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Series Standing Order ISBN: 978-1-403-94872-4

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Lending, Investments and the Financial Crisis

Edited by

Elena Beccalli

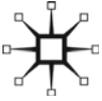
*Professor, Università Cattolica del Sacro Cuore,
Italy and Visiting Professor, London School of Economics, UK*

and

Federica Poli

Associate Professor, Università Cattolica del Sacro Cuore, Italy

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First published 2015 by
PALGRAVE MACMILLAN

Palgrave Macmillan in the UK is an imprint of Macmillan Publishers Limited, registered in England, company number 785998, of Houndmills, Basingstoke, Hampshire RG21 6XS.

Palgrave Macmillan in the US is a division of St Martin's Press LLC, 175 Fifth Avenue, New York, NY 10010.

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ISBN 978-1-349-56498-9 ISBN 978-1-137-53101-8 (eBook)

DOI 10.1057/9781137531018

This book is printed on paper suitable for recycling and made from fully managed and sustained forest sources. Logging, pulping and manufacturing processes are expected to conform to the environmental regulations of the country of origin.

A catalogue record for this book is available from the British Library.

Library of Congress Cataloging-in-Publication Data

Lending, investments and the financial crisis / [edited by] Elena Beccalli, Federica Poli.

pages cm.—(Palgrave Macmillan studies in banking and financial institutions)
Includes index.

1. Bank loans. 2. Credit. 3. Business enterprises – Finance. 4. Investments. 5. Financial crises. I. Beccalli, Elena. II. Poli, Federica.

HG1641.L45 2015
332.109'0511—dc23

2015012895

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Preface and Acknowledgements

Lending, Investments and the Financial Crisis provides contemporary studies on how the financial crisis affected the banks' ability to lend money as well as the emergence of alternative methods of firms' financing (including crowdfunding, financing via firms' networks and venture capital). The volume also addresses issues related to investment strategies of institutional investors in the light of the financial crisis. The focus is mainly on the European financial system (including Central and Eastern Europe), although attention is also devoted to the Chinese context. These chapters were originally presented as papers at the annual conference of the European Association of University Teachers of Banking and Finance (Wolpertinger 2014), which was held during 3–6 September 2014 at Università Cattolica del Sacro Cuore in Milan, Italy.

In Chapter 1, Paola Bongini, Arturo Patarnello, Matteo Pelagatti and Monica Rossolini analyse the development of bank long-term funding in Europe, the US and Japan over the period 2006–12. They document the impact of the subprime crisis and the subsequent sovereign crisis on the volume, frequency of issuance, nature of instrument and cost of bank bonds. Systemic crises deeply impacted on the cost and availability of bank long-term funding, with different effects depending on the issue's main features and the issuing bank's main business model characteristics. The macro conditions of the country in which banks operate have begun to become relevant since 2011, at the onset of the EU sovereign debt crisis, though differences among nationalities were appreciated by the market even before. Indeed, markets did not fully appreciate the evaluation of credit risk made by rating agencies and did not price the bonds accordingly to their rating class.

In Chapter 2, Daniele Previati, Giuseppe Galloppo and Andrea Salustri investigate the linkages between the standard lines of credit (financial intermediaries, public sector, private investors) and the recent development of the crowdfunding phenomenon. They believe that crowdfunding activities, even if yet not significant in terms of volume, might play a major role in the future, complementing the traditional activities of financial intermediation. In support of their beliefs, they notice the establishment of several crowdfunding platforms operating at the global level, particularly in the USA and in the EU, and the relevance assigned to crowdfunding procedures in President Obama's JOBS Act of

2012 and in a consultation on crowdfunding launched at the end of 2013 by the European Commission. At the national level, they recognize several peculiarities of crowdfunding activities, mostly related to donation and reward-based schemes, but also the disposals of the so-called Growth Decree 2.0 on the equity-based crowdfunding and the on-line consultation subsequently implemented by the Italian Securities and Markets Authority CONSOB. The chapter aims to single out the (potentially) main determinants of the crowdfunding demand of funds. By using the available data at the European level, the authors develop a Crowdfunding Attractiveness Index (CFA), with the aim to rank the crowdfunding potential of different European countries.

