Distortive Effects of Deposit Insurance: Administrative Evidence from Deposit and Loan Accounts

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Summary – my take

Core message: strengthening deposit insurance (during a crisis) leads to reallocation of deposits from stronger to weaker banks with positive effects for credit supply and adverse effects for credit quality

Cornerstones:

- Use Danish administrative data on deposits and loans
- Show that in crisis weak banks lose more deposits, but unlimited DI reverses this effect
- Show that in crisis weak banks are forced to lend less, but unlimited DI reverses the effect
- Show that weak banks have lower quality loan portfolio, and unlimited DI makes them double down

Comments – contribution to literature

You motivate your paper by citing literature of DI being distortive in the presence of fundamental-driven runs.

- Correia, Luck, and Verner (2024) suggests that fundamental-driven runs are – by far – the most common type
- Atmaca, Kirschenmann, Ongena, and Schoors (2023) show detailed depositor behavior in a very similar DI setup in Belgium
- Baron, Schularick, and Zimmermann (2022) show that largest banks, despite their higher risk taking and losses, are the ones that survive crises

$\Rightarrow$ Clarify your contribution *and* connection to existing work to sharpen your impact

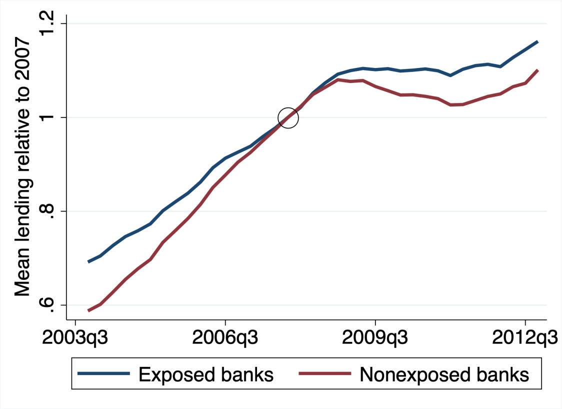
Comments – loans-to-deposits ratio

The whole paper rests on one exposure variable: the loans-to-deposits ratio

- Motivate this a bit better. You seem to hide behind Jensen and Johannesen (2017).
- If you want to show that loan losses are higher for high loans-to-deposits ratio, you need to scale by loans, not assets!
- US data looks different than Danish data (see next slide)
- Can you say more normative things about the exposed banks, e.g. is their profitability lower? (see after next slide) Did they fail/need bailouts? Did they fire people?

Comments – loans-to-deposits ratio

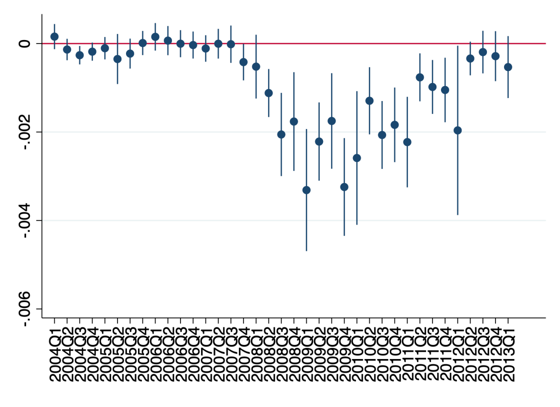
Loans-to-deposits ratio in the US



Also here exposed banks lend more post-GFC, but there is no change in DI

Comments – loans-to-deposits ratio

Return-on-assets in the US



But exposed banks lose money for quite some time!

Comments – interpretation of deposit results

- What is the baseline withdrawal across all depositors and banks?
- How do you square household-level results with bank-level results? Households seem to withdraw 5-7 percent more from exposed banks, but exposed banks only lose 1 percent more in total deposits? Are corporates negatively correlated?
- Households withdraw 5 percent more from exposed banks, and re-deposit 2 percent more $\rightarrow$ Not really a wash. New equilibrium? Why?

Comments – interpretation of loan results

You show that exposed banks lend more to risky borrowers in 2009:

- Is this because exposed banks reduce exposure to other borrowers, or increase exposure to risky borrowers?
- If they increase exposure to risky borrowers is this at the intensive (zombie lending) or extensive (search-for-yield) margin?
- General point: exposed firms lose more credit and then gain more credit than others. Are they just the marginal borrowers and as you shift credit supply they drop in and out? (i.e. no behavioural explanation)

Comments – big picture

You study change of DI as a response to a crisis situation.

- Do you expect the effects to be the same if DI system get changed in regular times?
- Do you have anything to say about the effectiveness of this policy intervention in a normative sense?
- Acharya, Borchert, Jager, and Steffen (2021) show that (good) capitalization is what governments should focus on to navigate a banking crisis. Is DI complementary or a substitute? What about the capitalization levels of the banks in your sample?

Summary

- Well-executed paper
- There is a lot to learn from the empirical exercises for academics and policy-makers alike!
- My main suggestion: sharpen the interpretation of the results in economic terms and use the literature as a backdrop to do so

References

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