The effects of size and market concentration in banking market on the systemic risk of the Bolivian private banking

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Abstract

The global financial crisis showed the costly consequences that a failure in the financial markets may have on the rest of the economy, both in terms of output loss as in the cost of bank bailouts. Under the classical framework of structure-conduct-performance, this study aims to determine how the size and market concentration can affect - if they do - the taking of risk in the Bolivian banking system. With respect to market size, is supposed there are two cases: the existence of banks "too big to fail", or the existence of entities which diversify risk as the system becomes larger; and with respect to the concentration, it is researched if it improves the efficiency of the banking system, or if it leads to an out-of-price competition through risky assets. Taking the total portfolio of the banking system as a size variable, the Herfindahl-Hirschman index as a measure of market concentration, and the default rate as a proxy for systemic risk in banking, it was ran a structural model controlled by a group of explanatory variables which results show a no-different-from-zero coefficient for concentration and a positive coefficient for size, which would support the hypothesis of a banking system that diversifies risk in so far as it becomes bigger.

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