

Dear Marius Luta,

Welcome to the latest edition of SAFE Update, the Leibniz Institute SAFE digital newsletter. In this issue, we focus on large institutional protection schemes for local banks and look at research into private consumption and dividend income.

We hope you find this newsletter of interest and would welcome your feedback to the editorial team at newsletter@safe-frankfurt.de.

Focus: Institutional protection schemes under scrutiny



SAFE team suggests supervision for large networks of local banks

Institutional protection schemes (IPS) can serve as a shield not only for a bank's depositors, but also for its other creditors: they promise to protect the institution as a whole. Now, in a new policy briefing commissioned by the European Parliament, a research team of economists and lawyers around SAFE identifies potential strengths and weaknesses of these schemes regarding

banking efficiency and stability in Europe.

In their analysis, Rainer Haselmann, Jan Pieter Krahn, Tobias Tröger, and Mark Wahrenburg focus on the organizational structures of IPS such as the savings bank network and the cooperative bank network in Germany. Given the size and systemic relevance of bank networks that are members of IPS in today's markets, the team suggests treating them legally as large banking groups instead of as a set of smaller independent financial institutions. Consequently, the analysis recommends supervision and regulation at group level under the Single Supervisory Mechanism (SSM).

On the one hand, the researchers see IPS as strong because of efficient intra-group monitoring, while non-competition between members supports trusted long-term bank-client relationships. An unlimited deposit guarantee is another plus. On the other hand, the SAFE team highlights conditionality in the protection offered, a limited level of risk diversification due to a uniform business model, and the de facto impossibility of bail-ins by outside creditors – ultimately bypassing national and European resolution authorities – as some of the weaknesses of IPS.

In conclusion, the analysis emphasizes that the ECB should supervise and regulate large IPS in recognition of their systemic importance. Moreover, tying IPS into a European deposit

reinsurance scheme as a first line of defence prevents moral hazards and reduces risks for the financial system as a whole.

[Find the in-depth analysis here](#)

Research Highlight: Consumption and dividend income



Consuming Dividends

by [Andreas Hackethal](#), Director of SAFE's Research Department Household Finance, Konstantin Bräuer (Goethe University Frankfurt), and Tobin Hanspal (WU Vienna University of Economics and Business).

In SAFE Working Paper No. 280, which is forthcoming in the *Review of Financial Studies*, the authors investigate households' responses to dividend income. They link individual consumption and income records from administrative bank data to portfolio data and survey responses on financial behavior,

and find that consumption is excessively sensitive to dividend income. Specifically, the authors demonstrate that investors across wealth, income, and age distributions increase spending precisely around days of dividend receipt.

In discussing the differences in revealed investors' preferences for dividend pay-outs compared to capital gains, the authors emphasize that existing rational and behavioral theories on consumer behavior do not sufficiently explain consumption out of dividends. Another finding at odds with the assumptions put forward in the extant literature is that it is especially middle-aged, high-income, attentive investors who view dividends as regular income and construct portfolios tilted towards higher dividend yields.

As one of the first studies to observe both granular data on investor portfolio behavior and detailed spending and consumption transactions, SAFE Working Paper No. 280 provides valuable insights into how private consumption responds to changes in wealth and income, thereby shedding light on the motivations and mechanisms underlying investors' strong preferences for dividends.

[Find the SAFE Working Paper here](#)

#SAFEtheDate



Call for papers

SAFE is organizing the 9th Asset Pricing Workshop on 27th September 2022 at the House of Finance, Goethe University, and cordially invites researchers to submit a paper. Submissions in all areas of asset pricing are welcomed. Papers may be entered until 31st May 2022. The workshop aims to stimulate the discussion on current developments in the field.

[Find all details and the submission portal here](#)

Handpicked

Loriana Pelizzon, Director of SAFE's Research Department Financial Markets, recommends the video interview “Publishing in the Journal of Financial Economics” by the American Economic Association and the American Finance Association:

“I would like to recommend the 9th session of the ‘CSWEP Webinar Series: Fireside Chats with Journal Editors’ about publishing in the Journal of Financial Economics. The interview with Anusha Chari, Julia Fonseca, and Toni Whited offers great opportunities for

improvement for Ph.D. students in general, offering them tips on how to concentrate solely on important research questions. Additionally, the interviewers provide the students with guidance on how to frame their papers in such a way that they are of interest not only to the author, who is of course involved in the topic, but also to a prospective audience and wider readership. Most importantly, the interview addresses the issue of gender in finance. I found this of particular interest as Chari, Fonseca, and Whited share their point of view and offer possible solutions for starting to reduce the disparity in financial-economic academia and encouraging female researchers to pursue a career in finance.”



[Find the video interview here](#)

News & Latest

- **Russia-Ukraine war:**
Economic and political researchers at SAFE assess financial sanctions

and the strategic limits of an
energy boycott against
Russia

- **News:** Christine
Laudenbach takes up a
professorship for
Household Finance at
SAFE
- **SAFE Finance Blog:**
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The logo for the Leibniz Association, featuring the word "Leibniz" in a large, elegant, black cursive script. Below it, the words "Leibniz Association" are written in a smaller, blue, sans-serif font.