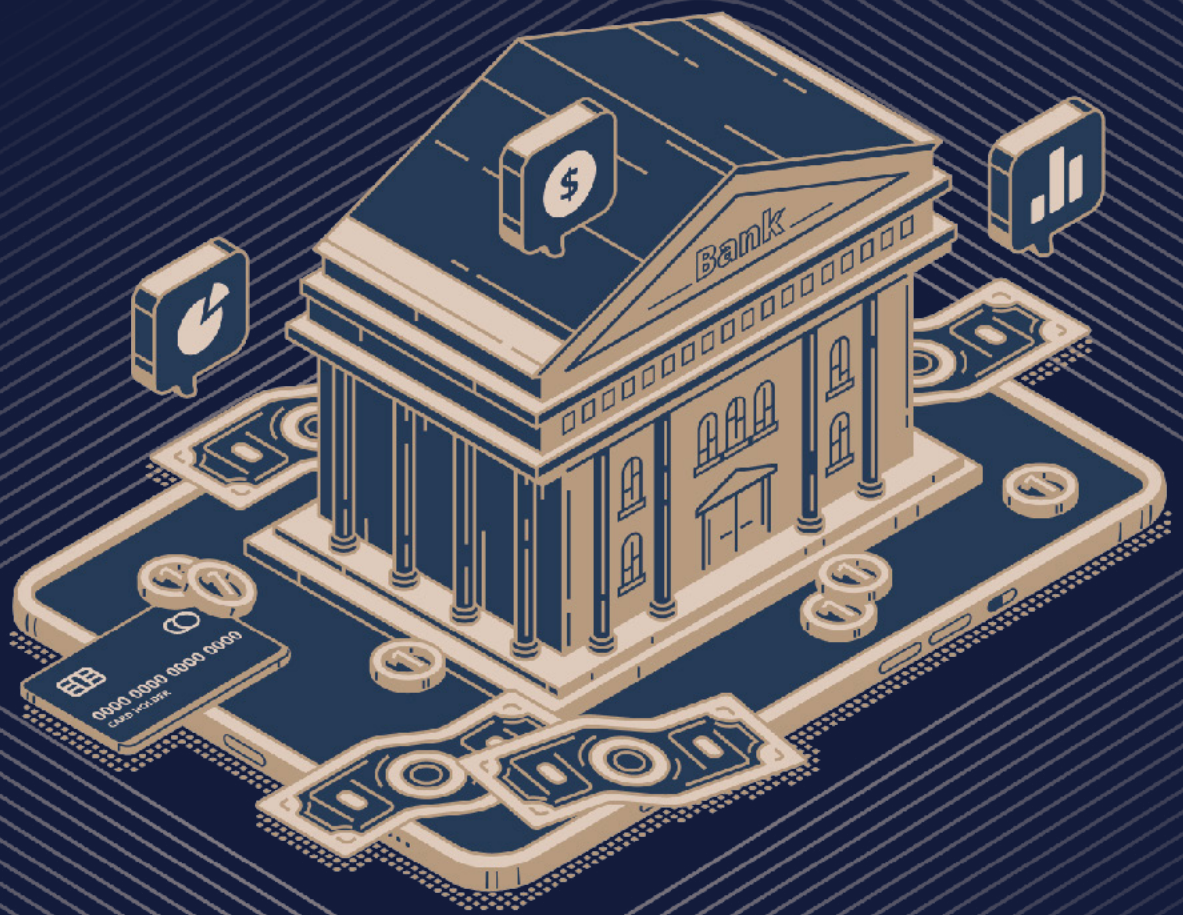
The developmental role of banks in Iran faces important challenges, some of which are:

- **Inflation and mandated interest rates:** High inflation and mandated interest rates, which do not correspond to market realities, reduce the incentive to deposit and limit banks' resources. This undermines the ability of banks to finance productive projects.
- **Deferred Claims and Toxic Assets:** The high volume of outstanding debts, especially from the public sector and large companies, has locked up a significant part of the banks' resources and reduced their lending power.
- **International sanctions:** Sanctions have restricted Iranian banks' access to global financial markets and increased the cost of financing and conducting international transactions. This directly affects the ability of banks to support foreign trade and attract foreign capital.
- **Lack of transparency and weakness of corporate governance:** Problems in the field of financial transparency and corporate governance in some banking institutions harm public trust and reduce the efficiency of resource allocation.
- **Fintech competition and the need for innovation:** The rise of fintechs and neobanks has increased competition and required banks to innovate faster in providing digital services. This, although a challenge, is also an opportunity to improve efficiency and customer experience.

