Discussion of “The economic impact of merger control: what is special about banking?”

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Competition policy

- For non financial firms
  - Some limits to industry consolidation by preventing mergers or by asking for remedies
    - Eg, in the United Airlines/US Airways case divestiture of landing slots
- For banks
  - Competition should limit monopoly power as well but…
  - …as anecdotal evidence suggests (see Italy), renewed attention to problems of consolidation enhances competition and may make mergers more likely

Summary of the findings

- Banks and non-financial companies respond differently to the strengthening of competition policy
  - Shareholder value decreases for non-financial companies if laws strengthen competition
    - Erosion of profits due to lower likelihood of anti-competitive mergers
  - Shareholder value **increases** for banks companies if laws strengthen competition
    - Larger banks become target of acquisitions
    - Strengthening competition policy leads to higher transparency in the decisions of the authority, which in turn leads to higher value

My reaction I

- There is **nothing special about banks**
  - The value of banks and non-financial firms increases if mergers become more likely
    - Strengthening competition policies makes more difficult mergers for non-financial companies
    - Strengthening competition policies makes easier mergers for non-financial companies
      - More analysis needed to make this statement…
  - Competition should have similar qualitative effects on financial and non-financial companies revenues and cost
    - Banks considered special with respect to competition because higher competition may a) decrease stability b) decrease access to funds for some borrowers
    - Banks are special with respect to welfare effects
    - Bank shareholders are NOT special

My reaction II

- What is **special** about bank supervisors?
  - Why lack of a competition policy means hampering efficiency-enhancing mergers and fostering stability-enhancing mergers?
    - More focus on the situation **before** changes in competition policy rather than on the changes
      - No supervisor before the introduction of an anti-trust authority in non financial sectors
      - Supervisor driven by a different mandate in banking

Comments I

- To what extent does the strengthening of competition policy coincides with deregulation in the banking sector?
  - Eg, was banking competition a concern in the US before the removal of intestate branching restrictions?
  - Timing of bank deregulation and stengthening of competition in France?
    - Event study methodology results unlikely to depend on this unless contemporaneous announcements
    - Competition authority could signal commitment to deregulation to the market

Comments II

- Focus on starting points before the changes in competition policy
  - Is strengthening competition policy in banking (other sectors) more value increasing (less value decreasing) in countries where the authority has multiple objectives ex ante?
    - Check beyond banking
  - In banking, are gain concentrated in situations in which bank competition and stability should be ensured by the same authority?
    - Beyond focus

Comment II

- Increase in firm values as changes in competition policy make mergers more likely may be caused by
  - Efficiency gains
    - As the paper argues
  - Improved corporate governance
    - Bank mergers may happen through hostile takeovers that provide managerial discipline
    - Value may increase not only because of efficiency gains but also because corporate governance improves thanks to the disciplinary role of takeovers

Testing the importance of efficiency gains

- If efficiency gains are important the positive effect should be stronger in countries where the consolidation process of the banking sector is less advanced
  - CHA indeed find negative effect in Sweden (where the banking sector has reached high level of consolidation) and the Netherlands
  - To explore systematically include interaction variable between strengthening competition dummy and proxy for the state of consolidation of the sector

Other comments

- Writing
  - Describe more accurately the institutional change
    - Tremendous work
  - Document the effects of strengthening competition policy on the probability and the frequency of mergers in banking and non-financial sectors
  - Then event study trying to answer the question what is special about bank supervisors
- Smaller issues
  - The shift in competition policy is **not** exogenous
    - But it does not matter as you do an event study

Conclusions

- I enjoyed reading the paper