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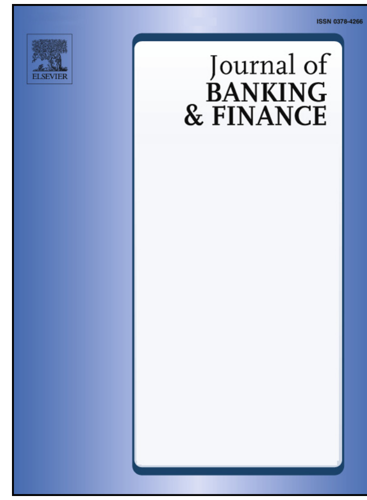

Foreign bank diversification and efficiency prior to and during the financial crisis: Does one business model fit all?

Claudia Curi, Ana Lozano-Vivas, Valentin Zelenyuk

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Foreign bank diversification and efficiency prior to and during the financial crisis: Does one business model fit all?

Claudia Curi
Faculty of Economics and Management
Free University of Bolzano
Universitätsplatz 1 - Piazza Università 1
39100 Bozen-Bolzano Italy
Claudia.Curi@unibz.it
Corresponding author

Ana Lozano-Vivas
University of Malaga
Campus El Ejido s/n
29071 Málaga (Spain)
avivas@uma.es

Valentin Zelenyuk
School of Economics and Centre for Efficiency and Productivity Analysis
The University of Queensland
St Lucia
Brisbane Qld 4072
Australia
v.zelenyuk@uq.edu.auItalyAbstract

Diversified and focused business models may affect foreign bank efficiency differently. We investigate whether there is an optimal business model along three business dimensions—assets, funding and income—and which business model is optimal for foreign banks in a financial center. We apply recently developed non-parametric methods with bootstrap to estimate group efficiency, to test for differences across groups and finally to analyze the link between bank efficiency and diversification measures. Using Luxembourg bank data that include the financial crisis, we find that there is no unique business model. The most efficient business model appears to be a focused asset, funding and income strategy. Banks' organizational forms play a role;