However, there are also opportunities to strengthen the developmental role of banks:

- **High capacity of society to adopt technology:** Iranian society, especially the young generation, has a high acceptance of digital services and new technologies. This provides an opportunity for banks to reach new customers and optimize their services by developing digital banking and neobanks.
- **The need for sustainable financing:** Due to the country's development needs in various sectors (energy, water, environment), there are great opportunities for green banking and financing sustainable projects.
- **Development of new financial instruments:** With the development of the capital market and instruments such as sukuk and investment funds, banks can play a more active role in facilitating the financing of large projects.

In conclusion, the banking industry in Iran plays a vital and multifaceted role in economic development. From financial intermediation and resource allocation to productive sectors to facilitating transactions and risk management, a strong and efficient presence of banks is essential for sustainable growth and job creation in the country. Increasing transparency, improving the quality of assets, and exploiting technological opportunities are vital. Smart policies and support for innovation in this industry can help banks to address challenges and become the main engine of economic development in Iran.



15

ECONOMIC FACTORS IMPACTING THE BANKING INDUSTRY

The banking industry is highly dependent on the macroeconomic situation of a country. The performance of banks not only reflects the health of the economy, but also directly affects it. In Iran, the banking industry is influenced by a set of internal and external economic factors, the accurate understanding of which is essential for analyzing the performance of banks, assessing risks, and strategic planning.

1 Inflation Rate and Monetary Policies

- **High inflation:** One of the most important and persistent factors affecting Iran's banking is the high inflation rate. High inflation depreciates the value of the currency and eliminates the incentive to make long-term deposits. People prefer to invest their assets in physical assets such as gold, currency, housing, or even automobiles, rather than bank deposits that have low real interest rates. in attracting resources and granting facilities.
- **Impact on interest rates:** High inflation is usually associated with disproportionate bank interest rates. If the nominal interest rate is lower than the inflation rate, depositors will actually earn negative returns. This has fueled the liquidity crisis in banks and forces them to use more costly resources (such as the interbank market) for financing. On the other hand, setting mandated and unrealistic interest rates for loans can lead to an increase in unproductive demand for loans and ultimately, the growth of non-performing loans.
- **Central Bank Monetary Policies:** Central Bank monetary policies, especially policy interest rates and liquidity controls, directly affect banks' operations. Tightening policies (such as increasing the statutory reserve rate or selling bonds) can lead to reduced liquidity in banks and an increase in the cost of money, while expansionary policies (such as lowering interest rates or Liquidity injection) can increase liquidity but carries the risk of exacerbating inflation.

2 Economic growth and the state of the real sector of the economy

- **GDP growth:** There is a direct correlation between economic growth (GDP growth) and the performance of the banking industry. During the economic boom, the demand for bank facilities (for investment and development) increases, and the credit risk of borrowers decreases, as businesses perform better and their loan repayment ability is higher. These conditions increase the profitability of banks.

- **Economic Recession:** In contrast, during a recession, the demand for credit decreases, the default rate of loans increases, and the value of collateralized assets decreases. These conditions put severe pressure on banks' financial statements and can lead to an increase in outstanding claims and a decrease in profitability.
- **The state of key sectors of the economy:** The performance of key sectors of the economy, such as oil and gas, industry, agriculture, and services, directly affects the health of the banking industry. If a particular sector faces a crisis (such as a drop in oil prices or a widespread drought), banks that have lent extensively to that sector will face an increase in outstanding loans and credit risk.

