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

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ABSTRACT
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.

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