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Are foreign banks better at measuring and managing risks?

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ABSTRACT

Are foreign banks subjected to adverse selection in a highly integrated banking market? Recent evidence from the European Banking Authority (EBA) given after EU-wide stress testing suggests that they do not. I find that foreign banks seem to be better at managing credit risks, thanks to more sophisticated quantitative risk techniques, lower susceptibility to political pressures, better corporate governance and the possibility to export more stringent financial regulations. Moreover, I find that the advantages of banking integration are greater in banking markets in which the degree of competition is low and there are better institutional characteristics.

KEYWORDS foreign bank; risk management; lending technologies; European Banking Union; financial stability; international operations

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