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Editorial

Editorial for the Special Issue on Commercial Banking

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Abstract: The existence of financial intermediaries is arguably an artifact of information asymmetry. Beyond simple financial transactions, financial intermediation provides a mechanism for information transmission, which can reduce the degree of information asymmetry and consequently increase market efficiency. During the process of information transmission, the bank is able to provide unique services in the production and exchange of information. Therefore, banks have comparative advantages in information production, transmission, and utilisation. In credit provision, it is possible for lenders to make Type I and Type II errors. These types of errors are associated with whether banks decide to lend money to borrowers with low repayment capacity or risk missing out on potentially profitable lending. However, the recent US subprime loan crisis and previous financial crises (such as the Mexican, Argentinian, Chilean and Asian financial crises) show it is possible that banks can make both good and bad lending decisions. Does this mean that banks have lost their comparative advantages in leveraging information asymmetry? This Special Issue includes contribution in empirical methods in banking such risk and bank performance, capital regulation, bank competition and foreign bank entry, bank regulation on bank performance, and capital adequacy and deposit insurance.

Keywords: banks; risks; capital

The Special Issue in Commercial Banking has been successfully published in the *Journal of Risk and Financial Management* (*JRFM*). The Special Issue welcomes contribution in empirical methods in banking such as bank loans announcement, credit constraints, capital regulation and bank behaviour, bank regulation on bank performance, corporate governance in banking, maturity transformation risk in banking and bank's merger and acquisition.

With this in mind, the Special Issue features six papers that address several exciting topics of interest to our readers. The lead paper by Nguyen (2019) explore the relationship between revenue diversification, risk and bank performance using data from audited financial statements and annual reports of 26 commercial banks listed and unlisted in Vietnam during the period 2010–2018. Using the Generalized Method of Moment modeling techniques, the author's result shows that diversification negatively impacts profitability and the higher the diversification, the higher the risk of commercial banks.

Nguyen et al. (2019) investigate the effect of capital on bank risk employing a meta-analysis approach based on a wide range of empirical papers from 1990 to 2018. Their result shows negative effect of bank capital on bank risk, which implies the discipline role of bank capital, is more likely to be reported. However, the reported results are suffered from the publication bias due to the preference for significant estimates and favored results.

Using panel data for the period from 2005–2018, Li et al. (2019) evaluate the level of competition in the Indian banking sector overall as well as within the three groups of banks: foreign owned, state owned (public sector), and privately owned. They found that the overall competition in the Indian banking sector is strong, although there are differences by type of bank ownership. The Indian banking market continues to be characterized by monopolistic competition. The various policy measures taken by the Indian government in recent years appear to have helped boost competition. A policy suggestion would be to further liberalize the banking sector for foreign investment

Using the double bootstrap data envelopment analysis, Yang et al. (2019) measure bank efficiency and examine the relationship between regulation, supervision, and state ownership in commercial banks in the Asia-Pacific region for the period 2005 to 2014. Their results indicate that excluding off-balance sheet activities in efficiency estimations lead to underestimating of the pure technical efficiency, while overestimating the scale efficiency of banks in the Asia-Pacific region. Their bootstrap regression results suggest that bank regulation and supervision are positively related to bank technical efficiency, while state ownership is not significantly related to bank efficiency.

Chen et al. (2019) examine the interactive role of bank competition and foreign bank entry in explaining the risk-taking of banks over the globe. Using the pooled regression model and Two-stage Least Squares model (2SLS with Generalized Method of Moments GMM), they document that foreign bank entry decreases the risk-taking behavior of the banks to a certain level and exhibits an inverted U-shaped relation with financial stability. Furthermore, the joint effect of bank competition and foreign bank entry brings financial fragility because host banks tend to make risky investments due to undue competition induced by foreign bank entry. Their result supports the competition–fragility hypothesis when foreign bank entry goes beyond a certain threshold.

Finally, Jumreornvong et al. (2018) investigate how deposit insurance and capital adequacy affect bank risk for five developed and nine emerging markets over the period of 1992–2015. Although full coverage of deposit insurance induces moral hazard by banks, deposit insurance is still an effective tool, especially during the time of crisis. On the contrary, capital adequacy by itself does not effectively perform the monitoring role and leads to the asset substitution problem. Implementing the safety nets of both deposit insurance and capital adequacy together could be a sustainable financial architecture. An immediate-effect analysis reveals that the interplay between deposit insurance and capital adequacy is indispensable for banking system stability.

I hope you are delighted with the content of this Special Issue. *JRFM* is committed to providing you with stimulating and dynamic papers in future issues. I invite readers to suggest "themes" for special issues in *JRFM* future issues. We want *JRFM* to reflect your research interests and needs.

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