Essays on emerging topics in the banking sector

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Abstract

After a decade of relevant challenges, including the global financial crisis, financial institutions are now dealing with two new emerging topics, i.e., the emerging relevance of the ESG factors and the competitive pressure of digital banks together with an urgent digital transformation need for incumbents. The necessity to rethink their activities and the effect of disruptive digitalisation wave have reshaped business models of banks. Consequently, an increasing debate has developed about the impact of these challenges on the overall bank riskiness and profitability. The first part aims to deepen the relationship between banks' non-financial performance and financial distress. After evaluating this relationship from a theoretical and empirical point of view, the study presents a model to predict financial distress including the ESG profile as one of the predictors. The second part contributes to the literature on technological disruption in the banking sector achieving the following objectives. Firstly, by proposing a methodology to identify new digital banks (i.e. neobanks) in a straightforward and replicable way. Secondly, by providing a set of analysis to understand and compare the performance of a sample of European neobanks with their traditional peers. In a nutshell, the main results can be summarized as follows. First, a higher level of the ESG score produces a relevant risk reducing effect, which is essentially driven by the social (S) dimension. This result supports the conclusion that ethical behaviour is considered valuable by stakeholders. Second, ESG score increases the ability of our model to predict distress: it confirms that ESG score may be considered a good warning signal for the identification of problematic institutions. Third, results indicate that neobanks perform worse than their traditional peers: if neobanks seem able to generate higher level of interest income, they experience higher level of risk and difficulties in generating commissions and fees from non-interest activities. In addition, neobanks suffer of inefficiencies in term of costs: if the absence of physical branches allows for lower staff expenses, they exhibit higher level of other non-staff costs, which is especially valid for very young neobanks.