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**Article**

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# Market discipline and banking crises in Russia: A Reverse Engineered Pitch

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**Abstract:** Research is a long journey for a new early career researcher and PhD student. At the early stage, the new researcher needs to build up the “brick” foundation and to communicate well with the advisory team regarding their research progress. Pitching research developed by Faff (2015; 2017) can be a strong tool for answering the confusion of beginner researcher in their initial journey. This pitching research letter offers the author’s experience in implementing Faff’s (2015; 2017) template to the reverse engineering pitch in the area of banking market discipline. This pitching research template has been applied to a published article by Karas *et al.* (2013), who investigated the market discipline in Russian banking. In addition, this letter conveys a personal reflection regarding the pitching template.

**Keywords:** Pitching Research Letter; Reverse Engineering Pitch; Market discipline; Banking crisis; Russia

**JEL codes:** M2; M1; E43; G01

## 1. Introduction

“If you want to live a happy life, tie it to a goal, not to people or objects.”  
Albert Einstein

Currently, I am undertaking PhD in Finance at University of Queensland (UQ). I love studying and doing research. I admire my lecturers and professors. I also admire the pioneers of knowledge and the great scholars such as Adam Smith, Ibn Khaldun, and Avicenna. What motivates me to embark PhD journey is I want to be

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a professor within 15 years. However, my PhD journey is not a new and the smooth one. Before I was taking PhD in Accountancy at another institution for more than one year and I had produced a confirmation document of around 120 pages. But I decided to terminate my PhD journey there due to personal reasons.

I began to learn about the pitching research framework from the several occasions such as the pitching research seminar at QUT Business School on 14<sup>th</sup> March 2016, and Early Career Women's Pitch Day 2016 by QUT Accounting for Social Change on 2<sup>nd</sup> November 2016, and a PhD coursework unit at the University of Queensland: RBUS 6914 in August 2017. Interestingly, when I had participated in Early Career Women's Pitch Day at QUT, I and my team had won the 2016 Best Pitch Award with Social Audit topic. Through this early experience, I found that the pitching research was a powerful tool to identify a particular topic and to construct new ideas for research. Starting a PhD is similar to swimming in the ocean of knowledge. It can be clueless to both PhD student and the supervisory team. Therefore, the pitching research offers the brief and focused template with integrated technical aspects such as data and method and important consideration such as risk and competition. In addition, I learn not only about the pitching but also about the research integrity mindset from RBUS6914. Professor Robert always emphasizes to the PhD students about three things before we start doing research. We have to ensure that we do not violate three rules: "First, it must be legal. Second, it must be ethical and the last one, it must be moral." I think this is the bottom-line if we want to be a good researcher with integrity. Finally, RBUS6914 encourages the student that the research should be a power to create change. And, we can initiate the change by pitching research.

This pitching research letter is structured as follows. In Section 2, I outline the reverse engineering process that I followed in applying the pitching research framework to my chosen area of research interest – market discipline in banking. Section 3 provides my own personal reflections of this exercise, while Section 4 is the conclusion.

## **2. The reverse engineering process**

Market discipline is the process by which informed market investors gather and evaluate information about a firm's activities and prospects, and incorporate that information into its traded securities (Flannery & Sorescu, 1996, p. 1356). In the context of banking, market discipline is a situation in which depositors penalize riskier banks by requiring higher interest rates or by withdrawing deposits (Cubillas *et al.*, 2012, p. 2285). I choose the market discipline areas for the reverse engineering process as this area has not been discussed by any prior pitching research letter and as it is the focus of the first essay for my PhD. Alon (2009) has suggested to the researcher that one should not commit to a research problem before three months have elapsed. Therefore, I choose a market discipline in the case of banking institutions after evaluating the feasibility<sup>i</sup> of the study and the interest since January 2017.

Table 1 provides the fully reverse engineering pitch. I have spent two weeks for completing the template. The first week, I read 20 market discipline articles. Professor Faff suggests to the student with regard to key papers, we should look for the paper that has been written by “Gurus” or the experts in the field, or the paper that has been published in Tier 1 journals within three years, or a recent working paper found on SSRN. My other supervisor, Dr. Mamiza, guides me that I need to focus on top journals such as Journal of Finance, Journal of Banking and Finance, or Journal of Money, Credit and Banking. In addition, she reminds me to look for the paper with “natural experiment” setting. After reading the 20 articles, I find that three articles are interesting. Then, I consult again with my supervisor. I have an option to choose between Karas’ paper exploring the Russian case in 2013 or Lambert’s paper with the United States case in 2017. Since I plan to look at market discipline within an emerging countries context, I choose Karas’ paper with the title “Deposit Insurance, Banking Crises, and Market Discipline: Evidence from a Natural Experiment on Deposit Flows and Rates” as a key paper for reverse engineering pitch. In addition, personal experience also affects me to choose this paper since I had ever attended a conference in Russia and had some Russian friends, so I feel some familiarity with Russia.

