

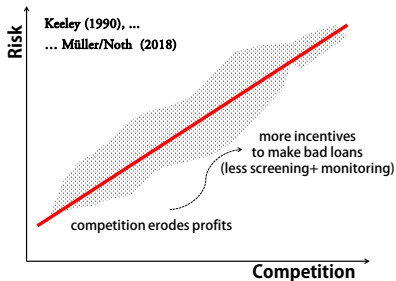
Discussion

Bank Competition and Risk-Taking
by Jorge Pozo and Youel Rojas

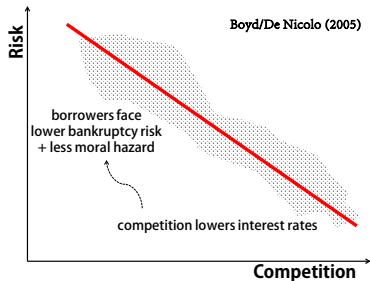
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XXV Meeting of the Central Bank Researchers Network
28-30 Oct 2020

Two opposing views

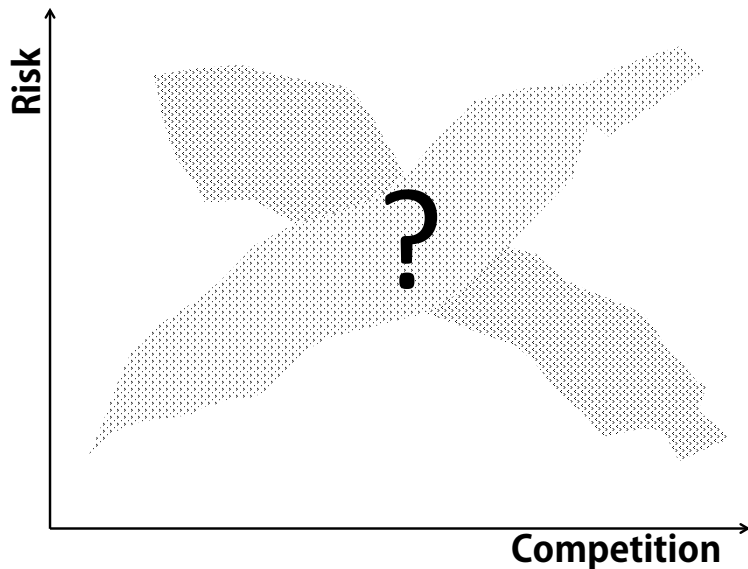


Competition-Fragility

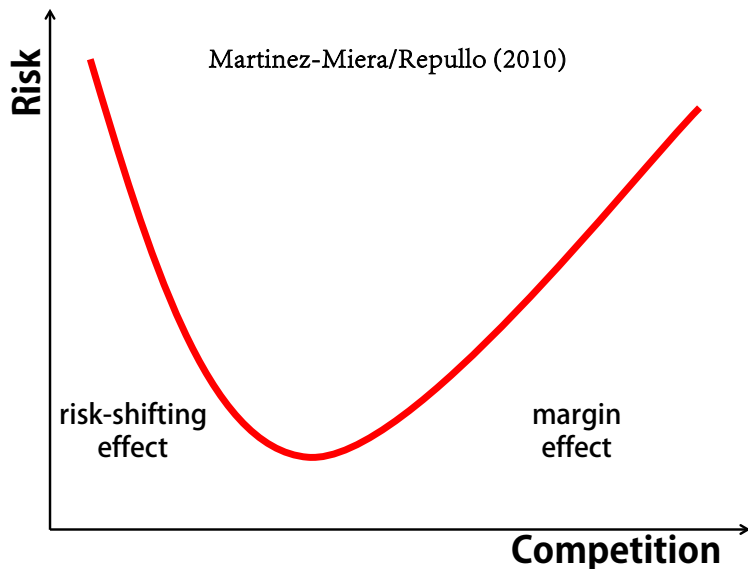


Competition-Stability

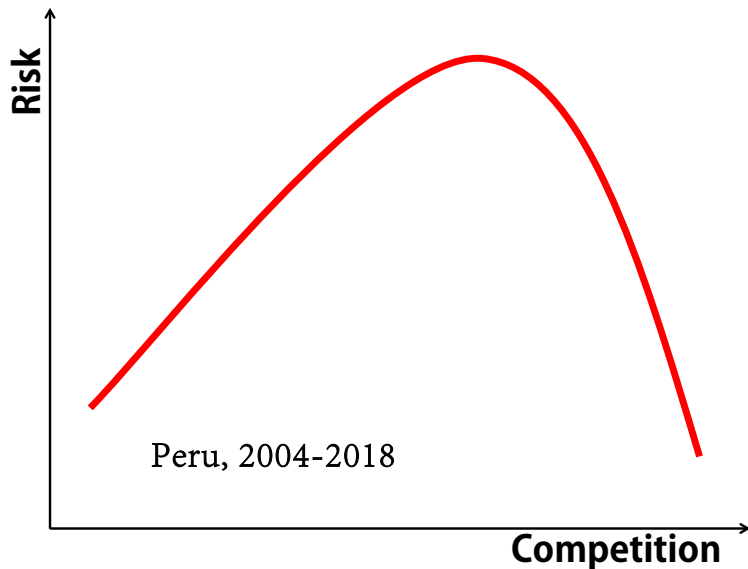
The question!



U-nifying approach



This paper!



What they do

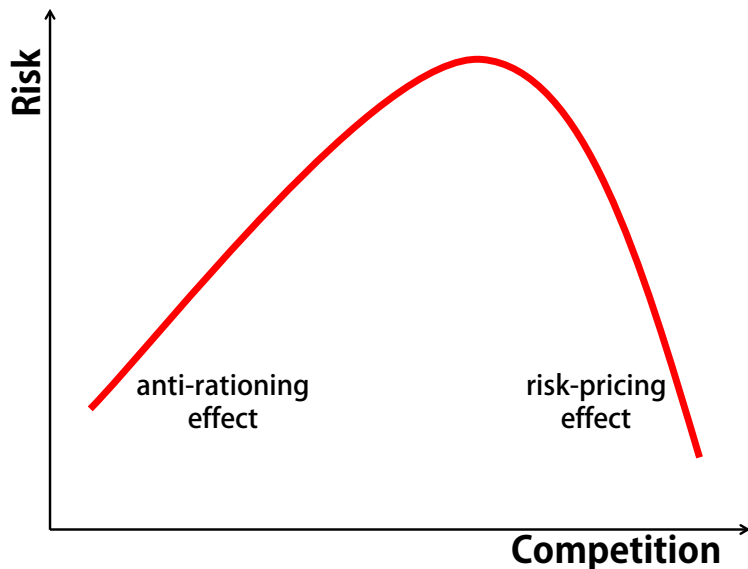
- ⇒ They take on an extremely important question!
- ⇒ They test the U-shape hypothesis based on data of the Peruvian financial system from 2004 to 2018
 - Evidence for a emerging economy
 - Evidence for a highly concentrated banking system (?)
 - Combine credit registry and tax data to get borrowers' location
 - Identification on a granular, regional level

It is a well-written, highly relevant paper
that you should read!

What flips the \cup to a \cap ?

- ▶ Why is it important to revisit the question for an emerging economy?
- ▶ What is different in Peru / emerging economy?
- ▶ How does it influence the aforementioned channels?
- ▶ What channels can explain the inverse U?

One trial with adverse selection and risk-based pricing



Testable implications

- ▶ At low levels of competition leads an increase in competition to an on average worse borrower pool
- ▶ At high levels of competition leads an increase in competition to more adequately priced loans

$$Risk_{btr} = \beta_1 competition_{itr} + \beta_2 competition_{itr}^2 + \alpha_{it} + \gamma_{tr}$$

