



# The competitive effect of a bank megamerger on credit supply

Discussion by Valerie De Bruyckere (EBA)

# This paper – the megamerger:



- Merger between two European megabanks at the end of the 2000s to form a new banking group
  - ✓ Bank A and B were the 4th and 6th largest banks of the country, with national market shares of 10.2% and 5.1%.
  - ✓ After the merger, the bank became the 2nd largest bank in terms of firm lending in the country.
  
- Research questions:
  - ✓ What is the effect of this merger on credit supply, firm exit, investment and employment?
  - ✓ What is the relationship between market power/concentration/competition and credit supply?

# This paper – Findings:

- The merging bank reduces credit supply versus non-merging banks in local markets where the concentration of bank A and B was higher before the merger

**concentration ↑ of merging bank  $\approx$  credit supply ↓**

- Effect driven by reduction in credit supply of short-term credit – no effect is observed for long-term credit

# This paper - methodology

- Loan level information (national credit register)
- Changes in lending
  - ✓ From pre-merger to post-merger period
  - ✓ Across different geographical zones, i.e. ‘local markets’, where banks A and B had different market shares (i.e. different market concentrations)

$$\Delta Loans = \alpha + \beta \underbrace{MergedBank \cdot MarketOverlap}_{MarketShare_A * MarketShare_B} + controls + \varepsilon$$


- Controls
  - ✓ Firm-time FE
  - ✓ Bank-time FE

# Comments 1/2

- Only one megamerger → external validity of the results?
  - ✓ Business model decisions of the merged bank
  - ✓ What happened to the combined capital buffer after the merger (level/composition)
  - ✓ Asset/Funding/Revenue composition
  
- Measure of market competition: Market Overlap
  - ✓ Market overlap  $\approx$  Concentration  $\approx$  Market power  $\approx$  Competition
  - ✓ Empirical studies indicate that concentration is generally a poor measure of bank competition (Bikker et al., 2012)
  - ✓ Lerner index - widely used in recent studies investigating bank competition (e.g. Carbo et al., 2009; Beck, De Jonghe and Schepens, 2013)
  - ✓ Effect on margins (interest rate margin and/or total margin)?
  
- 'Market Overlap' in local markets
  - ✓ How many?
  - ✓ Size?
  - ✓ Level of credit
  - ✓ ...

# Comments 2/2

- The *change* in credit from pre- to post-merger period. What about the *level* of credit?
  - ✓ Perhaps these markets where the overlap is higher are those markets with relatively high levels of credit already in the economy, i.e. these markets are already saturated?
  - ✓ Is more credit is always better? Perhaps the good borrowers have already been selected, and granting more credit leads to (1) either higher risky loans being financed and/or (2) more/high risky borrowers being granted credits.
  
- Credit register only contains firms with annual turnover > €750 000, and with debt > €25 000.
  - ✓ Could this affect the conclusions on firm exit?
  - ✓ Large banks tend to specialize in lending to relatively large, informationally transparent firms using “hard” information, while small banks have advantages in lending to smaller, less transparent firms using “soft” information (Berger and Black, 2011)
  - ✓ Stein (2002) and Berger and Udell (2002) have shown that small banks rely more on relationship lending

# Relevance from a regulatory perspective?

- Design of the SME-supporting factor
  - ✓ Four size categories: total loans below €38, 500, in the range €38, 500–80, 000, in the range €80, 000–180, 000, and above €180
  - ✓ CRR definition of SME: annual turnover < €50 million and total loans <€1.5 million
  - ✓ Capital Market Union (Juncker Commission): support financing to companies that struggle to get funding, especially SMEs and start-ups
- Since 2014: G-SIB and O-SIB buffer → extra capital buffers to systemic (large) banks → effect on lending?
- EU Merger Regulation (Council Regulation (EC) No 139/2004)
  - ✓ Prohibits M&As which would significantly reduce competition in the Single Market (avoid creation of dominant companies that are likely to raise consumer prices)
  - ✓ Turnover thresholds of individual and merged firms and market shares



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