The second week, I focused on the template. Before completing the template, I had spent one day on highlighting and summarising the paper. After getting this insight and understanding of the paper, I worked on the template with a nonlinear pattern, just as Faff (2015; 2017) predicts. In some ways, Karas’ paper is very explicit and straightforward such as the research question, the key papers, the motivation, the idea and the data. In other parts, I have to reread the paper to extract what’s new, so what, and the contribution. Last, once I finish the template, I request the feedback from Dr. Mamiza and give a presentation regarding this pitch in a designated class for RBUS 6914.

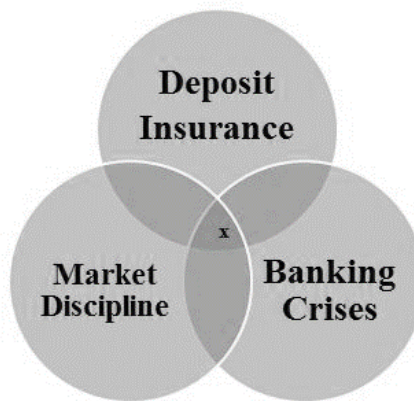
With regard to the reverse engineered template, there are 11 parts that need to be filled by the pitcher. First is the full reference. Unlike the original research pitch, the title is the light task as the title has been provided by the published article. Second is the basic research question. Karas’ paper has mentioned the research question explicitly in the literature review part. Third is related to the three key papers. Karas *et al.* (2013) have identified and summarised literature and showed the research gap in the literature. However, I identify the three key papers of Karas’ paper based on its analysis part. Karas *et al.* (2013) rely on Martinez-Peria and Schmukler (2001) and Demirguc-Kunt and Huizunga (2004) in analysing their work and mentioning several times these two papers not only in the literature review and data part but also in analysis part. In addition, they refer to Ioannidoi and de Dreu (2006) in building their research design and using the difference in differences method. Therefore, one should notice the consistency of the author in referring to particular paper as the key paper of reverse engineering pitch. The fourth is the motivation. Faff (2015; 2017) explains the motivation as the “demand” side in addressing the research gap or the missing knowledge in the literature but it can be the real world phenomenon such as banking crises for Karas’

paper. The four items (title, research question, key paper, and motivation) that I have been mentioned are the big picture of the pitching research in reverse engineering version. Good framing can be produced if we focus on these four items.

Next, we move to the basic “building blocks”, which are captured by the acronym “IDioTs” (Idea, Data, and Tools). Fifth is the idea which is related to the strategy and the mechanism to get the answer to the research question. I have identified the core idea which drives the intellectual notion of Karas’ paper. It is mentioned explicitly by Karas *et al.* (2013) that the core idea is to explore whether and how the introduction of explicit deposit insurance affects deposit flows and rates of banks of varying risk levels. However, I do not cover the central hypothesis and the theoretical tension in this part as it is not stated in the paper but it is better for another pitcher to identify both central hypothesis and theoretical tension in the quantitative empirical paper if it is possible. In terms of data, Karas *et al.* (2013) state the type of data, unit of analysis, a sample of the period, sampling interval and data sources clearly. However, they did not include any problems related to the data, therefore, I infer that they have no major problems regarding the data. Seventh is the tools, which is related to the basic empirical framework and research design. With regard to the research design, it is very clear the way they build up the design. However, they did not mention particular econometric software, so I infer particular software based on the standard econometrics software in the research.

Last, we have the most important parts of the pitch. They are two key questions (what’s new and so what), one bottom line and three key findings. Eighth is the question of “what’s new?” What’s new is focusing on the novelty of the idea, data or tools. It can be defined as the supply side or the researcher’s effort to create the new knowledge to meet the demand. The best novelty of the research is on the idea that Faff (2016; 2017) argues that a simple diagram which called the “Mickey Mouse” can be helpful to portray the novelty of the research ideas. Here, the Mickey Mouse is the triple intersection of deposit insurance, market discipline, and banking crises. Ninth is the question of “so what?” This is one of the important sections in the template as if no one cares about the topic there is no reason to spend time and energy to work on the particular topic. Therefore, we can answer the “so what” question by identifying why is it important to know the answer and how will major decisions be influenced by the outcome of the research? In Karas’ paper, the “so what” question is related to the policy maker such as the central bank and the Russian government. The tenth is the ultimate goal which is the primary contribution to the relevant literature that may relate to IDIoT (Faff, 2016). Karas’ paper is a finance paper in which in finance disciplinary, the methodologies may contribute significantly to the literature. Finance researchers compete to show that their methodologies have better outcomes and tackle particular issues such as endogeneity. Therefore, I infer that Karas *et al.* (2013)’s contribution lies in their efforts in enhancing the causality of the deposit insurance and market discipline in natural experiment setting. In addition to that, Karas *et al.* (2013) mention explicitly their contribution to the literature. Finally, the eleventh is related to the

three key findings that have been extracted from the analysis and the conclusion part of the paper.



**Figure 1: Mickey Mouse Diagram Characterizing Novelty of the Research Idea**

### **3. Personal reflection**

In my opinion, the pitching research developed by Faff (2016; 2017) can be a powerful tool for early career researcher and PhD students in exploring the new topic or in starting research journey. Based on my experience at Early Career Women's Pitch Day 2016 and RBUS 6914, I could use the pitching research for qualitative work such as Social Audit and quantitative empirical work such as Market Discipline. For me, the new topic can be a new headache. With regard to my decision to close my previous research journey, pitching research offers the acceleration in learning and grasping new areas. I suggest for the beginner researcher like me to build three types of the pitching research: the reverse engineering pitch of seminal paper, the reverse engineering pitch of the key paper, and a real pitch of your own research. This is the most comprehensive and the fastest way to build new research topic.

### **4. Conclusion**

To conclude, the author has applied the pitching research (Faff, 2016) on the reverse engineering pitch in market discipline areas. I have shared my personal reflections with the template and contributed to the prior studies related to the pitching research exercise such as Dvoulety (2017) and Salehudin (2017). Generally, there are 11 items that need to be filled and completed by the pitcher. Before working on the template, the author collaborates with the advisor in choosing the key paper carefully as the work on the pitch will be the "brick" foundation on her PhD journey at the University of Queensland. I would

recommend other beginner and early career researchers to apply pitching research on their topics as the pitching may speed up the work and provide systematic ideas.

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Table 1. Completed reverse engineered 2-page pitch template on Karas et al. (2013)

Pitcher's Name	Nurhasbiy Kesusmo Wardhani	For category	Market Discipline	Date Completed	3 <sup>rd</sup> September 2017
(A) Full Reference	Karas, A., Pyle, W. and Schoors, K. (2013) Deposit insurance, banking crises, and market discipline: Evidence from a natural experiment on deposit flows and rates. <i>Journal of Money, Credit and Banking</i> , 45(1), pp.179-200.				
(B) Basic Research Question	How do the coincidence of crises and the extension of deposit insurance affect market disciplining behaviour?				
(C) Key paper(s)	<p>Martinez Peria, M.S. and Schmukler, S.L. (2001) Do depositors punish banks for bad behavior? Market discipline, deposit insurance, and banking crises. <i>The Journal of Finance</i>, 56(3), pp.1029-1051.</p> <p>Demirgüç-Kunt, A. and Huizinga, H. (2004) Market discipline and deposit insurance. <i>Journal of Monetary Economics</i>, 51(2), pp. 375-399.</p> <p>Ioannidou, V. and Dreu, J.D. (2006) The impact of explicit deposit insurance on market discipline. <a href="http://papers.ssrn.com/abstract_id=886881">http://papers.ssrn.com/abstract_id=886881</a>.</p>				
(D) Motivation/Puzzle	The introduction of explicit deposit insurance creates the dilemma between mitigating bank failures and weakening banking sector stability. In the worst case such as banking crisis, the deposit insurance may interact with the wakeup call for depositors. Therefore, the degree to which depositors actually engage in market discipline, the extent to which such behaviour is curtailed by explicit deposit insurance, and the manner in which any such numbing effect might be sensitive to the macroeconomic environment are questions that must be resolved empirically.				
THREE	Three core aspects of any empirical research project i.e. the "DIOIS" guide				
(E) Idea?	The idea is to explore whether and how the introduction of explicit deposit insurance affects deposit flows and rates of banks of varying risk levels. In addition, the central notion is to identify the effect of the policy of deposit insurance on the behaviour of uninsured depositors (firms) and insured depositors (households) before the 1998 crisis, between the 1998 and the 2004 crises, and after the 2004 crises using a difference-in-difference estimator in the context of one country (Russia).				
	The key dependent variable is the first difference of the log of deposits of firm or household for bank and the implicit interest rate paid out on deposits of bank. The variable of interest is bank-level capitalization. This study applies the natural experiment				
(F) Data?	<p>(1) What data do you propose to use? Bank-specific variables such as deposits and interest rates.</p> <p>Country/setting: Russia Why? Because Russia had experienced banking crises twice and the data allows this study using natural experiment which is appropriate for one country.</p> <p>Unit of analysis? Firms. Sample period: from 1995 to 2007. Sampling interval? Quarterly.</p> <p>Type of data: firm specific.</p> <p>(2) What sample size do you expect? Longitudinal.</p> <p>(3) Is it a panel dataset? Yes. Unbalanced panel data.</p> <p>(4) Data Sources? Private financial information agencies, which are Interfax and Mobile. No hand-collecting required. Are the data commercially available? Yes.</p> <p>(5) Will there be any problem with missing data/observations? Nothing major, just standard issues.</p>				