- borrower-based risk measure would allow for inter-bank across region identification

Interesting paper with great data and surprising results!
Great potential if you come up with a good explanation!

Further comments to the authors

- ▶ Focus on the granular identification. This is where the contribution lies.
- ▶ High concentration nationwide, but competitive regional markets? Tell a consistent story.
- ▶ The Fixed-Effects puzzle: Why do bank FE kill the results?
- ▶ The competition measure puzzle: Why do concentration measures deliver opposite results? (See: Carbó-Valverde et al., 2009)

A list of ideas for robustness checks

- ▶ Robustness on the risk measure (NPL), would be ideal to get a borrower-level risk measure from tax data or corporate reports
- ▶ Robustness on the competition measure (C3,C5, Lerner index)
- ▶ Robustness on the province-based competition measure. How is the relationship between risk and region-based measure from the bank-level analysis?
- ▶ Robustness on the regions. How much is driven by metropolitan Lima area? Urban vs rural?
- ▶ Exclude 2004, the reporting seems odd (graphs).
- ▶ Split the sample in different periods /business cycle / pre-post GFC

A list of information I would have liked to have

- ▶ Information on the regional dispersion of banks (and fin. institutions): In how many regions do they operate? How many nation-wide operating banks exist?
- ▶ Information on the borrower/client based data: How many borrowers per bank/region? 6000 observations for 10 years seems small. What are the limitations of the data or what gets lost in matching?