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BOOK REVIEW

Anthony Saunders: Financial Institutions, In and Out of Crisis: Reflections by Anthony Saunders

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The recent financial crisis has reemphasized the importance of research on issues such as the relevance of too-big-to-fail guarantees, deposit insurance, and risk management by financial institutions, all of which have been widely discussed by practitioners, policymakers, and academics. The book *Financial Institutions, In and Out of Crisis* by Anthony Saunders, John M. Schiff Professor of Finance at New York University, is a careful selection of 20 academic papers that discuss many of the issues that became relevant during the crisis.

The book begins with a preface that briefly summarizes the subsequent chapters. It provides a comprehensive framework that enables the reader to understand the significance of the individual papers that make up the body of the book.

The first chapter deals with the issue of whether and to what degree banks should be regulated—for example, whether commercial banks should be allowed to undertake underwriting and investment banking activities. In addition, the author analyzes conflicts of interest that could arise from this possibility.

The second chapter discusses the issue of increased consolidation in the banking industry and analyzes its consequences for both borrowers and acquiring banks. The author shows that reduced credit availability due to bank mergers and acquisitions in the banking industry is typically compensated for by local banks and other financial institutions not involved in the merger or acquisition. The author also provides evidence that bank mergers do not affect risk taking by the acquiring banks.

The third chapter discusses the impact of deposit insurance on financial stability. The author analyzes whether depositors were able to distinguish good banks from bad banks prior to the introduction of deposit insurance. In addition, he discusses the

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potential for moral hazard on the part of banks as a result of flat deposit insurance premiums.

The fourth chapter points out the importance of lending relationships between banks and borrowers. On the borrower side, the author shows that firms that have intense lending relationships with banks are more likely to be the target of takeovers by other firms. On the lender side, he shows that long lending relationships could be valuable to lenders as they enable them to increase future lending and can mitigate informational asymmetries about the quality of the borrower, which might translate into lower loan spreads.

The last chapter deals with the question of whether banks vary with respect to their risk-taking behavior and discusses the determinants that could explain the differential management of risk. First, the author discusses the relevance of bank ownership structures with respect to risk taking by managers. Second, he points out ways of managing risk exposure, the degree of diversification of credit portfolios being one of the issues he discusses. Last, he discusses potential implications of risk management for shareholder value by analyzing the informational content of the announcement of changes in the loan loss reserves on the banks' stock returns.

The book comprises both theoretical and empirical papers that usually were not edited for consistency and thus the notation sometimes varies between chapters (and papers). Some training in microeconomic theory and applied econometrics will be an advantage in understanding the papers. Hence, the optimal target audience will include researchers, economics students, and policymakers working at institutions such as central banks.

In summary, the papers presented in this book appear to have been very carefully chosen as each one contributes to the ongoing discussions of the recent financial crisis. Moreover, the papers within each chapter follow a logical order that makes it easier to follow the author's overall argument.

As all the papers summarize some of the related literature, the author manages to provide insights into the ongoing academic debate. However, the book does not discuss more recent academic work. For example, micro-level evidence on the role of deposit insurance in case of bank runs is not referred to in the section on the role of deposit insurance (e.g., Iyer and Puri 2012).

The book is not intended to, and indeed does not, contribute to the ongoing debate over how to actually regulate financial institutions. For example, it does not include discussions of regulatory tools such as capital or liquidity buffers that banks should hold.

Despite these limitations, the book is a comprehensive, topical, and insightful compendium of some of the most remarkable contributions selected by one of the most influential scholars in financial intermediation. It could be used, for example, in teaching graduate classes or as a reference book for researchers. Overall, I can recommend it to students, policymakers, and academics interested in the field of financial intermediation.

Reference

Iyer, R., Puri, M.: Understanding bank runs: the importance of depositor–bank relationships and networks. Am. Econ. Rev. **102**(4), 1414–1445 (2012)