“Changing Skin in Local Banking: Evidence from the Italian Mutual Bank Reform” by Luca Casolaro and Silvia Del Prete

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- **Motivation**: Mutual Banks face a fundamental trade-off:
  - Relationship/Local Lending Advantage.
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- **Question**: Did the Reform **affect** Mutual Banks **relationship capital**?

The Paper

- **Methodology:**
  - Merge Credit Register w/ bank- and firm-level characteristics (2012-2019, Tuscany).
  - Run the following DiD:

$$Y_{f,b,t} = \beta \left(\mathbb{I}_{t \geq 2015} \times \mathbb{I}_{\text{Mutual Bank entering group}} \right) + \phi_{f,t} + \eta_{f,b} + \varepsilon_{f,b,t}.$$

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  3. Loan differential **concentrated** on credit to **smaller** & **riskier** & **local** firms.
  4. very robust! (different dependent variables and controls.)

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  3. **Policy Implications:** aggregate effects? substitution? excessive risk taking?

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  - Significance could be due to **regulation shocks hitting the local banks in control group**.
  - M&A activity in the control group (see Bonaccorsi di Patti & Gobbi (JF 2007))

Identification - Cont'd. Loans are largely decreasing post 2015 in absolute terms.

Table 1- Summary statistics of the regression sample

	Mutual banks (treated)		*Other banks (controls)*	
	2012-14	2015-19	2012-14	2015-19
		Outstanding loan granted (1)		
All firms	2,787	3,254	3342	3257
Small firms (3)	11,62	1,110	1,022	751
Risky firms (4)	501	365	341	183
		Average loan granted (2)		
All firms	345,524	360,638	505,886	486,003
Small firms (3)	248,435	227,876	301,530	237,733
Risky firms (4)	301,610	299,147	332,344	284,975
		Number of bank-firm relations		
All firms	8068	9023	6606	6701
Small firms (3)	4678	4869	3390	3161
Risky firms (4)	1660	1221	1026	641
		Number of firms (4)		
All firms	5358	5806	4624	4755
Small firms (3)	3,148	3234	2554	2473
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- Possible solutions:
  - Robustness, **focusing on Mutual Banks only**.
    - Use **within mutual sector heterogeneity**, ex. create a measure of distance each mutual bank from group's loan policy (ex. loan portfolio).
  - Robustness focusing on **staggered adoption of reform** by banks.
    - Use Goodman Bacon JoE 2021 decomposition.
  - Robustness **extending the estimation period** to show **no differences in trends after previous crisis**.

Interpretation

1 **Research question** entails a **yes/no answer**:

- YES: the Reform did decrease the amount of mutual banks' credit $\beta < 0$.
- NO: the Reform did not decrease the amount of mutual banks' credit $\beta \approx 0$.
- **Why** did the reform induce a **significant positive loan difference**?

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- Possible Solutions: analyze **potential interactions w/ bank effects**:
  - Bank size (see Giannetti & Saidi RFS 2019).
  - Dummy for bank management change.
  - Bank balance sheet liquidity/free capital (similarly to Kashyap & Stein AER 2000).

Policy Implications

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- In Tuscany, there seems to be evidence of significant loan differentials; **other regions?**
- Possible Solutions:
  - Use **variation in market shares of bank types** across regions.
  - Explore **differences across two mutual banking group** (possibly different management styles and region).

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- **Policy Implications:** aggregate effects? substitution? excessive risk taking?
- With such fixes can become a **relevant contribution to our understanding of such an unprecedented regulatory measure**.

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APPENDIX

Identification - Cont'd

Table 2 - The Italian mutual reform and the effect on credit granted to firms

	(1)	(2)	(3)	(4)	(5)
MB_Reform	0.133***	0.109***	0.117***	0.106***	0.085***
	(0.009)	(0.012)	(0.018)	(0.022)	(0.023)
MB_Reform_SF		0.047**	0.035*	0.038*	0.036*
		(0.016)	(0.017)	(0.017)	(0.017)
MB_Reform_risk1			-0.039*	-0.039*	-0.038*
			(0.019)	(0.019)	(0.019)
MB_Reform_risk2			0.018	0.019	0.02
			(0.019)	(0.019)	(0.019)
MB_Reform_risk3			0.054*	0.056**	0.057**
			(0.022)	(0.022)	(0.022)
MB_Reform_NEW				-0.004	-0.004
				(0.027)	(0.027)
MB_Reform_OLD				0.017	0.016
				(0.018)	(0.018)
MB_Reform_Local					0.042***
					(0.011)
Firm-year FE	Y	Y	Y	Y	Y
Firm-bank FE	Y	Y	Y	Y	Y
R2	0.94	0.94	0.94	0.94	0.94
Obs.	122,646	122,646	122,646	122,646	122,646

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References I