Chapter 3, by Elisa Giarretta and Giusy Chesini, provides evidence on how firms' networks are becoming increasingly important for searching technological innovation, growing in foreign markets, optimizing know-how, sharing R&D and achieving organizational synergies, allowing firms to join without losing their autonomy. In this chapter the authors focus on the Italian context where the network contract has been recently introduced in the domestic legislation (article 3 of Italian Legislative Decree no. 5/2009). After a description of the main aspects of the network contract, Chapter 3 aims to check whether or not firms that belong to networks present better financing conditions and better profitability. For this purpose, they create a database of 4,391 Italian firms that have signed a network contract in the period 2009–12, comparing them with a control sample of non-networked firms using a statistical Probit model. Then they investigate the characteristics of network contracts that involve the best performance for networked firms using an OLS regression model. They document that network contracts have a positive effect on the financial characteristics and profitability of the firms. In particular, firms belonging to small networks present better characteristics.

In Chapter 4, Ewa Miklaszewska and Katarzyna Mikołajczyk show that, as a major consequence of the 2007–09 global financial crisis, banks operating in Central and Eastern Europe (CEE), both global corporations and domestically-owned banks, have become increasingly risk-averse, which may negatively influence their credit policies, particularly towards corporations and SMEs. In the long run, this may also adversely affect investment policies and economic growth in CEE countries. Consequently, the main research question analyzed in this chapter is whether the CEE banking sector has been efficient in providing loans to the enterprise sector, comprising both large and small companies, in the pre- and post-crisis period. In the empirical section, the chapter

analyzes factors influencing corporate loans in CEE, using a database covering the period of 2004–13, aiming at researching whether loan dynamics and structure have a long-term impact on economic growth in CEE countries.

In Chapter 5, René W.H. van der Linden investigates the reappearance of substantial debt after 2008 and at the same time a rapid proliferation of shadow banking in China associated with increasing financial risks, whereby the authorities fear the arrival of a new financial crisis. This chapter analyzes the rationale behind some worrying recent developments in China's unstable financial system due to more financial liberalization which has accompanied the growth of the shadow banking predominantly represented by wealth management and trust products. The rationale and several pros and cons of China's shadow banking are described including its main features in comparison with its Western peers. This chapter explains the possible reasons for the increase in credit dependency of the Chinese economy and investigates the types of risks the shadow banks pose to the financial system. It also gives several policy options to utilize the services of shadow banks in order to prevent a possible credit crunch in the future.

Chapter 6, by Pierluigi Morelli, Giovanni B. Pittaluga and Elena Seghezzeza, aims at constructing a measure of liquidity creation that takes account, besides, as usual, the objective characteristics of assets and liabilities, also the type of bank holders. Using this new indicator, they show the evolution of liquidity creation by Eurozone banking systems during the recent crises and how the ECB faced the liquidity risk.

In Chapter 7, Luisa Anderloni and Alessandra Tanda examine the performance of European venture capital backed firms operating in the life science and technology industries at the IPO and in the long run. Their empirical evidence shows that venture capital backed companies have a lower underpricing and suggests the important role of venture capitalists in softening asymmetries of information at IPO. The differences in performance of venture capital backed firms tend to disappear in the long run, as confirmed by the analysis performed considering various specification of return and risk, as well as employing a three-factor market model approach.

Chapter 8, by Alberto Dreassi, Stefano Miani and Andrea Paltrinieri, aims to assess the investment strategies and portfolios of two types of institutional investors. The crisis induced severe adverse effects on profitability, growth and stability of the financial sector. At the same time, Sovereign Wealth Funds (SWFs) have increased in numbers and in the global role of their investment activities, despite within a highly

heterogeneous sector. Based on a sample of 12 Sovereign Pension Reserve Funds (SPRFs) and Social Security Reserve Funds (SSRFs), they analyze the effects of size, operational model, country development, fund's experience and quality of disclosures on the strategic asset allocation for the period 2007–12. Moreover, they investigate the impact of the sovereign debt crisis and the relevance of the 'home-bias' issue for both groups. Their results suggest a more aggressive asset allocation for SPRFs, where funding relies on fiscal transfers and involves less external scrutiny, and a lower level of home investments, despite these entities may express other domestic strategic goals than retirement. Finally, they do not document major recent shifts in asset allocation induced by the crisis, whereas a reduced amount of home-country investments emerges after the triggering of the sovereign debt crisis.

