

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)
 - 1st and 2nd *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 **KUW** 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 **KUWU** (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