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Inclusive Banking, Financial Regulation and Bank Performance: Cross-Country Evidence

Bios. Sushanta Mallick (PhD in Economics from the University of Warwick, UK) is Professor of International Finance at the School of Business and Management, Queen Mary University of London, UK. Since 2015, he has been the Co-editor-in-Chief of *Economic Modelling*. His work has been published in journals such as: *Journal of Economic Behavior & Organization*, *Economic Inquiry*, *World Development*, *Journal of Financial Stability*, *European Financial Management*, *Review of Income and Wealth*, *Journal of International Money and Finance*, *Economics Letters*, *Journal of the Operational Research Society*, *Journal of Development Studies*, *Cambridge Journal of Economics*, *IMF Staff Papers* (now *IMF Economic Review*), and many others.

Paper Abstract. In light of the recent policy debate on inclusive financial intermediation, this paper investigates whether inclusive banking can boost bank-level performance. Using an international sample of banks, we find that there is a strong positive association between financial inclusion and bank efficiency. On exploring the plausible channels of the impact, we find that greater financial inclusion helps banks in reducing the volatility of their deposit-funding share as it provides more stable long-term funds for banks, while also mitigating the negative effects of their return volatility. We then show that the positive association is stronger in countries with limited restrictions on banking activities or more capital regulation stringency, as the deposit channel enables greater flow of low-cost funds into the banking system. This association is robust to bank fixed effects, instrumental variable analysis, and a difference-in-differences estimator that exploits cross-country and temporal variation in the timing of actively promoting inclusive agenda (with hand-collected data on membership of an inclusive policy network of countries), implying that inclusive financial development is good for banks too.

13 February 2020

Thesis Room, ground floor, 11:00 a.m.