

# 銀行と中小企業の リレーションシップに 影響を与える諸要因

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# This presentation

- Introduces the current status of bank-borrower relationships in Japan
  - Main question:  
*Is bank-borrower relationship beneficial?*  
(銀行・借手が親密なリレーションシップを結ぶことにメリットはあるのか?)
- Based on our latest empirical study : **KU UW**
  - *Information Verifiability, Bank Organization, Bank Competition and Bank-Borrower Relationships*
    - (情報の立証可能性・銀行組織・銀行競争と銀行・借手間のリレーションシップ)
      - Masaji **K**ano: Osaka Prefecture University
      - Hirofumi **U**chida: Wakayama University
      - Gregory F. **U**dell: Indiana University
      - Wako **W**atanabe: Tohoku University
    - A study of the Regional Finance Workshop (地域金融研究会) in the RIETI
    - RIETI discussion paper 06-E-003

# This presentation

- Composition of this presentation

- First part: **Uchida**

- Brief summary of the paper's results and their implications

- Second part: **Udell**

- Further implications in an international context



**Part I**  
**Brief summary of our research**

Hirofumi Uchida

# Background for **KUUW** (1)

- Increased attention to beneficial bank-borrower relationship in Japan
  1. historical emphasis on bank-borrower ties
  2. a report by the Financial Service Council in 2003 (金融審議会答申)
    - “Toward Functional Enhancement of Relationship Banking”
  3. a line of “relationship banking policies” (リレバン行政)
    - by the Financial Services Agency (FSA: 金融庁)
    - 1<sup>st</sup> and 2<sup>nd</sup> *action program* (2003, 2005)

# Background for **KUUV** (2)

- .. but WHY is close bank-borrower relationship beneficial?
  - Because, through closer relationships...
    - lending bank can accumulate borrower' information
    - which could mitigate problems stemming from asymmetric information (情報の非対称性)
  - For example
    - Greater knowledge -> can safely lend -> credit rationing prevented
    - Greater knowledge -> appropriate loan pricing -> cheaper credit
  - Especially for Small- and Medium-sized Enterprises (SME: 中小企業)

# What **KUUV** have done (1)

- Investigates these questions
  - Are there **actually** benefits of bank-borrower relationships?
    - (実際に、銀行・借手間のリレーションシップにメリットはあるのか?)
  - For whom are the benefits observed?
    - (そのメリットはどのような銀行・借手間に見られるのか?)

# What **KUUV** have done (2)

- Analysis

- Econometric analysis using data from a Japanese SME survey

- Regression analysis

- Sample

- 1960 sample SMEs

from

- Survey of the Financial Environment (金融環境実態調査)

- by the Small and Medium Enterprise Agency (中小企業庁)

- conducted on November 2002



# What **KUW** have done (3)

- Methodology

- Investigate statistical association between two types of variables

- [a] Variables that represent **relationship closeness**

- [a1] relationship length, [a2] relationship scope

- [b] Credit term or credit availability variables that represent relationship **benefits**

- [b1] interest rate, [b2] collateral, [b3] loan turndown

- with which we examine whether:

- closer relationships [a] -> more beneficial credit [b] ?

- (e.g.)

- longer relationship [a1] -> lower interest rate [b1]?

- wider scope [a2] -> less frequent loan turndown [b3]?

- If **yes**, there is a **benefit** to establishing **close bank-borrower relationships**

# What **KUUV** have done (4)

- Our punch line

- The association ([a] closeness -> [b] benefit) is examined **in conjunction with 3 factors**

- 1. Information Verifiability: 情報の立証可能性

- with audit (監査(お墨付)あり) vs. without audit (監査なし)

- 2. Bank Organization: 銀行組織

- by bank size and organizational complexity

- large banks (都長信銀) vs. regional banks (地・2地銀) vs. Shinkin banks (信金)

- 3. Bank Competition: 銀行競争

- intensive (競争度大) vs. low competition (競争度小)

- (e.g.) Does the benefit exist between

- *SME w/o audit statements and competitive Shinkin bank?* (And other combinations of SMEs-banks)

