J. Finan. Intermediation 22 (2013) 218–244

Contents lists available at SciVerse ScienceDirect

J. Finan. Intermediation

journal homepage: www.elsevier.com/locate/jfi

Bank competition and stability: Cross-country heterogeneity ☆

Thorsten Beck [a], Olivier De Jonghe [b,*], Glenn Schepens [c]

[a] CentER, European Banking Center, Tilburg University and CEPR, P.O. Box 90153, 5000 LE Tilburg, The Netherlands
[b] CentER, European Banking Center, Tilburg University, P.O. Box 90153, 5000 LE Tilburg, The Netherlands
[c] Department of Financial Economics, Ghent University, W. Wilsonplein 5D, 9000 Ghent, Belgium

ARTICLE INFO

Article history:
Received 25 January 2012
Available online 5 August 2012

Keywords:
Bank competition
Financial stability
Herding
Deposit insurance
Information sharing
Risk shifting

ABSTRACT

This paper documents large cross-country variation in the relationship between bank competition and bank stability and explores market, regulatory and institutional features that can explain this variation. We show that an increase in competition will have a larger impact on banks' fragility in countries with stricter activity restrictions, lower systemic fragility, better developed stock exchanges, more generous deposit insurance and more effective systems of credit information sharing. The effects are economically large and thus have important repercussions for the current regulatory reform debate.

© 2012 Elsevier Inc. All rights reserved.

1. Introduction

The impact of bank competition on financial stability remains a widely debated and controversial issue, both among policymakers and academics.[1] The belief that fiercer competition among banks

☆ The authors would like to thank Charles Calomiris, Fabio Castiglionesi, Hans Degryse, Jakob de Haan, Claudia Girardone, Iftekhar Hasan, Simon Kwan, Klaus Schaeck, two anonymous reviewers, the Editor (Phil Strahan) and seminar participants at ASSA meeting (Chicago), HEC Paris, Ghent University, Tilburg University, Cass Business School, Roma II Tor Vergata, Université Libre de Bruxelles, Bangor Business School, the Bank of England, Carefin-Bocconi (Milan) and the FIRS conference (Sydney) for interesting discussions and helpful comments. Thorsten Beck acknowledges support from the European Commission under Marie Curie Grant, IRG 239469. Glenn Schepens acknowledges support from the Fund for Scientific Research (Flanders) under FWO Project G.0028.08N.

* Corresponding author.
E-mail addresses: T.Beck@uvt.nl (T. Beck), o.dejonghe@uvt.nl (O. De Jonghe), glenn.schepens@ugent.be (G. Schepens).

[1] See Bank for International Settlements (2001), Beck (2008), Group of Ten (2001) and International Monetary Fund (2001) as well as Carletti and Vives (2009) and Vives (2001). For a recent on-line debate on this topic, see http://www.economist.com/debate/overview/205.

1042-9573/$ - see front matter © 2012 Elsevier Inc. All rights reserved.
http://dx.doi.org/10.1016/j.jfi.2012.07.001

would lead to a more effective banking system initiated a deregulating spiral in the late 1970s and early 1980s. While the deregulation of branching and activity restrictions may have resulted in more intense competition among banks, with positive repercussions for financial depth (Dick and Lehnert, 2010; Rice and Strahan, 2010), income distribution (Beck et al., 2010b), growth (Cetorelli and Gambera, 2001) and efficiency (Bertrand et al., 2007), it may as well have had the unintended consequence of increasing banking sector instability (see e.g., Jayaratne and Strahan, 1998 and Keeley, 1990). Similarly, the international process of banking liberalization has gone hand in hand with an increased occurrence of systemic banking crises in the last two decades of the 20th century,[2] culminating in the global financial crisis of 2007–2009. However, there is no academic consensus on whether bank competition leads to more or less stability in the banking system.

A similarly inconclusive debate has been led on the effect of the regulatory framework on banks' risk-taking incentives and ultimately bank stability. On the one hand, capital requirements and restrictions on interest rates and banks' activities are seen as fostering stability (Hellmann et al., 2000); on the other hand, they might lead to rent-seeking and might prevent banks from reaping necessary diversification and scale benefits. The role of deposit insurance schemes has been especially controversial. While often introduced to protect small depositors' lifetime savings and to prevent bank runs, they also provide perverse incentives to banks to take aggressive and excessive risks. These perverse incentives are held less in check in weak supervisory frameworks (Demirguc-Kunt and Detragiache, 2002).

This paper combines the two literatures and provides empirical evidence that the relationship between competition and stability varies across markets with different regulatory frameworks, market structures and levels of institutional development. While we show, on average, a positive relationship between banks' market power, as measured by the Lerner index, and banks' stability, as measured by the Z-score (a gauge of banks' distance to insolvency), we find large cross-country variation in this relationship. Our results suggest that an increase in competition is associated with a larger rise in banks' fragility in countries with stricter activity restrictions, lower systemic fragility, better developed stock exchanges, more generous deposit insurance and more effective systems of credit information sharing.

Exploring the variation in the competition-stability relationship is important for academics and policy makers alike. The academic debate on the effect of competition on bank stability has been inconclusive to date and by exploring factors that can explain cross-country variation in the relationship, this paper contributes to the resolution of the puzzle. Policy makers have been concerned about the effect of deregulation and the consequent impact of competition on bank stability but have also discussed different elements of the regulatory framework that have both an impact on competition and directly on stability, including deposit insurance, capital regulation and activity restrictions. After the recent crisis, there are reform suggestions focusing on activity restrictions, capital standards, deposit insurance and the institutional structure of supervision. This paper shows a critical role for the regulatory framework in explaining the variation across countries and over time in the relationship between competition and stability and has therefore important policy repercussions.[3] For example, we conduct a simulation that mimics a post-crisis scenario with more generous deposit insurance schemes and stronger restrictions on bank activities and, hence, more herding.[4] The relationship between market power and soundness is almost twice as large compared to the average country in the absence of such a change, suggesting a very negative impact of competition on stability in this scenario. In the base scenario, a one standard deviation reduction in market power leads to a drop in the Z-score[5] of 17%. In our fictitious post-crisis scenario, a similar loss in market power leads to a 37%

---

[2] For a detailed overview of the timing of deregulation and the timing of systemic banking crises, we refer to Abiad et al. (2008) and Laeven and Valencia (2010), respectively.

[3] If such a country-specifc factor affects both competition and banking sector stability, then a spurious relationship between competition and stability may be the outcome. Therefore, by including country-year fixed effects, we only exploit the within country-year variation in bank market power and bank soundness. More detailed information is in the Methodology section.

[4] This simulation scenario, which reflects recent regulatory reforms or reform suggestions, is based on the results in Table 6.

[5] The Z-score can be interpreted as the number of standard deviations by which returns would have to fall from the mean to wipe out all equity in the bank. See Section 3.2.2 for more information on the Z-score.

دریافت فوری ← متن کامل مقاله

ISIArticles
مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات