

**Sebastian J. A. de-Ramon and Michael Straughan:
“Measuring competition in the UK deposit-taking sector”**

Discussion by Kim Abildgren



General assessment and outline of discussion

- Nice empirical study on the level of competition in the UK financial sector.
- The paper uses a panel dataset on 127 UK deposit-taking banks at a group-consolidated level over the period 1989-2013 and compiles a number of state-of-the-art competition measures.
- The authors offer a balanced overview of the pros and cons of the different measures.
- In general, all measures indicate that the degree of competition has decreased over time, and the authors discuss a number of factors that might have contributed to this development (consolidation, product differentiation, etc.).

A research question to shape the paper

- The paper is very brief regarding the issue of the relationship between competition and financial stability.
- The paper might benefit from letting this research question shape the presentation of the results in the empirical analysis. This would also enhance the policy relevance of the paper.
- The finding clearly indicate that the level of competition decreased before the recent financial crisis. This suggests that weak competition does not foster financial stability. On the contrary it seems that weak competition and high rent can be a sleeping pillow for banks that might cause them to conduct a too loose credit policy and thereby endanger financial stability.
- From this perspective it is also interesting that the paper finds that competition decreased after the crisis.

Bank-level efficiency and bank failures

- As a by-product of their work, the authors have measures of efficiency at a bank-level.
- It could be an interesting exercise to take a closer look at the efficiency of individual banks over time.
- Were those banks that either failed or were acquired by other banks in the period, on average, less efficient than other banks?
- [A few slides from the study: Kim Abildgren, Nicolai Møller Andersen, Mark Strøm Kristoffersen and Andreas Kuchler. Productivity and Cost-Efficiency in the Danish Financial Sector, *Danmarks Nationalbank Monetary Review*, Vol. 52(4,2), 2013, pp. 1-63.]

To assess developments in the productivity of individual banks over the last decade, economic literature's two most widely used methods for efficiency analysis, i.e. Data Envelopment Analysis (DEA) and Stochastic Frontier Analysis (SFA), are used. Both methods can be used to benchmark individual banks by calculating the distance between the bank's current combination of inputs and outputs and the efficient frontier, presenting, in stylised form, the optimal combination of inputs and outputs

The following variables are used in the analysis:

Inputs:

- Staff costs and administrative expenses
- Interest expenditure
- Depreciation, amortisation and impairment of intangible and tangible assets

Outputs:

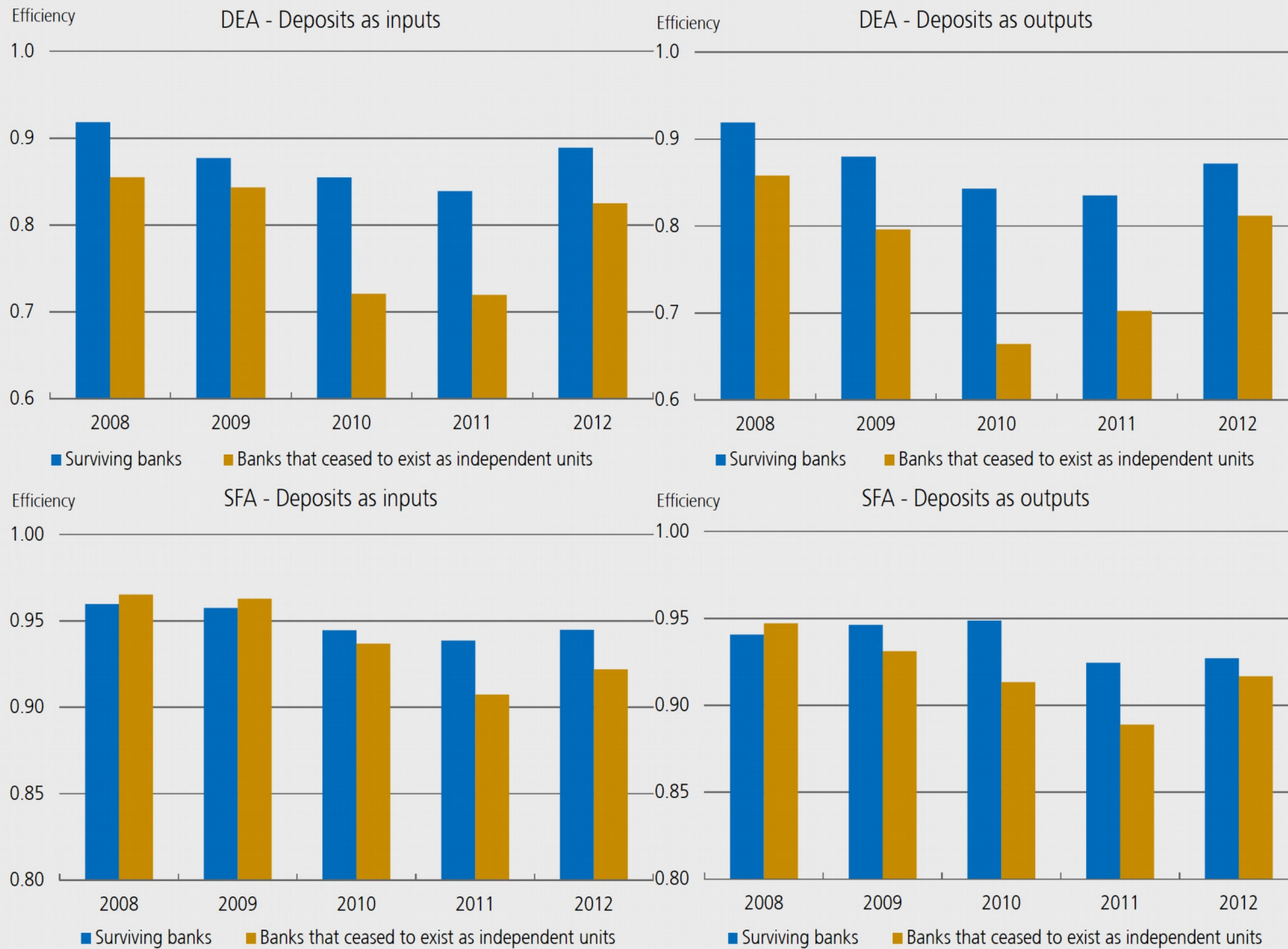
- Interest income
- Fee and commission income
- Total lending
- Bonds and shares.

Specially-treated variable:

- Total deposits

EFFICIENCY OF BANKS THAT WERE DISCONTINUED DURING AND AFTER THE CRISIS

Chart 6.4



Note: The chart shows the average efficiency of banks that are discontinued in a given year, and the average efficiency of banks that were continued. For example, results for 2008 refer to banks that were discontinued in 2008, while efficiency is based on data from 2007.

Minor comments

- The authors might consider moving some on the material from section 6 on the development trends in the banking sector forward in the paper. This would give the reader a better overview of the British banking sector before the more detailed stuff has to be digested.
- Did the liberalisation in the 1980s increase competition compared to the pre- liberalisation period? From the introduction the reader might get the impression that this was not the case (cf. the description of the study by Matthews et al., 2007). The authors might consider a minor elaboration of this issue in the introduction.