Do Creditor Rights and Information Sharing Affect the Performance of Foreign Banks?

Antonios Nikolaos Kalyvas, Emmanuel Mamatzakis

PII: S1042-4431(17)30338-4
DOI: http://dx.doi.org/10.1016/j.intfin.2017.07.001
Reference: INTFIN 952

To appear in: *Journal of International Financial Markets, Institutions & Money*

Received Date: 28 September 2015
Accepted Date: 12 July 2017

Do Creditor Rights and Information Sharing Affect the Performance of Foreign Banks?

Antonios Nikolaos Kalyvas[1] and Emmanuel Mamatzakis[2]

Abstract

This paper examines the effect of host economy creditor rights and information sharing on the profit performance of foreign banks *vis-à-vis* domestic banks for a global sample of commercial banks over the 2005-2009 period. To this end, we employ the recent foreign bank ownership dataset of Claessens and Van Horen (2014) and measure performance as profit efficiency using the alternative profit function. Results from the Battese and Coelli (1995) stochastic frontier analysis model show that creditor rights exert a positive effect on efficiency that strengthens for foreign banks. On the other hand, information sharing exerts a negative effect on profit efficiency which strengthens for foreign banks. The results for information sharing show some variability across different levels of development of the host economy. Moreover, the transparency of the host economy moderates the effect of creditor rights and information sharing on foreign bank efficiency. We also examine the effect of "*institutional distance"* in creditor rights and information sharing between the home and host economy on foreign bank efficiency. The effect of creditor rights "*institutional distance"* on foreign bank efficiency is negative, while it turns positive for information sharing. These findings highlight the importance of strong creditor rights for foreign bank performance and are useful for both regulators in host economies and foreign bank managers.

Keywords: Foreign Banks, Liability of Foreignness, Profit Efficiency, Creditor Rights, Information Sharing.

JEL: F21, F23, G21, G28

[1] Corresponding author, Department of Accounting and Finance, University of Greenwich, Old Royal Naval College, Park Row, London, SE10 9LS, UK. E-mail: a.kalyvas@greenwich.ac.uk

[2] Department of Finance, University of Sussex, Jubilee Building, Falmer, BN1 9SL, UK. E-mail: e.mamatzakis@sussex.ac.uk