Universität Zürich[UZH]

Department of Finance

Interview: Christoph Basten

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Prof. Christoph Basten
Assistant Professor of Banking

Christoph Basten is an Assistant Professor (fixed-term until summer 2024) in the Department of Finance at the University of Zurich (UZH), and also affiliated with the University Research Priority Program "Financial Market Regulation", the Swiss Finance Institute (SFI), and CESifo. In September-December 2021, he was a Visiting Scholar at the NYU Stern School of Business.

Photo: Christoph Basten, Farewell lecture, "Cross-Selling in Banking», 28 May 2024 at the University of Zurich

Interview

Professor Basten, can you tell us how your journey into your main research field began and what inspired you to pursue an academic career?

When I completed my PhD in Economics in 2011, Europe was in midst of a Global Financial Crisis and many countries had to cut spending on schools, universities, or health care after having spent excessive amounts to bail out their banks.

This made it clear to me that a solid understanding of banking is essential not only for banks, but also for society as a whole. This is especially true for Switzerland, where banking significantly impacts employment, GDP, and national risk management.

After a brief postdoc, I spent close to 5 years working for the Swiss Financial Market Supervisory Authority (FINMA). I enjoyed that working experience a lot. Compared to many comparable authorities, FINMA is rather small and agile and therefore offers excellent opportunities to get to know details, but also to see the big picture.

At the same time, it became clear to me that the data and analysis options used at the time did not allow to answer key policy questions as solidly as it would have been desirable.

Therefore, in February 2018, I moved to the University of Zurich as Assistant Professor. The needs of the Swiss banks and authorities also inspired my subsequent research questions.

At the same time, I had to accept that work on banking in Switzerland is constrained by the granularity and availability of data for research, which limits the potential to publish in the "top 3" academic finance journals. I therefore decided to work with Norwegian data, some of whose results are transferable to the Swiss context.

As a teacher I have taught in the department's MA and PhD programs but mostly in the BA program. I shared with students not only the basic textbook material, but also my experience in research and Swiss policymaking.

How has the field of your specific academic discipline evolved over time, and what significant changes have you witnessed with regard to academia, students, industry, policymakers, society, and the planet?

Currently, my work primarily involves empirical analyses of banking, guided by both theory and practical needs. My research aims to inform banks, their clients (household, corporate), as well as policymakers in central banks and supervisory authorities.

In this way, academic research on banking can provide valuable insights to both fellow researchers and practitioners.

A limitation of much empirical research is that results often aren't cross-contextual; for example, mortgage markets show significant institutional differences between countries. Thus, it is beneficial to have researchers working on different set-ups and varied contexts.

Could you please share some insights into papers and key projects you would like to highlight?

One project I like to mention is my work on the **"Countercyclical Capital Buffer"** (CCyB), temporarily higher bank capital requirements. These requirements are part of policymakers' "macroprudential toolkit" which can be used to stimulate or slow down bank lending when the central bank policy rate is used already to ensure consumer price stability.

My analyses thereon were started to address FINMA's specific policy question on whether to raise or lower these requirements in 2013-14 and were later also published in the Review of Finance. (→ Link)

Using granular data that I sourced from the Comparis web platform, I found effects that would not have been possible to see in the less granular data available to the authorities at the time.

A second project is my work on “**Cross-Selling in Banking**” available at the Review of Financial Studies. (→ Link)

It quantifies the importance of banks “cross-selling” their depositors other banking products like mortgages, credit cards or wealth management later. This was triggered by my earlier research on negative interest rates in Switzerland: When I wondered why banks were so hesitant to set negative deposit rates, even if they did not need all those deposits to refinance their current lending, many bankers told me that they wanted to keep their clients to also sell them other products in the future.

While such considerations may seem obvious to practitioners and many households, most existing banking research pretends that the price and resulting volume on deposit accounts is set only to maximize deposit profits. My paper shows that this is not the case and has thereby started a whole research agenda exploring how cross-selling considerations matter for bank and firm profits, household welfare, monetary policy transmission and financial stability.

Is there any advice you would give to yourself (or others) – looking back to the start of your academic career?

First, while I still believe that research financed by the Swiss taxpayer should be sufficiently relevant for Switzerland, I would also have to caution the young that it may be harder to publish than work on countries that have better data or are larger or both. And hiring committees may look more at the number of publications than try to understand the research quality themselves.

Second, in the past I mostly preferred to work on projects where I was in the lead. With hindsight I did thereby possibly forego valuable opportunities to learn from more experienced peers.