As editors we would like to thank all the authors for their contributions. We are also grateful to all the referees who acted as reviewers for the chapters published in this volume. We thank all the conference participants for their active and constructive discussions during the presentations.

Special thanks to Palgrave Macmillan and to Philip Molyneux (Series Editor) for the opportunity to edit the volume, and to the staff at Palgrave Macmillan, especially Aimee Dibbens and Grace Jackson, for the helpful comments and guidance.

Finally, as conference organizers, we would like to thank Anthony Saunders, Professor at Stern School of Business, for giving a plenary speech at the conference on 'Don't forget the fees', and the speakers at the Jack Revell Session on 'Towards the European Banking Union' (Paolo Angelini, Bank of Italy; Federico Ghizzoni, CEO at Unicredit; and Philip Molyneux, Bangor Business School).

Notes on Contributors

Luisa Anderloni is Professor of Corporate Finance in the Department of Economics, Management and Quantitative Methods, Università degli Studi di Milano, Italy. Her main research interests are venture capital and finance for innovation, overindebtedness and financial vulnerability.

Elena Beccalli is Full Professor of Banking at Università Cattolica del Sacro Cuore, Italy, where she is the Dean of the School of Banking, Finance and Insurance. She is Visiting Professor of Accounting at the London School of Economics. She is the author of books and articles in the area of economics of financial institutions. Her research interests include stochastic efficiency measurement, technology and performance, mergers and acquisitions, and analyst forecasts.

Paola Bongini is Full Professor of Banking at the School of Economics and Statistics of University of Milan-Bicocca, Italy, where she teaches the modules Asset and Liability Management and Financial Institutions Management. Her research interests include bank market structure, financial regulation, financial fragility, financial literacy and banking organization.

Giusy Chesini is Associate Professor of Banking and Finance at the University of Verona, Italy, where she specializes in the structure and regulation of international financial markets. Her main research topics include the stock exchange industry, the evolution of financial systems, banking and risk management. She often participates in Italian and international conferences, and she has written numerous papers and books on the above topics.

Alberto Dreassi holds a PhD in Business Sciences from the University of Udine, Italy, where he is Assistant Professor of Banking and Finance. He is a Core Faculty Member at the MIB-School of Management of Trieste and has taught at the undergraduate and postgraduate level, as well as to employees of banks and insurance companies. His research interests include accounting, regulation and supervision of financial intermediaries.

Giuseppe Galloppo is Assistant Professor of Financial Markets and Institutions at Tuscia University, Viterbo, and a research fellow at the

School of Economics, Tor Vergata University of Rome. He teaches banking and finance, with a particular focus on financial markets and institutions and risk methods. He is a specialist in applying statistical techniques and methods for analyzing financial instruments and portfolio models and for assessing risk profiles of securities and financial assets portfolios.

Elisa Giarretta is a research fellow at the University of Verona, Italy, from where she received a PhD in Business Administration and Management. She works in the 'Polo Scientifico e Didattico di Studi sull'Impresa', an academic centre focused on the analysis of Italian business. Her research topics include asset management companies, private equity, firm networks and bank risks. She has participated in Italian and international conferences on these subjects.

Stefano Miani is Full Professor of Banking and Insurance in the Department of Economics and Statistics, University of Udine. His recent research topics include pension funds and pension systems, the regulation and monitoring of insurance companies and the regulation of financial markets and intermediaries.

Ewa Miklaszewska is Professor of Banking and Finance at Cracow University of Economics and Associate Professor of Economics at the Jagiellonian University in Cracow. She has held several visiting positions in foreign universities including Polish financial regulatory institutions. Her research interests focus on bank regulation and bank strategies.

Katarzyna Mikołajczyk is Assistant Professor of Banking and Finance at Cracow University of Economics. Her main research interests relate to transition economies and include the outcomes of privatization programmes, mergers and acquisitions, and the impact of structural changes in the banking industry on efficiency and stability.

Pierluigi Morelli works in the Research Department of the Italian Bank Association (ABI) where he is responsible for the econometric model of the Italian economy and of the Italian banking system. He graduated in Statistics and Economics at the University of Rome 'La Sapienza' in 1988. From 1988 to 2009 he worked at the Centro Europa Ricerche (CER). As Research Director of the CER Monetary and Banking sector, he was in charge of the econometric models of the Italian economy, of the banking sector, and of the pension expenditure. He has written numerous articles on monetary economics, banking, social security and the environment.

