International Review of Accounting, Banking and Finance

Vol 12, No. 1, Spring, 2020, Pages 34-60

IRABF

Ⓒ2020

The Roles of Regulation, Concentration, and Corporate Governance in the Relationship of Non-Interest Income and Bank Risk

Hsiao-Jung Chen[1] and I Gusti Agung Musa Budidarma[1,2,*]

1. *Department of Finance, Southern Taiwan University of Science and Technology, Republic of China (Taiwan)*
2. *Faculty of Economics and Business, Klabat University, Indonesia*

Accepted February 2020

A B S T R A C T

This study employs the ordinary least squares regression model to analyze the impact of non-interest income on bank risk after controlling for bank-specific, country-specific, and time effects. It also examines if regulation, bank concentration, and governance mechanism can change the relationship between non-interest income and bank risk. The sample consists of banks in 43 countries for the period of 2003 to 2015. We find that non-interest income would raise bank risks, however, the roles of regulation, concentration, and corporate governance changes the relationship between non-interest income and bank risk. The results suggest that the utilization of non-interest income in a country that has better shareholders' protection, applies deposit insurance policy, and has strict capital regulation is encouraged. Furthermore, banks in a highly concentrated market should employ income diversification to reduce their return volatility and insolvency risk. In addition, the engagement of non-interest income by a management-controlled bank is effective to control the bank's return volatility and bank insolvency risk.

©2020 IRABF All rights reserved.

Keywords: non-interest income, regulation, bank concentration, corporate governance, bank risk

JEL classification: G21, G28, G32

* Corresponding author