

“Deposit insurance reforms and bank risk taking”
Tuma, Mamun, Shao (2025)

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CEA Conference 2025

May 30, 2025

Summary

- ▶ The effects of deposit insurance have been highly discussed in the literature:
 - ▶ *Theory*: Improved insurance decreases multiple-equilibria bank runs vs. Moral hazard behavior from banks side to take on more risks.
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 - ▶ Use of bank level data from developed economies – variation between countries changing deposit rules caps and not. Firm-year observations. Sample 2005-2019.
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- ▶ Methodologically: Difference-in-Differences approach.
- ▶ Results:
 - ▶ Higher coverage → ↑ Deposits/Assets, and ↓ interest expenses.
 - ▶ Higher loan loss reserves ratios.
 - ▶ Higher pro-cyclicality.

Comments and suggestions

- ▶ Important research question: I encourage authors to pursue this further.

Suggestions Data-wise:

- ▶ In cross-country studies, it is advisable to adjust for PPP levels, not real USD.
- ▶ Unconvinced that focusing on large systemic banks only is advisable. How do results change if regional and smaller banks are included? They are a key part exposed to deposit runs.

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- ▶ Unclear that survey responses are orthogonal to private incentives:
 - ▶ Usually, a stronger bank has incentives to state that they increased their risks because they know that they can withstand the bad weather, while bad banks keep that information private for fear of runs.
 - ▶ How does this measure check out with harder piece of data at the bank level data? It would be interesting to see a few correlations.
 - ▶ Why Japan has a separate index from EU and US?
- ▶ Very small sample outside of the EU. US 4.6% of bank industry, AU 4.8%, CA 9.5%. External validity? What about percentage of deposits out of the total? I expect EU numbers to be in line, and others to be even lower.

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Analyses-wise:

- ▶ Robustness:
 - ▶ Higher loan loss reserves as a proportion to deposits up or down? Seems more appropriate measure given the object of study.
 - ▶ What about other measures of moral hazard explored in the literature (leverage ratio, NPL, ...)? It would be interesting to see how these estimates differ from the previous ones.
- ▶ Lower credit standards controlling for *aggregate credit standards*? Is this just a common factor spuriously affecting all units? Idiosyncratic (bank-level) results should be considered controlling for that.
- ▶ *Pro-cyclicality* without another financial crisis after 2008 is impossible to test. You create an ad-hoc measure of stock market volatility and interest rates interaction, but you barely had changes in the latter after 2008. It is like sticking a unit root. Very hard to make that claim. I would delete it.

Comments and suggestions

- ▶ No auto-regressive component. Omitted variable: You need a dynamic panel! The lagged dependent variable is a key predictor to be added. Why aren't dependent variables in logs? There may be severe persistence and spurious results because of that.
- ▶ On loan loss reserves:
 - ▶ Were there other regulations affecting the required ratios?
 - ▶ From a monetary point of view, we moved from a conventional monetary policy period to a period with *ample reserves and Q.E.*. Is it possible that this increase is merely a spurious effect of the generalized factor of higher reserves? Controlling for the policy rate does **not** account for this different regime.