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Q & A with CFSP Member Juliano Assunção | CFSP

8-10 minutes



Assunção Delves into the Overlooked Implications of Bank Branches & Location Choice

How do banks in developing countries decide where they will locate their branches? How do these choices impact the financial success of individuals, firms or even nations?

These questions propel [Juliano Assunção](#)'s CFSP economic research project, "[Branch Banking in Brazil](#)." In his work, Assunção is investigating the landscape of Brazilian banks in an effort to understand how their ownership affects location choice and the financial services they offer, particularly during the country's span of high inflation and stabilization over the past thirty years.

He also is investigating the impact of "correspondentes bancários," or banking agents, who operate out of small stores and offer a range of basic financial services. Is their prevalence making an impact in financial service access for individuals who live in remote and isolated areas of Brazil? What lessons might there be to draw from Brazil for banking agent networks in other developing

countries?

Assunção believes that examining bank location has been widely overlooked in economic research. Yet, if we want to truly understand the financial systems of developing economies, he says, studying these entry and exit decisions is as fundamental as analyzing the impact of the financial services offered.

Assunção, who is Assistant Professor in the Department of Economics at the Pontifícia Universidade Católica, Rio de Janeiro, focuses on development economics and applied microeconomics with special focus on Brazil. He recently discussed his CFSP research and what he expects his work will contribute to the field of development economics.

Q. How do you describe your research project and the questions you're seeking to answer to non-economists?

Assunção: My project investigates different aspects of the distribution of financial services in Brazil. Although we know the benefits of well-functioning credit markets, we know very little about the supply side of the financial sector. My project seeks to help fill this gap by gaining a better understanding of the channels through which people can access financial products. I focus on three main questions.

The first question is about the role of ownership. Does it make a difference if banks are owned by the government or by private players? This is a very important question. A significant fraction of the banking system in Brazil is state-owned. In addition, there is currently an important debate about financial regulation and whether or not governments should take on a larger role in the financial system. Evidence from Thailand indicates that private and public banks behave differently in how they locate their branches. Private banks are more concentrated in urban areas, where as public banks are prone to serve more isolated and less populated

regions. Not only do government and private banks behave differently, but also government banks act differently in areas with private banks compared to areas without private banks. I am interested in whether this proposition also holds in Brazil, and I will expand the analysis to better understand what other issues arise with the role of ownership.

The second question that I am investigating relates to inflation as a key determinant of the branch network or, similarly, of the provision of financial services, like credit and savings for households and firms. Most of the time people think about banks as credit providers. This research project investigates how something like inflation in the macroeconomic environment can change the bank's business model, affecting the relative importance of loans in comparison to other financial products. Again, I will use Brazil as the case study.

Brazil has experienced a long period of high inflation. Then, in the 1990s, there was a very successful stabilization plan that dramatically reduced inflation rates. The stabilization of the economy was a big change in bank business. Before the stabilization plan, high inflation rates allowed banks to earn most of their profits by collecting deposits from the population, buying government bonds, and financing the public debt. This process led to an impressive expansion of the branch network into more rural and isolated areas that had not previously had access to bank branches in their community. At that time, banks were willing to expand to any place in order to collect deposits. With the macroeconomic stabilization, however, this source of revenue disappeared and banks were induced to change their business towards credit and other services such as payment services. In this period, many locations that had been profitable for bank operations became less attractive.

What can we learn from this particular case? I am hopeful this research can better explain (i) how macroeconomic issues like

inflation affect bank business and financial provision; and (ii) what the consequences are for households and businesses when they lose access to banks or when there is a change in the competition regime of banks.

Finally, the third question I am exploring regards the effectiveness of correspondentes bancários (banking agents). A correspondente bancário represents an agreement regulated by the Central Bank that allows firms (e.g., post offices, lottery houses, grocery stores) to distribute some financial products and payment services for banks. For example, they can lend money, open checking accounts, and receive payments. New legislation regarding correspondentes bancários was enacted in the early 2000s. Since then they have increased in numbers rapidly. Currently, they outnumber traditional bank branches by more than eight times.

The question I want to answer is: Have correspondentes bancários been effective in improving access to financial services for individuals in small and isolated municipalities? I also want to quantify this improvement in order to understand its potential to increase access in other developing countries.

Q. What do you hope to contribute to the understanding of financial systems and poverty with your project?

Assunção: There is a lot of work showing how access to the financial system improves welfare. But we know much less about what are the main drivers behind the provision of financial services. Most of the research papers in this subject area take as given the presence of banks while in fact location is a bank choice. A more comprehensive evaluation of financial systems needs to address entry decisions and competition issues as part of the whole system. My contribution is to shed light on these issues, bringing the literature about industrial organization to the debate of development economics issues. I strongly believe there are substantial gains in

bridging these two topics that can be obtained not only for the analysis of the financial sector but also for other areas, like education and health.

Q. What interested you in this line of research?

Assunção: I did my Ph.D. in Brazil and spent one year at the University of Chicago, where I met Rob Townsend. I started to work with him as a research assistant, and I started to struggle with the question about how banks are located across different regions. At that time, I realized the issue was considered a black box in the development economics literature. The available literature mostly takes as given the provision of financial services and focuses on analyzing its welfare implications. However, entry decisions are a highly relevant aspect of the bank business, especially in developing countries. I find the challenge of integrating bank location decisions with our analysis of financial systems fascinating from the theoretical point of view and also with important policy implications. I think we cannot hope to improve the functioning of financial systems without taking into account key drivers behind the location of the banks.