

---

# The Disciplining Effect of Bank Supervision: Evidence from SupTech

---

Maria Rocamora, PhD

Discussion, EBA Policy Research Workshop, 6 November 2024

Session 1: Impact of financial innovation

# Key findings

- **The effect on banks' balance sheets:**
  - After a SupTech event, banks **reclassify more loans as problem loans** (compared to non-banks) after supervision (compared to the pre-supervision period). Also, banks **increase provisions for expected loan losses**, particularly **provisions for expected loan losses on risky loans**.
- **The effect on banks' lending behaviour:**
  - SupTech events do not affect banks' credit supply.
- **The effect on firms borrowing from treated banks:**
  - Supervisory scrutiny does not have spillover effects on firms' total leverage, employment, revenue, and productivity.
  - Treated banks **reduce credit, increase loan rates and reduce loan maturities** of loans granted to less creditworthy borrowers.
  - This credit reallocation has spillover effects on **less creditworthy firms** (a one standard deviation increase in the firm's exposure to a treated bank decreases the firm's revenue and productivity by 1.3%, on average).
- **Conclusion:** SupTech events have a disciplining effect on the banking sector.

## Suggestions for future work

- **Introduce in Table 6 (effects on banks' balance sheets)** interactions between variables that account for the characteristics of each bank and the variable accounting for the DID term ( $\beta_{ATE} * \text{Post supervision}_{b,t}$ ).
  - Capitalized banks vs. low capitalized banks ( $\beta_{ATE} * \text{Post supervision}_{b,t} * \text{Tier 1}$ ).
  - Systemic banks vs. non-systemic banks ( $\beta_{ATE} * \text{Post supervision}_{b,t} * \text{Systemic}$ ).
- **Introduce in Table 11 (effects on banks' lending behaviour)** interactions between variables that account for banks' profitability ratios (e.g. ROE/ROA) and the variable accounting for the DID term ( $\beta_{ATE} * \text{Post supervision}_{b,t}$ ).
  - A variable to know if banks with low profitability would extend credit more than others ( $\beta_{ATE} * \text{Post supervision}_{b,t} * \text{ROE}$ ).
- **Study** if the results are different for banks that were subject to 3 or more than 3 Suptech events, compared to banks that were subject to only 1.



Floor 24-27, Tour Europlaza  
20 Avenue André Prothin  
92400 Courbevoie, France

---

Tel: +33 1 86 52 70 00  
E-mail: [info@eba.europa.eu](mailto:info@eba.europa.eu)

---

<https://eba.europa.eu/>