# Cultural Stereotypes of Multinational Banks

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#### Paper objectives



 Test whether the trust of the residents of a bank in target countries affects the sovereign cross-border exposures of multinational banks.

- Foreign subsidiaries influence the corporate culture of bank headquarters.
- Bank-specific measures of culture that differ across headquarters may affect sovereign cross-border exposures.

## **Key Results**



- The trust of bank residents in target countries is positively, statistically significant and economically important associated with sovereign cross-border exposures of multinational banks.
- Bank-specific measures of culture that differ across banks headquarters confirm this result.
- Large magnitudes: 1SD rise in trust increases the probability of investing in a target country by 14%. i.e. 1/3 of banks' diversification gap (42%).
- Hetherogeneity:
  - More sophisticated (i.e. diversified) banks rely less on trust.
  - Trust is important for less common target countries (less info).
  - Trust is more influential in times of crisis (focus on 2010-15).

## Significant Contributions



- The results of the paper are not surprising per se; several papers already show that portfolio choices are affected by cultural stereotypes.
- Key contribution of this paper is the identification strategy adopted: bank-specific measure of trust
  - Leverage the geography of branch networks to measure cultural differences across banks headquartered in the same country.
  - The composition of bank boards reflects their branch network.
  - Rule out confounders at country and country-pair levels.

## Questions (1)



- Diversity channel: trust of branch employees is transmitted to the headquarters level (e.g. via internal promotion).
- The authors make a parallel between cultural stereotypes and gender bias.
- The literature on gender bias shows that gender diversification improves firms' performance and banks' lending policy.
  - It would be interesting to investigate if this is the case also for "cultural" diversification.

# Further Questions (2)



- The paper documents that trust differentials affect portfolio composition.
- This is generating an inefficient portfolio allocation.
  We know, it is the same as home bias!
- We know that trust matters, in general. Why, for banks investing in sovereign bonds, should it be any different?
   Tell me something regarding the null hypothesis.

#### Further Questions (3)



- What are the policy implications of your paper?
- Why are banks not eliminating this cultural bias?
- Should we impose by regulation sovereign portfolio diversification?

## Other Questions (4)



 Would it be possible to have a time-varying (& more recent) measure of trust and study the evolution of this relationship over time?

- On heterogeneous effect in time of crisis: what happens if you use the whole period (instead of 2010-15)?
  - It would be great to show whether the relationship becomes smaller (not significant?) in more recent times.
- Limitation: (entry/exit) only extensive margin.



Very interesting paper!

Enjoy reading it!

Thank you