

**Comments on
Bank Ownership Type and
Banking Relationships
by Berger, Klapper, Soledad
Martinez and Zaidi**

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General Comments

- Nice paper, unique data
- Topic not yet explored:
 - What are the determinants of relationships with specific type of banks?
- General comments
 - Hypotheses not all that obvious in direction
 - Data can be used in more/deeper ways
 - Additional robustness tests useful
 - What does this mean for policy makers?

Hypotheses

- Not all hypotheses are so natural; other competing are possible
- While evidence fits, can leave selection of hypotheses open
- For example, fragility versus value
 - Foreign banks may be more fragile in length of relationship, but value from relationship may be higher
 - Less reason to seek multiple relationships
 - State-owned banks may provide value through cheap loans, but subject to improved governance and regulation and supervision risks
- Also, competition and holdup can work two ways
 - With more competition, less holdup problems, but less incentives for banks to invest
 - Higher costs may lead to more competition

Empirics

- Banks and firms (self-)select: large simultaneity problem, careful on direction of causation:
 - Selection models alone may not be enough: use IV?
 - Can one use regulations at the local level (Banerjee/Duflo)
- Ideally like to see this as a panel, with changes such as privatization of banks, entry of (foreign) banks/branches, changes in regulation/supervision, etc.
- Paper does various controls, but not so clear all relevant (firm) characteristics are covered. For example:
 - Volatility of sales, External financing dependence, Competition in the real factor markets

More minor/extensions

- What are exactly banks in various samples? Could still be a heterogeneous group.
- Why not run the regressions by individual banks and then use more bank details?
- Additionally/alternatively, can you classify banks more by variables proxy use of relationships, e.g.
 - Share of technology/personnel in total expenses, number of its branches, number of personnel?
- Are there other firm characteristics that may matter?
 - Coverage in credit bureau (which?), credit rating/FICO type-score, access to bond markets?

Importance/effects

- What do the relationships buy?
 - For firms: better access (more, cheaper, continuity)? Better firms (higher return on assets/valuation)?
 - For banks: better clients, with higher net margins?
- Can explore these dimensions
 - Panel data would allow some tests at firm/bank level, to see effects over time, but may not be feasible
 - Document more differences among firms in some of these dimensions, even when just grouped by type of main bank.
 - Include here costs and quantity of financing: are there differences among firms?

Lessons, policy implications and questions

- Relationships vary by bank type. Question:
 - Does this matter for access to and cost of financing, growth, stability, etc.??
 - If so, what are best policy responses?
- Changes in Indian banking system structure and technology will mean new/further changes
- What is the best policy response?
 - With increased distance, more emphasis on transparency and information (e.g., credit bureaus)?
 - Change (improve/reduce?) competition/entry?