

Title: Deposit Insurance, Corporate Governance and Discretionary Behavior: Evidence from Thai Financial Institutions

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Table of Content: Abstract

1. Introduction
2. Overview of Institutional Background
3. Theoretical Background
 - 3.1 Deposit Insurance and Governance
 - 3.2 Ownership Structure and Risk
 - 3.3 Internal Control, Earning Management and Risk
4. Data and Measurements
 - 4.1 Sample and Data Sources
 - 4.2 Methodologies
 - Implicit cost of deposit insurance
 - Discretionary portion of loan loss provision
 - Ownership concentration as a mechanism
 - Explaining implicit cost of deposit insurance
5. Results
 - 5.1 Descriptive Statistics
 - 5.2 Estimated Cost of Deposit Insurance Implicit
 - 5.3 Cash Flow and Control Rights
 - 5.4 Loan Loss Provisions and Their Discretionary Components
 - 5.5 Explaining Implicit Cost of Insurance
6. Conclusions
- References

Abstract: Claiming that the implicit cost of deposit insurance is an alternative proxy for risk-taking behavior, we examine the effects of incentive-inducing ownership and entrenchment of the largest shareholders and discretionary behavior of management on the risk of Thai financial institutions. Our empirical results suggest that, during 1994-1996, the largest shareholders engage in low risk-taking activities when they hold large cash flow rights and have low deviation of cash flow from control rights. However, the risk is higher when the largest family shareholders enter the board and when Chairman-CEO can manipulate loan loss provisions. After the financial crisis, earnings management through discretion on loan loss provisions reduces risk. Overall, this study suggests that the problems underlying the implicit guarantee scheme are different between banks and finance companies, and between types of governance structure.

Keywords: Implicit Guarantee, Risk, Ownership Structure, Managerial Discretion, Thai Financial Institutions
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