Australian
National
University

2021 Banking and Financial Stability Meeting
Wednesday 4th August

Meeting Details

Join Zoom Meeting
https://anu.zoom.us/j/7092509685?pwd=UW5YcU9uZ3NBamJlQVZNVlIySGVpQT09

Meeting ID: 709 250 9685
Password: 287949

Conference Program (Australian Eastern Standard Time, UTC+10)

8:50am-9:00am Welcome

Session 1

9:00am-9:35am
Title: Adverse Selection Dynamics in Privately-Produced Safe Debt Markets
Presenter: Stéphane Verani, Federal Reserve Board
Discussant: Kentaro Asai, ANU

9:35am-10:10am
Title: Monetary Policy and the Cross-Section of Stock Returns in a Market with Frictions
Presenter: Xiaoyang Li, Deakin U.
Discussant: Angel Zhong, RMIT

10:10am-10:45am
Title: Who Lends Before Banking Crises? Evidence from the International Syndicated Loan Market
Presenter: Yeejin Jang, UNSW
Discussant: Diego Puente, UTS

Session 2

11:00am-11:35am **Title:** The Strategic Use of Corporate Philanthropy: Evidence from Bank Donations
Presenter: Seungho Choi, QUT
Discussant: Ying Liang, Monash U.

11:35am-12:10pm **Title:** CEO Pay Gap and Bank Risk-Taking
Presenter: Shams Pathan, Curtin U.
Discussant: Keke Song, MBS

12:10pm-12:45pm **Title:** Banks' Investment in FinTech Ventures
Presenter: Mike Mao, Deakin U.
Discussant: Jason Zein, UNSW

Session 3

2:00pm-2:35am **Title:** Search Disruption During the Pandemic
Presenter: Isaac (Guangqian) Pan, U. Sydney
Discussant: Silvio Contessi, Monash U.

2:35pm-3:10pm **Title:** Zoom towns: Housing Market Spillovers and Covid-19
Presenter: Danika Wright, U. Sydney
Discussant: Adrian Lee, Deakin U.

3:10pm-3:45pm **Title:** Banking Efficiency Matters: Evidence from the Covid-19 **Pandemic**
Presenter: Ruchith Dissanayake, QUT
Discussant: Thomas Matthys, UTS

Session 4 **Keynote Address**

4:00pm-5:00pm **Title**: Hedging Uncertainty?
Presenter: Paolo Fulghieri, UNC Chapel-Hill

Adverse Selection Dynamics in Privately-Produced Safe Debt Markets
Nathan Foley-Fisher, Gary Gorton, and Stéphane Verani

Privately-produced safe debt is designed so that there is no adverse selection in trade. This is because no agent finds it profitable to produce private information about the debt's backing and all agents know this (i.e., it is information-insensitive). But in some macro states, it becomes profitable for some agents to produce private information, and then the debt faces adverse selection when traded (i.e., it becomes information-sensitive). We empirically study these adverse selection dynamics in a very important asset class, collateralized loan obligations, a large symbiotic appendage of the regulated banking system, which finances loans to below investment grade firms.

Monetary policy and the cross-section of stock returns in a market with frictions*
Xiaoyang Li, Xuan Zhou, and Xiaolin Gong

We study the effects of a central bank's monetary policy in an economy with frictions. Between 2006 and 2019, China's central bank frequently adjusted reserve requirements (RR) and interest rates (IR) to implement monetary policy. We examine how stock prices react to these adjustments and distinguish between state-owned-enterprises (SOEs) and private-owned-enterprises (POEs). We find that SOEs benefit significantly more than POEs from expansionary monetary policy especially through cutting RR. In contrast, contractionary monetary policy through raising IR benefits POEs but hurts SOEs. These findings shed light on the monetary transmission in a market with interest rate control and credit rationing.

Who Lends Before Banking Crises? Evidence from the International Syndicated Loan Market
Mariassunta Giannetti and Yeejin Jang

We show that foreign lenders and low market share lenders extend more credit in comparison to other lenders during lending booms leading to banking crises, but not during other credit expansions. Less established lenders also increase the amount of credit they extend to riskier borrowers, without asking for collateral or imposing covenants and higher interest rates. Our results suggest that taking lenders' characteristics into account could provide an indicator for how much risk an economy is accumulating and be a useful barometer for macroprudential policies

The strategic use of corporate philanthropy: Evidence from bank donations
Seungho Choi, Raphael Jonghyeon Park, and Simon Xu

Using data on bank donations to nonprofit organizations, we examine the strategic nature of banks' charitable giving. We find that bank donation decisions are driven by local market competition and such donations subsequently lead to a higher local market share. We confirm our results by using two exogenous shocks: the application of antitrust laws in bank

mergers and natural disasters. We further show that bank donations lead to increases in local mortgage origination shares and in the likelihood of entry into new markets through branch openings. Overall, our evidence suggests that banks participate in corporate philanthropy strategically to enhance performance.

