The disappearance of banks from the Swiss landscape

What's the influence of equity capital requirements and competition on the loan market since 2004?

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1. Introduction

In 2008, Allen Berger, Leora Klapper and Rima Turk-Ariss published their research about the influence of competition on the loan market on the stability of banks around the world. Thereby they compared the traditional "competition-fragility" view and the alternative "competition-stability" view. For their research they collected data from more than 8'000 banks in 23 industrialised countries. Adding a factor for capital requirements, this bachelor thesis reproduces the regression of Allen Berger, Leora Klapper and Rima Turk-Ariss for the Swiss financial market. The study focuses on the time period between 2004 and 2014. The availability of data and the consideration of the financial crisis of 2007 were the main reasons to choose this time period. The quantitative data stem from the Bankscope database - provided by Bureau van Dijk - the Swiss National Bank and the annual reports of the observed banks. In addition the thesis provides an insight into the structure of the Swiss financial market and its players. Thus fundamental differences between Swiss banks get visible and might support a critical interpretation of the regression results. In addition a theoretical analysis from the shapes of bank regulations and the components of Basel II and Basel III delivers an overview about the corresponding capital requirements. The significance of the used factors within the regression and the interpretation of its results represent the final part of this thesis. Furthermore this thesis tries to explain the connection between the regression's results and the effect of banks disappearing from the Swiss landscape.

The central question of this study is about the influence of market competition and equity requirements on the stability of banks on the Swiss landscape supplemented by a critical discussion about the usefulness of capital regulations. Thereby this thesis delivers an insight into the rules and standards under Basel II and Basel III including the adjustments given by the Swiss government and the Swiss financial market authority FINMA. To simplify linguistic problems the terms equity and capital are used synonymously in this thesis.

Starting with 157 banks in the beginning of the data collection process, several institutions had to be excluded from the regression. The reason to do so was either the weak availability of data or justifiable concerns about the data's quality. Thus this study conducts a regression including 123 Swiss banks. To ensure a good quality of data, a time period of ten years, beginning on the first of January 2004, has been chosen. Therefore all statistical statements in this thesis are based on data of that time period; otherwise they are referred as an exception. An overview about the observed banks and their bank group are provided in the appendix.

The results of the study suggest that there is no obvious relationship between competition on the loan market and the disappearance of banks from the Swiss landscape. An empirical evidence for supportive contributions by equity requirements could not be found either. On the other hand several strands of literature support the idea of bank regulation to ensure the financial market's stability.