'International bank flows and bank business models since the crisis', by Herzberg and McQuade

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- How have bank business models evolved since the crisis? - smaller; less trading, more lending oriented; more deposit funded.
- What are the implications for cross-border lending by banks? - retrenchment from cross-border activities.
- G-SIBS maintain cross-border exposure, more so than smaller banks.

- From earlier papers (e.g., De Haas and Van Horen, 2013; Giannetti and Laeven, 2012) we know that crisis led to banks reducing cross-border lending (flight home effect).
- This note documents that EU banks were more severely affected. This is surprising, as one would expect EU borders to be less restrictive.
- The second fact documented is that these effects outlasted the crisis. Again, surprising, as the flight-home effect should have reversed by now.
- The next step would be to understand the determinants.

- The note suggests that the change in the bank business models since the crisis may be responsible for the retrenchment from cross-border markets.
- I would argue that this is not necessarily the case. A common factor (possibly the crisis itself) may be driving both the changes in the business model and cross-border activity.
- Then, to causally relate bank business models to cross-border activity, it would be more fruitful to identify regulatory reforms which targets business models, without directly affecting cross-border activity.
- The policy implications crucially rest on whether or not this relationship is causal.

- The regression analysis would be more parsimonious by differentiating between time periods using interaction terms, rather than sub-sample analysis.
- The results for the G-SIBS are interesting, but it is not clear what drives the differences between them and the less important banks.

- Overall, this note uncovers several interesting patterns in the changes in bank business models since the crisis.
- More work is required to understand the channels which drive these patterns.
- The note seems to take the view that more cross-border flow is unambiguously better (due to risk-sharing).
- The policy implications is that steps towards supranational supervision will be welfare-improving. There are costs too (e.g., Calzolari, Colliard, Loranth, 2018).