

This site uses *cookies*, tags, and tracking settings to store information that help give you the very best browsing experience.



[← Previous Chapter](#) [Next Chapter →](#)

Chapter 10: Bank competition and financial stability

Allen N. Berger, Leora F. Klapper, and Rima Turk-Ariss

in [Handbook of Competition in Banking and Finance](#)

Category: Handbook Chapter

Published: 29 Sep 2017

Page Range: 185–204

Collection: [Economics 2017](#)

DOI: <https://doi.org/10.4337/9781785363306.00018>

Publisher: Edward Elgar Publishing



Under the traditional “competition–fragility” view, more bank competition erodes market power, decreases profit margins, and results in reduced franchise value that encourages bank risk taking. Under the alternative “competition–stability” view, more market power in the loan market may result in higher bank risk, as the higher interest rates charged to loan customers make it harder to repay loans, and exacerbate moral hazard and adverse selection problems. The two strands of the literature need not necessarily yield opposing predictions regarding the effects of competition and market power on stability in banking. Even if market power in the loan market results in riskier loan portfolios, the overall risks of banks need not increase if banks protect their franchise values by increasing their equity capital or engaging in other risk-mitigating techniques. The authors test these theories by regressing measures of loan risk, bank risk, and bank equity capital on several measures of market power, as well as indicators of the business environment, using data for 8235 banks in 23 developed nations. The results suggest that – consistent with the traditional “competition–fragility” view – banks with a higher degree of market power also have less overall risk exposure. The data also provide some support for one element of the “competition–stability” view – that market power increases loan portfolio risk. The authors show that this risk may be offset in part by higher equity capital ratios.

You are not authenticated to view the full text of this chapter or article.

Access options

Get access to the full article by using one of the access options below.

Other access options

Redeem Token

Institutional Login

Log in with Open Athens, Shibboleth, or your institutional credentials



Access through your institution

Personal login

Log in with your Elgar Online account

Login with your Elgar account



Handbook of Competition in Banking and Finance

Edited by Jacob A. Bikker and
Laura Spierdijk

Handbook

Published: 29 Sep 2017

Print ISBN: 9781785363290

eISBN: 9781785363306

DOI: <https://doi.org/10.4337/9781785363306>

Pages: c 424

Collection: [Economics 2017](#)

Buy Print

^ Table of Contents

Front Matter

Copyright



Contributors

Introduction

PART I: MEASUREMENT OF FINANCIAL-SECTOR COMPETITION

Chapter 1: Market power:
competition among measures

Chapter 2: The Panzar–Rosse
revenue test and market
power in banking: an
empirical illustration

Chapter 3: Adapting
conjectural variations
methods to banking
competition

Chapter 4: Bank risk and
competition: the other side of
the story.

Chapter 5: Competition,
concentration and critical
mass: why the Herfindahl–
Hirschman Index is a biased
competition measure

PART II: EMPIRICAL RESULTS ON COMPETITION IN BANKING AND INSURANCE

Chapter 6: Global
developments in banking
competition

Chapter 7: Competition in the
European banking markets in
the aftermath of the financial
crisis

Chapter 8: Bank competition
in China

Chapter 9: Performance of the
life insurance industry under
pressure: efficiency,
competition and
consolidation

PART III: SPILL-OVERS OF FINANCIAL-SECTOR COMPETITION

**Chapter 10: Bank competition
and financial stability.**



[Chapter 11: Measuring agency costs and the value of investment opportunities of US](#)

[bank holding companies with stochastic frontier estimation](#)

[Chapter 12: Banking competition and economic growth](#)

[Chapter 13: Shadow banking and competition: decomposing market power by activity](#)

[Chapter 14: Banking competition and interest rate pass-through](#)

PART IV: COMPETITION IN BANKING SUBMARKETS AND SUBSECTORS

[Chapter 15: SME business loans](#)

[Chapter 16: Competition and price conduct by bank service line](#)

[Chapter 17: Competition and contestability in bank retail markets](#)

[Chapter 18: Bank market power and loan growth](#)

[Index](#)

Subjects

[Economics and Finance](#)

[Financial Economics and Regulation](#)

[Money and Banking](#)



[Privacy & Cookies Policy](#)

[Terms & Conditions](#)

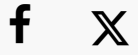
[Credits](#)



Accessibility

EU GPSR Info

Connect with us:



Copyright © 2026

Powered by Pub

