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## Comments on “Insurance Pricing, Distortions, and Moral Hazard: Quasi- Experimental Evidence from Deposit Insurance” by G. Shoukry, FDIC, USA

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# Background

**The topic of deposit insurance pricing and moral hazard has been discussed in the literature for a long time, especially in the US, but not very intensively.**

**Strengths:**

- **Unique data**
- **Quasi-experimental approach**

**Weaknesses:**

- **Data from the 1990s**
- **Data for a specific case of BIF-SAIF disparity**

# Conclusions from the study (1)

- **A shift in funding sources is only of historical importance due to legal changes in the US and implementation of NSFR under Basel III framework**
- **„[...] it is not worthwhile for banks to pay higher deposit insurance premiums in order to chase extra returns through excessive risk taking” ⇒ Which came first: the chicken or the egg?**

## Conclusions from the study (2)

- **Risk-based pricing of DI impacted banks' risk-taking**
- **Risk-based pricing of DI must be accompanied by regulatory controls, but arbitrage in DI is rather limited**
- **What about risk measures other than the CAMELS rating or capital ratio (TCR)?**

# Possible extensions

- **New data**
- **Alternative risk measures**
- **Bank risk-taking behaviour over a longer time horizon**
- **Banks with different ownership**
- **Cross-country perspective**

# European perspective (1)

- **P.Gómez-Fernández-Aguado, A.Partal-Ureña & A. Trujillo-Ponce (2014), *Moving toward risk-based deposit insurance premiums in the European Union: the case of Spain*, Applied Economics**
- **L. Chiaramonte, C. Girardone, M. Migliavacca & F. Poli (2020), *Deposit insurance schemes and bank stability in Europe: how much does design matter?*, The European Journal of Finance**
- **R.Cerrone (2018), *Deposit guarantee reform in Europe: does European deposit insurance scheme increase banking stability?*, Journal of Economic Policy Reform**

## European perspective (2)

- **P.Gómez-Fernández-Aguado, A.Partal-Ureña & A. Trujillo-Ponce (2014)**
- **Spanish banks from 2007 to 2011**
- **European Commission proposal - 2010**
- ***„[...] risk-based scheme could provide an incentive for sound management by reducing the premiums for credit institutions with better risk profiles”***
- ***„[...] proposed reform may help to mitigate the moral hazard associated with larger credit institutions”***

## European perspective (3)

- **L. Chiaramonte, C. Girardone, M. Migliavacca & F. Poli (2020), *Deposit insurance schemes and bank stability in Europe: how much does design matter?*, The European Journal of Finance**
- **Risk or stability measure – Z-Score**
- **EU-27 countries and selected banks from 2003 to 2013**
- ***„Overall, the key message of this study is that DIS should focus more on maintaining financial stability and be sufficiently flexible to account for local conditions“***
- ***„[...] there could be potential vulnerabilities in the creation of a common EU deposit insurance framework based on a ‘one size fits all’“***

# European perspective (4)

- **R.Cerrone (2018), *Deposit guarantee reform in Europe: does European deposit insurance scheme increase banking stability?*, Journal of Economic Policy Reform**
- ***„[...]setting common financing requirements is a key element of DGS reform and EDIS evolution”***
- ***„Moreover DGSs’ risk-based contributions require a more accurate adoption of internal strategies of risk control on banking asset side; and finally the evolution from DGS to EDIS should lead to a recovery of confidence between banks and their customers”***

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**Thank you for your attention!**