

THE IMPLICATION OF EXTERNAL
AND INTERNAL FACTORS ON BANK
RISK TAKING
— A STUDY OF HONG KONG

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外在因素和內在因素對銀行風險承擔的影響

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ABSTRACT

Riding on the four prominent empirical studies by Williams (2014), Delis and Kouretas (2011), Houston, et al. (2010) as well as Laeven and Levine (2009), the thesis investigates what external and internal factors might influence the banks' risk appetites. Mainly using the accounting data of the 82 selected licensed banks retrieved from an international banking database - BankScope and the macro-economic data collected from Hong Kong Special Administrative Region's annual official publications over the period from 2006 to 2013 to measure bank risk taking. In order to increase the reliability and uniqueness of the empirical study, regressions with seven bank risk measures are performed as a further robust check. On top of existing major four bank risk measuring methodologies (i.e. Z-score, Log(Z-score), SD of Earnings, SD of Net interest margin), three other crucial bank-risk related factors, such as bad loan ratio, capital-asset ratio and loans to customer deposits ratio (i.e. NPLtoGL, CAR and LtoCustDep) are added as alternative bank risk measures for supporting the four arguments in the thesis.

Looking at the sample of 82 licensed banks in Hong Kong, we find evidence that both cost-to-income ratio and tier 1 capital have positive correlation and negative correlation with bank risk taking respectively in all model specifications, including all robustness tests employed in the study. We also find that franchise value is negatively correlated with bank risk taking, which is consistent with previous findings performed by Marcus (1984) and Demsetz, Saidenberg and Strahan (1996). Additionally, the study exhibits bank revenue is positively correlated with bank risk taking. It can be said that these four bank-level constructs are proved to be the core bank risk factors affecting the stability of overall banking system in Hong Kong. However, macro-economic performance is proved to be insignificant on bank risk appetites in the empirical study. Undoubtedly, a deep and concise understanding of various intrinsic bank-level risk factors is a must for sustaining a robust banking system in Hong Kong.