M. Birón, F. Córdova, A. Lemus: Banks’ business model and their impact on the Chilean bank lending channel

Discussion by

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Conference of the BIS CCA CGDFS Working Group

“Changes in banks’ business models and their impact on bank lending”

September 6-7, 2018 – Mexico City

Summary

- Question: What is the influence of changes in banks' business models on the bank lending channel in Chile?
  - Influence of bank characteristics on loan growth?
  - Interaction of bank characteristics and monetary policy?
  - Interaction of bank characteristics and global economic conditions? Government involvement in banks?
- Data and method
  - Chilean credit registry, focus on commercial lending, 1990:Q1-2016:Q4, matched quarterly bank-firm data
  - Loan growth regressions ($\Delta \log L$) with interaction terms and fixed effects
- Main results
  - Weakening of the bank lending channel after the crisis
  - Banks adapt business models to increase non-traditional income (trading income, fees, commissions)

General assessment

- Interesting first draft
- Great micro data (Chilean credit registry matched with bank characteristics)
- Overall: Sharpen your contribution

- Motivation and context
- Theoretical foundation
- Analysis and results
- Government involvement in banking

1. Motivation and context

- Why does the paper focus on Chile?
- Is there anything we cannot study in other countries?
  - Data (credit registry with matched bank-firm data) √
  - Banks and/or the banking system different?
    - Their funding?
    - Currency issues?
  - Role of the government?
- Two suggestions
  - An economy that strongly depends on commodity prices, which should affect bank lending (industry effects, exports, collateral, …)
  - The countercyclical fiscal policy (SBS, structural budget surplus rules) that might interact with the bank lending channel

→ Better motivate …

2. Theoretical foundation

- The current version appears to be quite descriptive (= questions & answers)
- Suggestion: Derive a set of three hypotheses that make predictions about
  - the influence of key bank characteristics (H1a, H1b, …)
  - The interaction between bank characteristics and money policy (changes in the policy rate) (H2a, H2b, …)
  - The interaction between bank characteristics and global economic conditions (H3a, H3b)

→ Add hypotheses about the most interesting effects …

3. Analysis and results

- Significance
  - Denote statistical significance in the usual way (***, **, *) so that the reader can quickly see the strongest effects
  - Assess the economic significance: Are the effects large?
- Here: Bank lending channel = commercial lending
  - Consider retail lending (21% of total credit)? Mortgage lending in- or excluded?
  - Does this focus affect the interpretation of your results?
- Suggestion: Do fiscal policy and monetary policy in Chile interact and what is the influence on the bank lending channel?
  - Here: Focus on credit supply
  - But: What about credit demand (that might be stimulated by fiscal policy)? → might be important in times of crisis
- Section 4.3: Condense the findings from Table 6, 7, 8 and 9 to one table (report only the full model, column 6)
- Banks' shift to non-traditional income is global. Chile seems to confirm the U.S. and European experience from the 1990s/2000s …

4. Government involvement in banking

- Section 4.4: The role of the state-owned "Banco Estado (BE)"
  - Main results robust but less strong when BE is excluded → suggests lower cyclicality of the state-owned bank
  - Plausible but not new; result based on only one bank
- You write (p. 11): "There is little evidence on the effects of government ownership over bank lending." → Extensive research on the effects of government involvement in banks
  - In general: Mainly negative effects because of political influence, corruption and inefficiency (e.g., La Porta, Lopes-de-Silanes, Shleifer 2002; Sapienza 2004; Dinç 2005; Illueca, Norden and Udell 2014; Carvalho 2014; Bonomo et al. 2015)
  - Reduce the efficiency of monetary transmission when lending by state-owned banks is subject to political influence (Bonomo and Martin 2017)
  - But: State-owned/controlled banks can have positive effects when they help to
    - overcome market failure (privately owned banks fail to provide certain financial services)
    - implement public policies to fight poverty or to promote financial inclusion, home ownership, SME finance, student finance, etc. (e.g., Burgess and Pande 2005; Behr, Norden, Noth 2013; Hakenes at al. 2015)
    - Reduce the cyclicality of bank lending, stabilizing credit supply through the cycle and in crises (Bertay et al. 2015; Behr, Foos, Norden 2017)

→ Report as a robustness test, show Table 5 at the end of the paper

Minor comments

- Title and abstract
  - Changes in bank business models: Evidence from Chile
  - Mention the main results
- Section 2: Provide more information about the Chilean banking system, highlight special features
- Commercial lending of foreign banks' subsidiaries in Chile?
- Literature
  - Monetary policy in Brazil: Bonomo and Martins, 2016: "The Impact of Government-Driven Loans in the Monetary Transmission Mechanism: what can we learn from firm-level data? (BCB working paper 419)
  - Income diversification: Stiroh 2004; Stiroh and Rumbel 2006; De Jonghe 2010; Elsas, Hackethal and Holzhäuser 2010; DeYoung and Torna 2013