► **Exchange rate and its fluctuations**

- **Currency Risk:** Extreme exchange rate fluctuations are one of the major challenges for Iranian banks. These fluctuations can lead to an increase in the credit risk of borrowers who have debts in foreign currency or whose business is tied to imports and exports. In contrast, banks with significant foreign exchange assets can benefit from an increase in the exchange rate, but at the same time with risks arising from sudden changes and policies. are also facing foreign exchange.
- **Impact on bank's capital:** Exchange rate fluctuations can affect the value of banks' foreign exchange capital as well as their foreign exchange liabilities, which affects banks' capital adequacy ratios and financial sustainability.
- **Impact on foreign trade:** The exchange rate and its stability directly affect the volume and cost of a country's foreign trade. Banks, which play an important role in facilitating these exchanges, are heavily affected by these fluctuations.

► **Government Fiscal Policies and Government Debts**

- **Government Budget and Budget Deficit:** The way the government budget is managed and the size of the budget deficit has a direct impact on the banking industry. Chronic budget deficits force the government to borrow from banks and the central bank, which can lead to an increase in the monetary base, inflation, and limited resources available to the private sector.
- **Government debts to banks:** The high volume of government debts to banks is one of the structural problems of the banking industry in Iran. These debts lock up a significant part of the banks' assets and reduce their lending power. Settling these debts or converting them into tradable securities can help improve the financial health of banks.

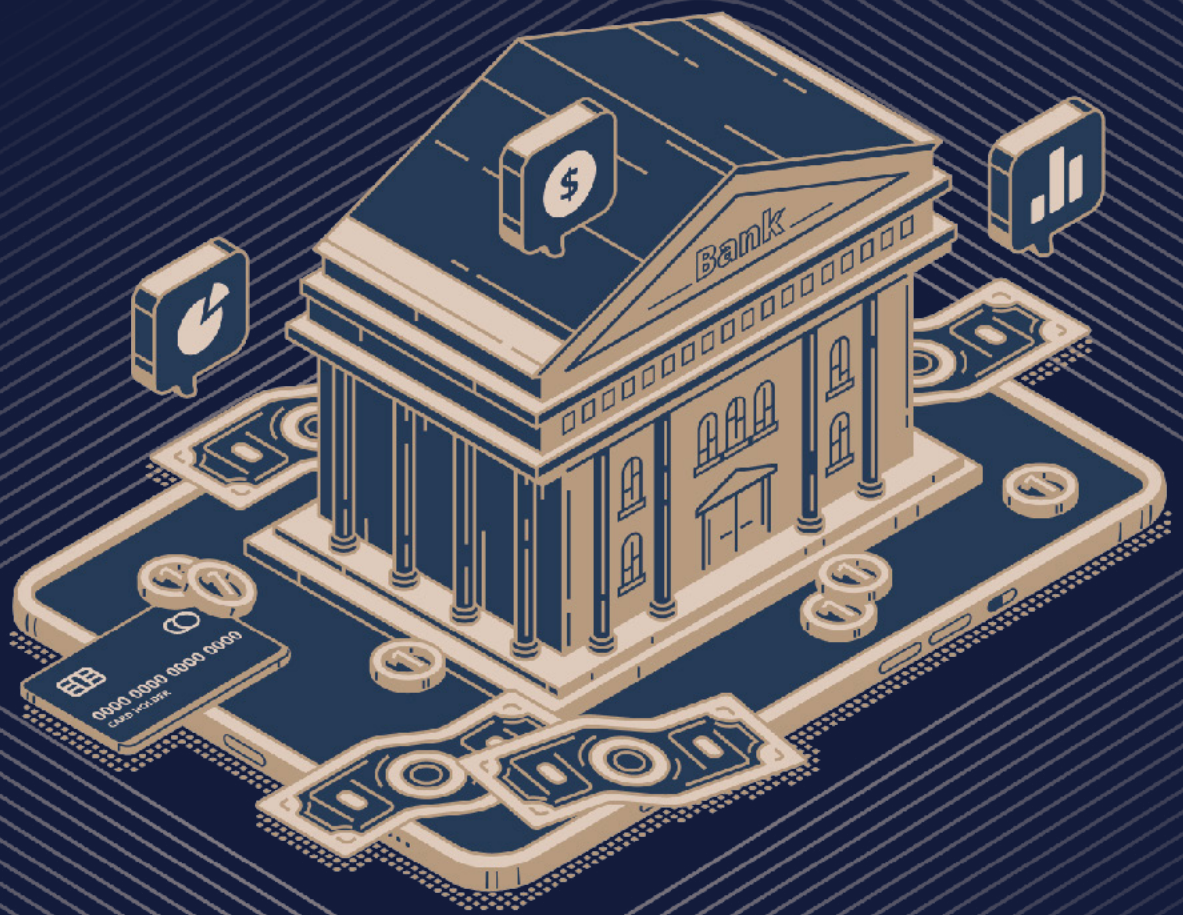
- **The government's competition with the private sector to attract resources:** In a situation where the government turns to the capital market to finance its budget deficit through the issuance of debt securities, it can compete with the private sector to attract resources. This «crowding out effect» can lead to an increase in interest rates and a decrease in the private sector's access to financing.

