Can Banks in Emerging Economies Benefit from Revenue Diversification?

Sarah Sanya* and Simon Wolfe†

*International Monetary Fund, Washington DC
† School of Management, University of Southampton, SO171BJ, UK.

Abstract
This paper investigates the effect of revenue diversification on bank performance and risk. Using a panel dataset of 226 listed banks across 11 emerging economies and a new methodological approach, System Generalized Method of Moments estimators (System GMM), the results in this paper provide empirical evidence of the impact of the observed shift towards non-interest income generating activities on insolvency risk and bank performance. The core finding is that diversification across and within both interest and non-interest income generating activities decrease insolvency risk and enhance profitability. The results also show that these benefits are largest for banks with moderate risk exposures. By extension, these results have significant strategic implications for bank managers, regulators and supervisors who share a common interest in boosting bank performance and stability.

JEL classification: G10, G21, G28
Keywords: Emerging Economies, Revenue Diversification, Banks, Insolvency Risk

This Paper should not be reported as representing the views of the IMF.
The views expressed in this Paper are those of the authors and do not necessarily represent those of the IMF or IMF policy.

*Corresponding author: ssanya@imf.org  (Sarah Sanya) Tel: (+1) 2026239598 Fax: (+1) 2025899598

We thank Robert Sauer, John Micklewright, Klaus Schaeck, Mohammed Amidu, Alistair Milne and an anonymous referee for helpful comments.