CEO pay gap and bank risk-taking

Shams Pathana, Mamiza Haqb, and Jacob Morgan

The large compensation received by bank executives is among the many factors blamed for the risk-taking that led to the 2008-2009 financial crisis. We test whether and how pay disparities between CEO and non-CEO executives—the so-called CEO pay gap—influenced risk taking at publicly traded commercial banks in the US. Perhaps surprisingly, we find strong evidence that larger CEO pay gaps are associated with lower risk levels, improved financial performance, and greater information transparency. Our findings are unique to banks and are consistent with the CEO power proposition. We corroborate this proposition through linking larger pay gaps to increased CEO power and low CEO turnover-performance sensitivity. Our results imply that placing absolute limits on bank CEO pay would likely result in increased bank risk-taking

Banks' investment in FinTech ventures

Emma Li, Mike Qinghao Mao, Hong Feng Zhang, Hao Zheng

This paper investigates banks' investment in FinTech ventures over the past two decades in the U.S. Using data on startup financings from 2000 to 2018, we document that banks favour investment in FinTech startups, more than independent venture capitalists (IVCs). More importantly, banks outperform IVCs in FinTech investment as measured by IPO exits, though no such outperformance is evident in general ventures or technology ventures investment. Furthermore, banks' outperformance in FinTech investment is only observed for small banks and for FinTechs operating in core banking segments. We also find that banks are more likely to take board seats in FinTech portfolio firms than non-FinTech ones. Overall, we provide supporting evidence that banks possess unique knowledge in screening or facilitating successful FinTech startups.

Search disruption during the pandemic

Guangqian Pan

This paper explores the extent and consequences of physical search disruptions during the Covid-19 pandemic in the U.S. retail deposits market. Mapping a mobile phone dataset tracking 20 million devices daily in U.S. with branch level weekly interest rates since 2019, we find banks offer lower rate when their depositors in that region stay at home more and visit bank branches less frequently during the pandemic. Such effect remains after considering both demand and supply of deposits. Price discrimination is most severe when a branch faces a high deposit supply surge and high pre-crisis local competitions. This finding

suggests a search-based channel where exogenous negative shocks on physical search activities increase search frictions and incur losses for consumers. The estimated annual losses for depositors due to inactive search is $13 billion. Furthermore, search friction concentrates during lockdown period and online search can only partially mitigate the friction.

Zoom towns: Housing Market Spillovers and Covid-19

Maria B. Yanotti, Moses Kangogo, and Danika Wright,

This study analyzes the impact of Covid-19 on housing submarkets in Australia. Large sections of the workforce and education pivoted from in-person to online operations in 2020. Prior literature has identified a migration out of cities in response to these changes in way of working. We find this is reected in shifting property demand in 2020. Using an innovative method for measuring spillover effects in the housing literature, we document a strong, interconnected relationship between housing submarkets. Specifically, we find that metropolitan capital cities were net recipient of spillovers before the Covid-19 pandemic but becomes net transmitter during Covid-19 pandemic, and regional cities received large spillover effects during the Covid-19 pandemic. This represents a reversal in prior housing demand trends in Australia. Our results shed light on growing property affordability issues in regional areas which had previously provided attractive options for households priced out of inner-metropolitan areas.

Banking Efficiency Matters: Evidence from the Covid-19 Pandemic

Ruchith Dissanayake and Yanhui Wu

Banking efficiency is an essential catalyst in reducing uncertainty during a crisis and stimulating post-crisis economic growth. The heterogeneity in pre-crisis banking efficiency explains the differences in uncertainty — measured using stock return volatility — across countries during the Covid-19 crisis. During the crisis, volatility is lower for countries with lower banking overhead costs and net interest margins than for their more inefficient counterparts. Effectual banking institutions are better equipped to supply the much-needed credit to the private sector during a crisis. We find that countries with pre-crisis efficient banking institutions are able to supply considerably more credit to corporations and households during the crisis. In addition, we show that countries with efficient banking institutions are associated with superior post-pandemic output growth based on economic forecasts. Our findings underscore the importance of better functioning banking systems in moderating some of the corporate losses and liquidity stresses during an unanticipated economic crisis.