What did you like about our Department of Finance and which thoughts do you have about its future?

The department contains enormously talented and dedicated staff, both amongst the professoriate and amongst the shared services, and this is fantastic! It is also contributing to some of the most important debates of our time, including how to deal with global warming!

However, I am concerned that banking research may be increasingly overlooked. We should not forget that Switzerland is a vital financial center, evidenced by significant bank assets, tax revenues, and employment, with both risks and opportunities.

To have essentially only a single banking chair left is not enough to serve the needs of Zurich and Swiss taxpayers mostly financing this university.

And I would be saying this also if I had not been working on banking research myself, just as I like to emphasize the importance of insurance research for many of the same reasons.

But I trust that the department will take better account of this again in the future and wish it best of success with that.

What are your own plans and aspirations for your next step? Which aspects are you looking forward to, which aspects will you be missing?

In the coming months, I will be leading a team at the European Central Bank (ECB) analyzing the transmission of monetary policy through Europe’s heterogeneous banking markets. I look forward to being in policy again and hopefully contributing my share to the economic well-being of some 350 Mio. Europeans.

I also look forward to the enormous leverage my team will have, and to the chances from drawing on the resources of a very professional institution like the ECB.

At the same time, I hope to sufficiently continue my active research agenda, as I would regret to see it dying. But I will have to see how I can ultimately strike the right balance on this.

And I will indeed be missing the quality of life in Switzerland, where my family will remain for the time being.

“Cross-Selling in Banking”

by Christoph Basten, May 2024

The research you presented at your Farewell Lecture was about “Cross-Selling in Banking”. Can you please summarize what this is about for those you missed your lecture?

Sure. By “cross-selling” I mean that many bank clients, including many readers of this, buy different products from the same bank over time, often including both deposits (which go on the liability side of the bank’s balance sheet) and loans (which go on the asset side), but also for example credit cards, payment services, brokerage, or wealth management.

When buying various products from the same bank one would expect to get a better deal from their bank. Yes, or no?

Yes and no. On the one hand, I have found that banks are often willing to offer more attractive deposit conditions to onboard and retain clients whom they can hope to sell additional products later. On the other hand, I found that when taking out a mortgage where a lot is at stake, existing clients often pay more than new clients, after fully controlling for credit risk.

This suggests that at least for much standardized retail banking, client stickiness is driven more by clients’ hesitance to switch banks than by banks’ preference to lend to clients they know.

But is the bank not in a better position to evaluate the credit risk of existing clients?

We would think that existing client relationships can reduce what the literature knows as “asymmetric information problems” and this is indeed what has been found in various setups for banking to corporates.

But for banking to households, we find that while banks charge a higher credit risk premium to those households whom we see later to default, this premium is not significantly different, and if anything is slightly smaller for existing compared to new clients.

That suggests: In well collateralized and standardized mortgage lending, asymmetric information may play a smaller role than for lending to e.g., many small and medium-sized enterprises.

OK, that sounds very technical. But what concretely are the implications for me as a household?

Use opportunities to earn better deposit rates from banks that hope to cross-sell you other products later. But when buying such follow-up products, and especially if buying a house where much is at stake, it might be worth to seriously research whether switching banks would yield a better deal.

The point about deposit rates became clear to me when the media said central banks raised interest rates, and yet my bank raised deposit rates only a tiny bit.

It is indeed an established phenomenon that banks tend to raise deposit rates only sluggishly when central banks raise policy rates, as in the past two or so years, and thereby expand the “deposit spreads” between policy and deposit rates.

This “positive deposit spread beta” has until recently been explained entirely with banks’ market power within the deposit market.

But my ongoing research on “Monetary Policy Transmission through Cross-Selling Banks” shows that at least as much of this “Positive Deposit Spread Beta”, a crucial element of Monetary Policy Transmission, is explained by the market power banks get from the fact that existing deposit clients can be expected to remain with the same bank also for later purchases of other products.

Can you briefly explain what “Monetary Policy Transmission” is?

Sure. Monetary Policy Transmission is the mechanism through which changes in the central bank’s policy rate affect GDP and consumer price growth.

This is what I will be focusing on in the coming months in my new role at the European Central Bank. The better this transmission works, the better can the central bank achieve stable consumer prices, with which we can better plan life.

And importantly, much of this transmission happens via the pass-through of these policy rate changes through the banking system to depositors and borrowers.

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