Andrea Paltrinieri is a research scholar in Financial Markets and Instruments at the University of Verona. His research topics include the evolution of financial systems, stock exchange merger in the emerging markets, asset management and institutional investors, with a particular focus on sovereign wealth funds.

Arturo Patarnello is Full Professor of Banking and Dean of the School of Economics and Statistics of the University of Milan-Bicocca, where he lectures on bank management. His research interests and publications include bank business models, banking regulation and the credit rating industry.

Matteo Pelagatti is Associate Professor of Economic and Business Statistics in the Department of Economics, Management and Statistics of the University of Milan-Bicocca. His research interests include theoretical and applied statistics and econometrics with a strong focus on time series analysis, robust and nonparametric statistical procedures, quantitative finance, energy markets, business cycle analysis, and health econometrics.

Giovanni B. Pittaluga is Full Professor of Economics at Genoa University, Italy. Previously he was Associate Professor of Monetary Economics at Università Cattolica del Sacro Cuore, Milan (1991–94) and Economist in the Research Department of the Bank of Italy (1983–88). He has been responsible for the budget of Regione Liguria (2000–02 and 2005–10). He is the author of books and articles in the area of monetary economics. His research interests include central banking, banking, inflation, international political economy and economic history.

Federica Poli is Associate Professor of Banking at the Catholic University of Milan. She holds a PhD in Business Administration from the University of Venice. Her main research areas pertain to bank internationalization, bank organizational models, financial distribution channels and financial innovations. She is the author of several publications, including book chapters and manuals on banking and financial intermediation, and research coordinator for the MA in International Trade Management at the Catholic University of Milan.

Daniele Previati is Full Professor of Financial Markets and Institutions in the Department of Management of the University of Rome III, and professor at the SDA Business School, Bocconi University, Milan. He has been teaching banking and finance for more than 30 years, with particular focus on bank management, strategy and organization in the

financial services industry and e-finance. His main research interests relate to various perspectives on bank management: human resources management, intellectual capital, organizational change, stakeholder management, reputation and reputational risk, operational risk, credit management and finance for SMEs. He has published widely in academic journals and books. He has also acted as a consultant for banks and the Italian Central Bank on organization design and human resources management.

Monica Rossolini is Assistant Professor of Banking and Finance at the School of Economics and Statistics in the University of Milan-Bicocca. She is also a researcher at the Bocconi Monitor on Public Private Partnership (MP3). Her research interests and publications include SME financing, venture capital and portfolio management.

Andrea Salustri holds a PhD in Economics. Since carrying out post-doctoral research on market monitoring tools and structural reforms in Europe, he has focused on the connections among the financial crisis, territorial imbalances and local development in Italy. Currently, he is working on crowdsourcing and crowdfunding models, with a specific focus on participation, agency and well-being; the role of makers, microfinance, non-profit institutions and SMEs in reviving economic development and growth; and the connections among human development, well-being and sustainability issues in a multivariate statistical framework.

Elena Seghezza is an associate professor at Genoa University, Italy. She previously worked as an economist in the Department of Economic Affairs of the Italian Government and at the Organisation for Economic Cooperation and Development (OECD). She holds a PhD in International Economics from the Graduate Institute of International Studies, Geneva. She has written articles on political economy, interest groups, inflation and international trade.

Alessandra Tanda received a PhD in Financial Markets and Intermediaries in 2013. She is a post-doc researcher in Corporate Finance in the Department of Economics, Management and Quantitative Methods, Università degli Studi di Milano. Her research fields mainly relate to venture capital, finance for innovation and financial structure.

René W.H. van der Linden studied Economics at the University of Amsterdam and is Lecturer in Economics, Banking & Finance at the InHolland University of Applied Sciences in Diemen and Haarlem, the

Netherlands. He was previously with the Erasmus University Rotterdam and the Amsterdam Academy for Banking and Finance, a collaborative venture between InHolland and the Free University of Amsterdam. He has published several papers on the Chinese economy and banking system and is co-author of the textbook *European Business Environment: Doing Business in the EU* (2010).