

<p><b>Details of Applicants</b></p>	<p><b>Principal Investigator</b></p> <p>Dr Imran haider - Lecturer imran.haider@curtin.edu.au Curtin University</p> <p><b>Co-Investigators</b></p> <p>Dr Chen Zheng - Lecturer Chen.Zheng@curtin.edu.au Curtin University</p> <p>Dr Alex Zhang – Sessional Academic <b>alex.zhang1@curtin.edu.au</b> Curtin University</p> <p><b>Mentor</b></p> <p>Professor Adrian Cheung <a href="mailto:adriancheung@cityu.mo">adriancheung@cityu.mo</a> City University of Macau</p>
<p><b>Project Title</b></p>	<p>The effect of corporate social responsibility on bank liquidity creation Grant Obtained: Round 1, 2019</p>
<p><b>Project Summary</b></p>	<p>There is no change in the project (such as research topic and methodology) used to apply AFAANZ research grant 2019. Applicants has successfully completed the project and research paper has been submitted to an ABDC A* ranked Journal titled “Journal of Banking and Finance”. Please see the below a summary of the completed project.</p> <p>This study examines two opposite views of how Corporate Social Responsibility (hereafter CSR) may affect bank liquidity creation. First, banks create liquidity by serving two classes of bank customers (i.e., depositors and borrowers) with on- and off- balance sheet products. CSR activities can improve banks' reputation, which in turn enhances the evaluation of bank products by customers and translates into increased liquidity creation. However, CSR firms are risk-adverse. They are less likely to absorb earnings shocks at the expense of their stakeholders. CSR banks may lower liquidity creation because liquidity creation generates risks when banks finance risky illiquid loans with riskless liquid deposits.</p> <p>CSR has surged in popularity in recent years. Many corporations across the globe have devoted considerable time and resources to CSR investment, because of its perceived benefits to corporate shareholders and stakeholders, including increased profitability and firm value, improved brand and product evaluation enhanced firm reputation, customer satisfaction and loyalty, competitive advantage as well as reduced cost of capital and firm risk, among many others. CSR is especially important in the banking sector, given the fact that banks, by performing essential financial services (e.g., maturity intermediation, credit allocation, liquidity transformation, payment services, etc.), may affect the sustainable development of non-financial firms and have a strong influence on society.</p>

	<p>Under the “product differentiation” hypothesis, bank customers prefer the financial products/services of high-CSR banks to those of low-CSR banks, owing to the association of high-CSR banks with good reputations for products and services quality. With more loans and deposits flowing into high-CSR banks, their ability to create liquidity will be strengthened. Hence, this view predicts that CSR is associated positively with liquidity creation. By contrast, under the “risk aversion” hypothesis, high-CSR banks are risk-averse. Their conservativeness may result in less risk-taking and, hence, less liquidity creation, because liquidity creation involves bank risk-taking. Our findings support the product differentiation view of CSR on bank liquidity creation. Further analyses reveal that the effect of CSR on liquidity creation differs depending upon bank size, the level of bank capital, and the type of financial crisis.</p>
<b>Funds Granted</b>	An award of \$4,000 was granted by AFAANZ in 2019.
<b>Details of Expenditures</b>	<p>The breakdown of research fund \$4,000 consumed on this project is as follows:</p> <p>Due to limitations of the fund for this project we could get support of the research assistant only in terms of data collection / cleaning purposes.</p> <p>Research assistant name – Alinda Mondal</p> <p>Corporate social responsibility data collection – 50 hours = \$2580</p> <p>CSR Data cleaning and merging with bank liquidity creation data – 26 hours = \$1420</p>
<b>Outcomes such as Working Papers</b>	Applicants has successfully completed the project and research paper has been submitted for publication to an ABDC A* ranked Journal titled “Journal of Banking and Finance”.
<b>Future Intentions for this Project</b>	The research paper is intended to be published for Journal of Banking and Finance Journal. Also, authors aim to present it at renowned Accounting and Finance conferences internationally.
<b>Summary of Outcomes and Benefits</b>	<p>The research fund has played a crucial part in completion of this project.</p> <p>This research project contributes to the economy in several manners. Our research paper is the first one to examine the relationship between CSR and bank liquidity creation. We provide far-reaching policy implications for bank regulators advocating greater liquidity requirements for banks. Specifically, our findings lend credence to the idea that socially responsible banks could be exempted from having to comply with the liquidity requirements, as their ability to create liquidity is greater, and their need to hold liquidity as a self-insurance device is less essential.</p>

## Imran Haider

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Co-Authors: Chen Zheng; Junru Zhang; Imran Haider

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