Editorial

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The crisis that has been engulfing financial markets since 2007 and its still lingering effects have highlighted a number of implications that encompasses a wide range of subjects, from the regulatory camp to the manner in which institutions deal with the changing environment.

The plight has been of such a magnitude that virtually all the theoretical foundations upon which market participants had been relying on need urgent reassessment, or, in the case of the normative, a complete overhaul in order to address issues overlooked by the current body. One of the most notorious examples of the flaws in the regulations uncovered by the crisis is constituted by the Basel Capital Accord (Basel II), which had been conceived to allow banks to use their own risk models and approaches to measure credit and operational risk for capital constitution purposes. However, it is by no means a fact that the events recorded from 2007 onwards swept many of the provisions stated in the aforementioned documents to the extent that even many of the institutions that complied with its requirements have gone bankrupt or, in a more pleasant scenario, bailed out by national governments at the expense of the taxpayer in operations of unprecedented scale in order to avoid a systemic downfall.

Consequently, the Basel Committee of Banking Supervision (BCBS) embarked on a thorough revision of Basel II and enacted a new set of requirements that compose the new Basel Capital Accord (Basel III) focused on the trading book of the banks in order to enhance the coverage provided by the regulations, therefore toughening the capital base in an considerable quantity. Additionally, many domestic regulators also realised those shortages and acted alongside the BCBS strengthening the directives even more in an effort to forestall the repetition of the events that are still hovering around.

The outcome of the current crisis is still uncertain as, in many respects, it is still unleashing and many of its consequences have never been experienced. There seems to be little doubt that, as a result of the interconnectedness of the financial markets, its effects will be felt all over the world in the foreseeable future, either in developed nations or in those countries which have not reached that stage yet. However, quite surprisingly, emerging and frontier markets have withstood the turmoil much in a more decent fashion that industrialised countries which constitutes, in itself, an example of a fact worth of being carefully scrutinised.

The circumstances that have been unfolding since 2007 to 2008 have undoubtedly transformed financial markets, with increased volatility taking the limelight in the press

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after a prolonged period in which prices had majorly risen uninterruptedly. It represents a massive challenge for the academic community as a whole which should strive to find explanations, identify likely solutions and suggest alternative courses of action that could be applied by policymakers to avoid further reiterations of undesirable occurrences.

This explains the urge for the creation of an international working group in this field to accomplish the aforementioned tasks as a think-tank where ideas, theories and proposals are put forward, analysed and discussed by academics and policymakers throughout the world at a wide range of conferences, seminars and workshops which could serve as a platform for many regulations and directives in the years to come. It is against this background that the working group which later called itself, the International Finance and Banking Society (IFABS) was established with an inaugural conference held at the University of Leicester in 2009. This special issue on 'Efficiency and risk management of financial services' presents a selection of the papers presented at the inaugural conference with the aim of attracting researchers from all parts of the world in a remarkable bid to provide quality and timely responses to improve financial standards. After a rigorous review process, a total of four papers were selected for inclusion in this special issue.

The first paper by Rossignolo, Fethi and Shaban focuses on a controversial issue of employing the extreme value theory (EVT) to calculate value-at-risk (VaR). According to the Basel Committee's directives, VaR has been determined as the standard measure to quantify market risk despite some shortcomings of most models to incorporate unexpected crises. The authors use the EVT as a method to estimate VaR for ten stock market indices from developed and emerging markets over a period that includes the year 2008 when the financial crisis unfolded. An important finding of the paper is that the EVT schemes have potential to assist market participants to avoid significant losses that can arise from market disasters.

The second and third papers deal with efficiency and productivity issues that have attracted considerable interest by academics and policymakers, in particular the EU banking industry provided excellent opportunity for research. Having faced a number of challenges including the establishment of the single European market, the introduction of euro, and the enlargement of the market, the EU banks had to develop new ways to improve their efficiency and productivity. The two papers in this special issue, however, focus on innovative aspects of efficiency and productivity analysis. In the second paper, Sena models the production of innovation in the financial sector firms and quantifies its impact on the productivity of the innovators by using a sample of 118 British financial firms. The results reveal that collaboration with other firms and investment in training are important for the production of innovation, however this is not the case for investment in R&D. Another important finding is that only product innovation has a positive impact on the productivity of the innovators in the financial sector.

The third paper by Ohene-Asare and Asmild also provides an innovative approach to efficiency analysis and develops a banking intermediation model that incorporates both profit-maximising and corporate social responsibilities (CSR) of banks. Using data envelopment analysis (DEA), the authors investigate the relative efficiency of Ghanaian banks that has received little attention in the literature. The findings reveal an important aspect in the sense that not only the inclusion of CSR in efficiency assessment of banks may be important for conceptual reasons, but also socially responsible banks are likely to have economic advantages.

The special issue closes with a paper on financial development by Acikgoz, Balcilar and Saracoglu. The research on financial development and economic growth has received great attention in the literature. The authors focus on the period between 1989 and 2007 that have witnessed significant liberalisation policies in Turkish economy. The authors use cointegration techniques to examine the impact of trade openness and financial openness on financial development. The results reveal that all financial development measures show a long-run levels relationship with financial openness, trade openness and real GDP, and that both financial and trade openness have led to financial development in Turkey.

In closing, we would like to thank the editors of *IJBAAF* for providing us the opportunity to edit this special issue, as well as for handling our submission. We are grateful to a number of anonymous referees who had kindly reviewed the submitted manuscripts. We hope that you will enjoy reading these articles as much as we did in editing them.