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Bank opacity and risk-taking: Evidence from analysts' forecasts☆

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Abstract

We depart from existing literature by invoking analysts' forecasts to measure banking system opacity and then investigate the impact of such opacity on bank risk-taking, using a large panel of US bank holding companies, over the period 1995-2013. We uncover three new results. Firstly, we find that opacity increases insolvency risks among banks. Secondly, we establish that the relationship between opacity and bank risk-taking is accentuated by the degree of banking market competition. Thirdly, we show that the bank business model moderates the risk-taking incentives of opaque banks, albeit only marginally. Overall, these findings suggest that the analysts' forecast measure of bank opacity is useful for understanding risk-taking by publicly-traded banks, with important implications for bank stability.

JEL classification: G01; G14; G21; L11

Keywords: Bank opacity; analysts' forecasts; bank stability; banking market competition; bank business models

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