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Chapter Author: Barry Williams

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timation, the authors attempt to incorporate different aspects of banking business, namely, cost performance, size, and healthiness of the banks, and include several variables for each aspect as explanatory variables. For example, the ROA and the cost ratios are included to capture the market efficiency levels of the banks, whereas the capital-to-asset ratio and the asset growth rate are to capture their size. However, one can suspect that these variables for each aspect of banking business are highly correlated. Furthermore, these different aspects of banking business can also be highly correlated with each other. Either or both of cost performance and the operation size of banks usually affect the healthiness of the banks, or vice versa. At the very least, the authors may need to be careful about the choice of variables and avoid unnecessary multicollinearity.

Finally, on the postmerger estimation results, the authors find that merged banks tend to raise loan rates and interpret that as evidence that merged banks strengthen their market power. However, this result can also be interpreted as that newly merged banks tend to implement more stringent risk management and, therefore, charge higher rates on their loans. It has been discussed that a merger plan is often approved—implicitly or explicitly—by the MOF or FSA with a condition that the new bank will improve balance sheets and capital adequacy. If that is the case, it is not surprising that a newly merged bank implement more stringent risk management and charge higher loan rates.

After all, this chapter can convey important messages to financial administrators and bankers. For that purpose, careful interpretation of the empirical results and some refinement in the model construction may be necessary. It seems that the NPLs problem is finally history; as of the spring of 2007, among the six major city banks, the ratio of NPLs to total loans is around 1.5 percent, a significant fall from 8 percent in 2002. As the NPL problem is over, fluidity in the banking industry may end as well. However, given the current M&A boom and ample liquidity on the global scale, restructuring of Japanese banks may not end soon. Given that, the implications this chapter presents can be quite significant.

Comment Barry Williams

I appreciate the opportunity to discuss this chapter as it provides an insight into the merger process in a country I do not make a focus of my research. Thus I found the chapter both informative and interesting. I do have a few comments to make that I feel can possibly improve the chapter.

Barry Williams is a professor of finance and head of the Department of Finance at Bond University.

Motivation

The chapter raises some interesting questions, but I feel that much of the material in the second paragraph (and some of the third paragraph) should be promoted to the first paragraph, in order to strengthen the attractiveness of this chapter. Further, I feel that some of the literature review material in the first few paragraphs should be moved to a separate literature review section.

Literature Review

I feel that the literature review should be separated from the introduction and motivation, as it will make the transition between these two components of the chapter clearer. At the moment the motivation and literature review are a bit too intermingled for my tastes.

Managerial Empire Building

Given that one of the interesting results of this chapter is the lack of managerial empire building, I feel that the literature discussion here should be a bit more detailed. This could provide a stronger foundation for the rejection of this hypothesis. As stated, "If managerial private incentive for empire building is a major motive for mergers, bank efficiency or healthiness is not associated with the M&A decision." I am always cautious of any hypothesis that involves testing a null hypothesis and would prefer this issue explored with a different test.

Major Bank Measure of Market Power

It is stated in the chapter that the measure of market power for regional and *shinkin* banks is the Herfindahl index. I assume that this is the prefecture Herfindahl index. I would like to see some discussion of the omission of this variable for the major banks. In a similar vein, given that the major banks operate nationally, how was the prefectural gross domestic product (GDP) chosen?

Choice of Significance Level

I would like to see the discussion focus upon the use of a 5 percent significance level, with results at the 10 percent level not considered significant. In this vein, I feel that the tables presenting the results should be tidied up; they are a bit messy, and removing the 10 percent significant level would help, as would perhaps the use of boldface font for significant variables.

Choice of Postmerger Window for Analysis

In the interests of simplification, I feel a focus upon the three- five-year postmerger period would be valuable. As shown by studies such as Fo-

carelli and Panetta (2003), Focarelli and Pozzolo (2005) and Rhoades (1998), a two- three-year postmerger period is needed to determine if there are any postmerger gains.

Impact on Small- and Medium-Sized Enterprise Lending

The chapter has an interesting result that postmerger share of major bank lending to small- and medium-sized enterprises (SME) increases; this is opposite to the result of Berger, Demsetz, and Strahan (1999), and I would like to see a discussion addressing why this opposite is obtained.

I appreciate the chance to review this chapter and thank the authors for an interesting chapter that raises a number of valuable and topical issues. Like all interesting papers, this one raises a number of questions while also answering some other questions.

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