► 5 International Sanctions and Foreign Relations

- **Restricted access to global markets:** International economic and financial sanctions have severely restricted Iranian banks' access to global financial networks (such as SWIFT), attracting foreign capital, and establishing brokerage relationships with foreign banks. This makes international transactions difficult and costly.
- **Impact on foreign trade and investment:** Sanctions reduce the volume of foreign trade and foreign direct investment, which directly negatively affects the demand for banking services and the country's economic health.
- **Compliance Risk:** Iranian banks are obliged to devote significant resources to compliance in order to comply with sanctions as well as anti-money laundering and counter-terrorism financing regulations. Failure to comply with these regulations can lead to hefty fines and further isolation.

► 6 Financial Market Structure and Competition

- **Internal competition:** Competition between banks and domestic financial institutions, especially with the rise of fintechs and neobanks, affects service pricing, service quality, and innovation. Healthy competition can lead to improved efficiency and reduced costs for customers.
- **Capital market development:** The development and maturity of the capital market (stock exchange, OTC, debt market) can help diversify financing instruments and take part of the burden of financing the economy off the shoulders of banks. This can create opportunities for banks to provide new services such as investment banking or asset management.



THE MOST IMPORTANT TRENDS IN THE COUNTRY'S BANKING AND PAYMENT INDUSTRY IN 2025

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THE MOST IMPORTANT TRENDS IN THE COUNTRY'S BANKING AND PAYMENT INDUSTRY IN 2025

The country's banking and payment industry is on the path of dramatic developments on the eve of 2025, which is shaped by global technological advancements, local requirements, and Iran's specific economic conditions. Understanding these trends is essential for banks, fintechs, regulators, and customers to plan and adapt to the future. This section discusses in detail the most important trends predicted in this industry in the coming year.

1 Accelerating digital transformation and inclusive banking

- **The rise of neobanks and fully digital banking:** In 2025, neobanks and fully digital banking models are expected to grow exponentially. These banks will become increasingly attractive to the younger generation and tech-savvy customers by providing financial services without the need for a physical branch, with a focus on a simple and fast user experience, and lower operating costs. Traditional banks also need to maintain competitiveness, they will be forced to invest massively in their digital platforms and even launch neobanking arms.
- **Technology-Focused Inclusive Banking:** Digital technologies provide a unique opportunity to increase financial inclusion in Iran. In 2025, efforts to provide banking services to underprivileged segments of society, rural areas, and even small and medium-sized businesses (SMEs) that have limited access to traditional banking services will be intensified through digital channels (mobile banking, neobanks). Validation with alternative data (e.g. datamobile operators or purchase records) can help facilitate access to microloans.
- **Focus on Customer Experience (CX) and Personalization:** The competition in 2025 will be more than ever for delivering the best customer experience. Banks will move towards deeper personalization of services and products using data analytics and artificial intelligence. This includes offering personalized loans, investment plans tailored to the customer's risk profile, and targeted communications through preferred digital channels. It is a customer.

▶ Artificial Intelligence (AI) and Data Analytics: The Engine of Innovation

- **AI in Validation and Risk Management:** The use of artificial intelligence to assess credit risk in real time and with higher accuracy will be one of the most important trends in 2025. By analyzing a huge amount of data, AI can uncover hidden patterns in customer behavior, helping banks make more informed lending decisions and reduce outstanding claims.
- **Process automation with AI and RPA:** In 2025, banks will increasingly use artificial intelligence and robotic process automation (RPA) to optimize their internal operations. This includes automating repetitive tasks in customer service, support, and compliance departments, leading to reduced costs and increased efficiency.
- **AI in the fight against money laundering and fraud (AML/CFT):** As money laundering and fraud methods become more sophisticated, AI will play a vital role in identifying suspicious patterns and illegal activities. AI-powered systems are capable of quickly processing huge volumes of transactions and identifying anomalies, which will help banks comply with regulations and protect the financial system.
- **Smart chatbots and virtual assistants:** The use of AI-powered chatbots for 7/24 customer support will become the standard. These chatbots will be able to answer more complex questions and provide more detailed guidance.

