Banks' Business Models' and Performance the Impact of Interest Rates and Capital Requirements

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The paper in a nutshell

- The paper aims to answer two important and timely questions
    1. How do (*lower*) interest rates and (*higher*) capital requirements impact bank performance? and
    2. Is this impact different for different business models?
- **Sample** of large banks from OECD countries (mostly EU + US + Japan) over 2005- 2016.
- **Identification of BM**: commercial, universal, trading via cluster analysis based on banks' involvement in trading activities (securities).
- **Key results**: Differences in sensitivity to interest rates across BM. Higher capital buffers beneficial for all banks during crisis period.

Some comments

- **The sample**:
  - Why do you restrict the sample to banks with total assets larger than 30 billon euro?
  - Are these systemically important?
    - FSB (2016) G-SIBs: 30 banks
    - EBA (2016 stress test) 51 EU banks
    - Should you consider a different threshold by country
- **Bank profitability**:
  - stylised facts: interesting but necessary to the story?
  - are differences in ROE and ROA among BM statistically significant?
  - should you consider NIM rather than ROE?
- **The BM identification**: only one dimension of the balance sheet (market based activities) and only one year: too much simplification?

Some comments: identification strategy

- **The variables of interest**:
  - **Interest rates**:
    - should you consider changes in interest rates?
    - how does the 'low for long' interest rate environment impact your results?
    - should you split the sample between those bank-year observations in the low-interest and those in the high-interest rate environments?
    - should you consider country risk or sovereign credit risk (sovereign CDS as a proxy). Your sample includes countries that were heavily affected by the EZ crisis – the sovereign rates on some EZ government bonds were not necessarily risk-free rates.
  - **Capital buffer**:
    - what drives banks to increase capital buffers?
    - endogeneity issue of the decision to increase capital buffers?
    - are differences highly correlated with BM/bank type & size?
    - correlation between ROE and Equity?
    - how do you account for regulatory changes? Both the increase in Tier 1 and the introduction of a capital buffer in Basel III?

Some comments: empirical strategy

- **The empirical specification**:
  - **Yi,j,t,b**: problem - you have countries with one bank, one BM
    - bank, country, time FE?
    - how does it impact the cross correlation of errors?
    - should you interact BM with high/low interest rates and high/low capital buffers?