ABSTRACT

Using a sample of 106 commercial banks in India over the period of 1990 to 2012 and accounting based risk measures, we assess three important relationships—the relationship between ownership type and risk taking, the relationship between competition, concentration and risk taking and the relationship between size, scope and risk taking. Three main results emerge. First, the essay on the relationship between ownership and risk taking suggests that foreign banks are more risky than both public sector banks and domestic private banks, while domestic private banks are most stable. The loan growth, non-interest income share, deposit share, size, market concentration, foreign bank presence and GDP growth affect bank risk. The bank ownership type influences the relationship between some bank characteristic (loan growth or deposit share) and bank risk. The results indicate that foreign banks have a typical business model which is distinct from the business model of banks of other ownership type. Second, the essay on the relationship between competition, concentration and risk taking suggests that competition produces fragility and concentration fosters fragility. The result provides support to the neutral view of competition-stability nexus. Finally, the essay on the relationship between size, scope and risk taking suggests that greater income diversification reduces bank risk for small banks, but increases bank risk for large banks. The result indicates that the good side of diversification dominates the bad side for small banks, but the opposite is true for large banks. Our findings have important policy implications.

Keywords: *Ownership, Risk in banking, India, Competition, Concentration, Diversification*