# Main findings of **KUUW** (1)

- “Closeness [a] -> Benefit [b]” **association detected!**
  - In the following form:
    - 1) longer relationship [a1] -> lower interest rate [b1]
    - 2) longer relationship [a1] and wider scope [a2] -> less frequent loan turndown [b1]
- But, detected **only between**
  - SME without audited financial statements
    - (監査を受けていない中小企業)
  - Less competitive Shinkin bank
    - (競争に晒されていない信用金庫)

# Main findings of **KU UW** (2)

- Interpretation of the findings

- Closer bank-borrower relationship is **beneficial**

- **only** between:

- Opaque SME (without audited financial statements)

- (情報が分かりにくい中小企業)

- Less competitive small bank

- (競争に晒されていない中小の地域金融機関)

- and, a closer relationship is irrelevant

- for other combinations of SMEs and banks

# Our findings and FSA's policy

- Implication for FSA's "relationship banking policy"
  - Disclaimer:
    - FSA's policy is not limited to measures to promote *relationship lending* (: based on accumulation of borrowers' information)
      - We cannot derive implications for these other measures
  - Natural implication
    - For opaque SMEs and less-competitive small banks: RELEVANT
    - For transparent SMEs, and large banks and regional banks: IRRELEVANT
  - Much more important implication
    - **Do not treat equally different SMEs and different banks!**

# Part II

## Further Implications in an International Context



Gregory F. Udell

# KUUW in an International Context

- Recent theoretical work suggests a framework for understanding SME credit availability in global context (Berger and Udell 2006)
- This framework based on:
  - the existence of multiple ***lending technologies***
  - the importance of the ***financial institutions structure***
  - the importance of the ***lending infrastructure***

# THE LENDING TECHNOLOGIES

- Not just one lending technology (relationship lending)
- Not just two lending technologies (relationship lending vs. transactions lending)
- In addition to relationship lending, there are at least 8 SME lending technologies that exist in the world
  - Financial statement lending (based on audited financial statements)
  - Small business credit scoring
  - Asset-based lending
  - Factoring
  - Equipment lending
  - Real estate lending
  - Trade credit



# Feasibility of Lending Technologies

- Feasibility and effectiveness of each lending technology depends on a country's
  - Financial institution structure – *market presence of and competition among different types of institutions*
  - Lending infrastructure – *rules and conditions that affect financial institutions and their abilities to lend*

# The Dimensions of Structure

- The financial institutions structure
  - Large vs. small institutions
  - Foreign vs. domestic institutions
  - State-owned vs. private institutions
  - Financial market concentration
- The lending infrastructure
  - The information environment
  - The legal, judicial and bankruptcy environment
  - The tax and regulatory environment

# Why Does Structure Matter? – Three Examples

- If relationship lending based on “soft information” is best done in small banks, then banking industry consolidation may be a problem.
- If relationship lending requires some local monopoly power, then banking concentration matters.
- If financial statement lending requires informative audited statements, then the information environment matters.

# The Research Challenge

- Much of this paradigm has not been tested empirically.
- Data have not allowed researchers to test many theories of SME lending because
  - the data cannot distinguish among the technologies.
- An example:
  - Theory of relationship lending: Stronger relationships at small banks lead to more credit on better terms.
  - This theory does not apply to financial statement lending.
  - Therefore, prior tests of this theory have been problematic because data cannot distinguish between relationship lending and financial statement lending (nor other technologies).



# KUUW's Contribution

- KUUW can go further in testing some key aspects of this new paradigm for SME lending
  - because our data can distinguish between two of the most important lending technologies – relationship lending and financial statement lending.
  - No other data set on SMEs in developed economies today is capable of doing this.

# KUUW's Contribution (cont.)

- Thus, **KUUW** empirically supports this new paradigm by finding:
  - Financial statement lending (i.e., lending against audited statements) is different than relationship lending
  - Bank size and concentration matters
    - for, and only for, relationship borrowers
    - Specifically, the strength of relationships matter only for opaque SMEs without audits, at small banks in concentrated banking markets.

# International Policy Implication

- More studies needed like KUUW that examine the impact of financial institutions structure and lending infrastructure on lending technologies.
- This will help policymakers make policy decisions about these key structures
  - to maximize the effectiveness of lending technologies,
  - which in turn maximizes credit availability for SMEs with different characteristics,
  - and best insulates SMEs from financial system shocks by maximizing substitutability among lending technologies.



***Thank you***