Pitcher's Name	<u>Nurhastuty Kesumo Wardhani</u>	For category	Market Discipline	Date Completed	3 <sup>rd</sup> September 2017
(G) Tools?	<p>Basic empirical framework: panel regression. Research design: natural experiment.                      Econometric software needed/appropriate for job? STATA.                      Accessible through normal channels? No                      Knowledge of implementation of appropriate or best statistical/econometric tests? Yes.                      Compatibility of data with planned empirical framework? Yes.</p>				
<b>TWO</b>	Two key questions				
(H) What's New?	<p>The novelty of this study lies on the idea and the tools. Currently, there are three areas that had been covered by this study. They are deposit insurance, market discipline, and banking crisis.</p> <p>The direct impact of deposit insurance on market discipline using a difference-in-difference estimator and the combined effect of a banking crisis and deposit insurance on market discipline. And the natural experiments with regard to the banking crises (1998 and 2004) in one country setting.</p> <p>The natural experiment that provided in this study based on the data. In 1998, Russian depositors were subjected to a severe banking panic but the government did not introduce deposit insurance while in 2004, depositors again suffered through a banking panic but this time a comprehensive deposit insurance scheme was introduced to cover households alone. The disciplining behaviour of households and firms in the aftermath of 1998 serves as benchmark against which to compare their behaviour in the wake of the 2004 events.</p>				
(I) So What?	<p>Why is it important to know the answer?                      Better understanding of the interaction between an increased market discipline during the crisis and the impacts of deposit insurance may provide valuable information for policymakers as they evaluate the costs and benefits of financial safety net expansion during periods of systemic instability.</p> <p>How will major decisions/behaviour/activity be influenced by the outcome of this research?                      The findings would provide critical information to the policy makers that they should exercise caution with respect to any permanent crisis-related expansion of deposit insurance.</p>				
<b>ONE</b>	One bottom line				
(J) Contribution?	<p>What is the primary source of the contribution to the relevant research literature?                      The first contribution is the causality between the deposit insurance and market discipline in the setting of natural experiment during two banking crises in Russia (1998 &amp; 2004). The second contribution is the combined effect of banking crises and deposit insurance on market discipline through comparison of the behaviour of insured and uninsured depositors.</p>				
(K) Three Key Findings	<ol style="list-style-type: none"> <li>1. Household sensitivity to bank capitalization declined both relative to that of firms after the introduction of deposit insurance.</li> <li>2. Firms were sensitive to bank risk across sub periods. There is a little evidence that households were sensitive to bank risk prior to the 1998 crisis, but like firms, they displayed such sensitivity in its aftermath. In short, there was the change in the relative disciplining behaviours of firms and households after 2004.</li> <li>3. The empirical evidence had been consistent with insurance diminishing the insured depositors' sensitivity to bank risk, even in the presence of financial crises.</li> </ol>				

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<sup>i</sup> Alon (2009) explains the two dimensions of problem choice. First is the feasibility that can be defined as the expected time to complete the project. In short, we need to find out whether a research problem can be hard or easy. Second is the interest, which is the increase in knowledge expected from the project. The best choice for research problem is when we have the optimum knowledge and difficulties using the Pareto principle.