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# RESEARCH INSIGHTS

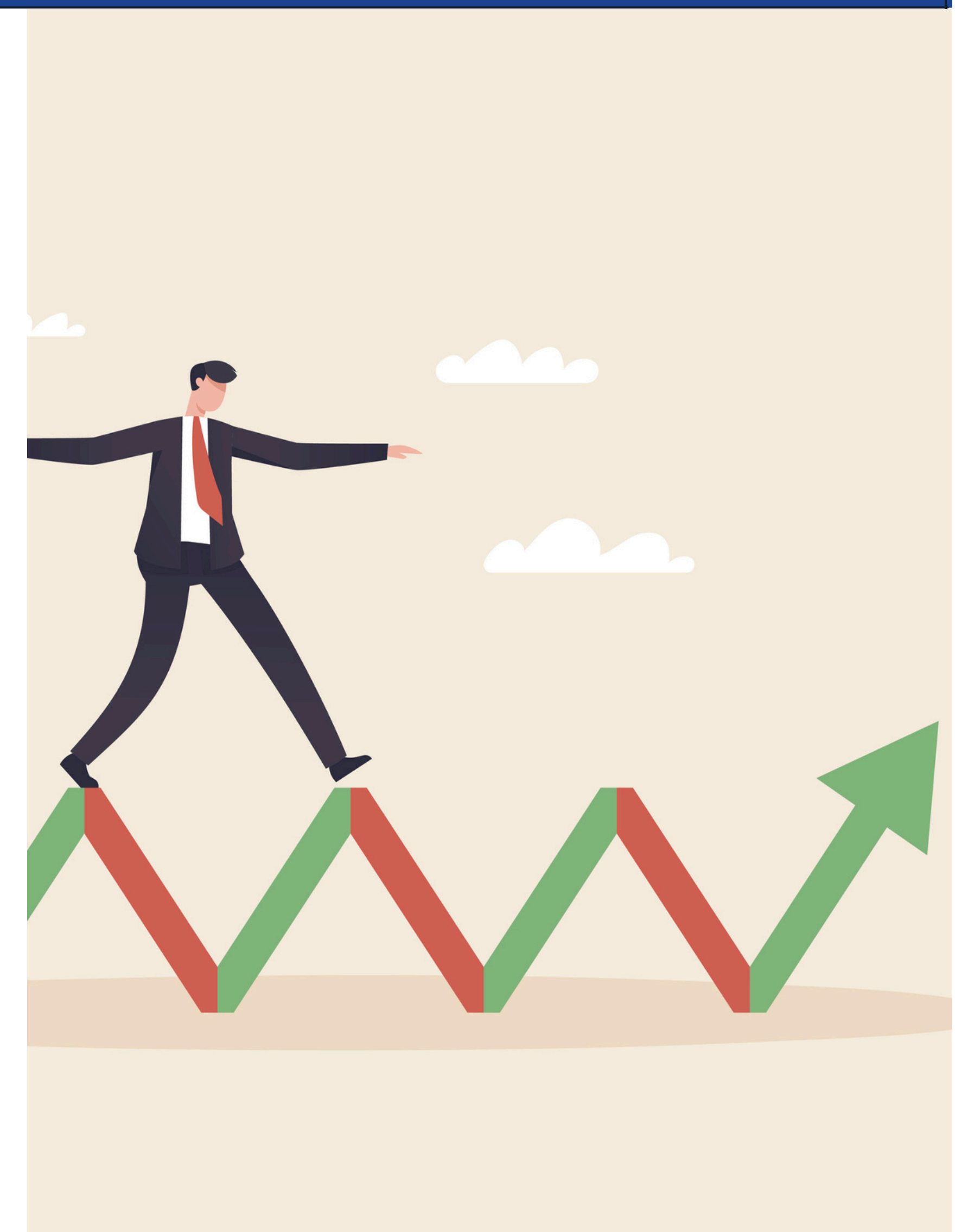
## DOES GOVERNMENT OWNERSHIP DIFFERENTLY IMPACT EXPECTED LEFT-TAIL AND VOLATILITY RISK OF BANK STOCK? EVIDENCE FROM OPTIONS MARKET.

### AUTHORS

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### EXECUTIVE SUMMARY

We examine the differences in the options implied left-tail risk and volatility of government-owned and private banks in India. We show that left-tail risk and the cost of insurance for protection against it are high for private banks as compared to government-owned banks, despite their superior asset quality. The COVID-19 crisis, an exogenous shock to systematic risk, increased the left-tail risk more for private banks. Furthermore, the effect of government ownership on left-tail risk is more significant for smaller banks compared to larger banks. Contrary to our left-tail risk result, we find that government-owned banks have higher near-the-money options implied volatility than private banks. Our findings suggest that while government ownership mitigates expected downside risk, it also leads to higher expected volatility due to riskier lending policies and uncertainties about capital infusions.



### KEYWORDS

- Government ownership
- Banks
- Left-tail risk
- Implied volatility
- Options market
- India

### RESEARCH RELEVANCE

- Government ownership of banks and Stock Price Crash Risk - We show that government owned banks have a lower stock price crash risk and the value of this "government guarantee" is higher during periods of extreme uncertainty.
- Higher Volatility - Simultaneously these banks have higher expected volatility, likely due to politically motivated loans, subsequent stress and uncertainty about capital re-infusion from the government.
- Impact of outright ownership different from Too-Big-to-Fail Effect, as the government influences decision making at the bank.

### BIBLIOGRAPHIC INFORMATION

Srivastava, P., Saurav, S., & Mishra, A. (2025). Does government ownership differently impact expected left-tail and volatility risk of bank stock? Evidence from options market. *Journal of Corporate Finance*. Advance online publication. <https://doi.org/10.1016/j.jcorpfin.2025.102832>

*“Does direct government ownership make banks' stocks safer? Depends on what risk you look at - While, like the too-big-to-fail effect, it reduces crash risk, it leads to higher the expected volatility.”*

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