

Abstract

Using evidence from Russia, we explore the effect of the introduction of deposit insurance on bank risk. Drawing on within-bank variation in the ratio of firm deposits to total household and firm deposits, so as to capture the magnitude of the decrease in market discipline after the introduction of deposit insurance, we demonstrate for private, domestic banks that larger declines in market discipline generate larger increases in traditional measures of risk. These results hold in a difference-in-difference setting in which state and foreign-owned banks, whose deposit insurance regime does not change, serve as a control.