▶ Trends in the payment industry and its developments

- **Development of Cardless Payments:** In 2025, the expansion of cardless payment methods, especially through QR codes, NFC (payment through smartphones), and biometric payments (such as facial or fingerprint recognition), will accelerate. In addition to increasing security, these methods will make the payment experience much more convenient for customers.
- **Digital Rial and Central Bank Digital Currencies (CBDCs):** The Digital Rial project (a digital version of the national currency issued by the Central Bank) will enter more operational phases in 2025. This can help increase the efficiency of payments, reduce

transaction costs, and create a new infrastructure for future payments. Although its application and scope will be limited initially, it has the potential to be transformative in the long term.

- **Increasing the use of app-based payments:** Mobile payment applications, beyond just money transfers, will become platforms for providing a variety of services (ticket purchases, bill payments, value-added services). The integration of financial and non-financial services into a single application (Super-Apps) is a trend that will be followed in 2025.
- **Pay more attention to the security of payments:** As the volume and variety of digital payments increases, so will concerns about security. Banks and payment companies will invest more in advanced security technologies such as multi-factor authentication (MFA), card tokenization, and advanced cryptography in 2025.

Regulatory Challenges and Opportunities for Cooperation

- **Dynamic Regulation and RegTech/SupTech:** Regulatory bodies (such as the Central Bank) will seek to develop more flexible yet robust regulatory frameworks for emerging technologies in 2025. The use of RegTech (Regulatory Technologies to Assist Banks) and SupTech (Regulatory Technologies to Assist Regulators) will accelerate in this direction to enable more effective and efficient supervision.
- **Collaboration between banks and fintechs:** Instead of mere competition, we will see an increase in cooperation between traditional banks and fintech companies in 2025. These collaborations can be in the form of banks' investment in fintechs, the creation of fintech accelerators, or the integration of fintech solutions into banking platforms. This synergy can help banks to benefit from fintech innovation, and fintechs should also use the customer base and infrastructure of banks.
- **Focus on corporate governance and transparency:** In order to increase public trust, banks and regulatory bodies will focus more seriously on improving corporate governance, increasing financial transparency, and fighting corruption in 2025. This will include publishing more transparent reports and greater accountability for performance and risks.

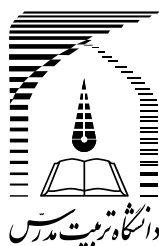
5 Challenges Facing Trends

- **International sanctions:** Continued sanctions will continue to act as a limiting factor for access to global advanced technologies, attracting foreign capital, and establishing international banking relationships. This could slow down the adoption of some global trends.
- **Legacy Systems:** Many traditional banks still use legacy IT systems , which is a major obstacle to the rapid implementation of new technologies. Upgrading this infrastructure requires huge and time-consuming investments.
- **Shortage of technology specialists:** Competition to recruit and retain specialized manpower in the fields of artificial intelligence, cybersecurity, blockchain, and data science will be one of the main challenges for the industry.
- **Cybersecurity and its risks:** As technologies become more sophisticated, cyber threats also become more sophisticated. Protecting customer data and banking systems from cyber attacks will be an ongoing challenge that requires continuous investment.

● FINAL WORDS ●

The year 1404 will be a year full of developments and innovation for the country's banking and payment industry. The acceleration of digital transformation, the wider applications of artificial intelligence, the emergence of the digital rial, and the increasing attention to cardless payments are among the most important trends that will shape the future of this industry. However, challenges such as sanctions, outdated infrastructure, and the need for specialized manpower still require smart management. Banks and regulators should cooperate and take a forward-looking view to exploit technological opportunities and push the banking ecosystem towards greater efficiency, transparency, and inclusivity in order to strengthen their pivotal role in the country's economic development.

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