

# David and Goliath: small banks in an era of consolidation. Evidence from Italy

by

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## *Abstract*

Consolidation in the banking industry has caused concern about the survival of small banks. However, empirical evidence shows that often small banks are performing better than larger banks in terms of loan growth and profitability. This paper addresses the main question of “how David can be successful in a Goliath’s world” analysing two broad sets of issues, tested on a sample of Italian small banks. We first address the question of whether peculiarities of small banks are good explanatory variables of their loan growth. In particular, we demonstrate that, in terms of loan growth, best performers in the small banking group are those banks who are most able to ripen the hypothesized small bank advantages, e.g. their ability to process and use soft-information. Second, we also investigate the relationship between loan growth and profitability and credit risk to point out which small banks can continue to be viable competitors of larger banks.

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