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Risk Management, Corporate Governance, and Bank Performance in the Financial Crisis

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Motivation

- Financial crisis has brought about growing awareness of the need for appropriate risk management techniques and structures in financial institutions
- Compared to non-financial firms, risk management should play a special role in the governance structure of financial firms
- The role and importance of risk governance has been discussed by practitioners and in newspapers but has been largely neglected in the academic literature so far

Research question and approach

- Research question
  - What is the impact of risk-related corporate governance mechanisms on banks' performance during the crisis?
- Approach
  - Construction of a new dataset with hand-collected information on risk-related corporate governance mechanisms
    - Presence of CRO in executive board
    - Line of reporting of CRO
  - OLS regressions of bank returns on a large set of corporate governance aspects to test the impact of risk-related compared to traditional governance measures like board characteristics or CEO incentives

Main results

- Line of reporting of CRO seems to be the most important risk governance feature
  – If CRO reports directly to the board of directors and not to the CEO, bank performance during crisis is significantly better
  – Mere presence of a CRO does not impact on banks' performance during crisis
- Standard corporate governance measures are either not or *negatively* related to bank performance during crisis
  – Banks may have followed what was understood as good governance practices before the crisis
  – Risks they took increase shareholder value before crisis but turned out poorly in the crisis

Comments: Story

- The paper covers a very interesting, topical and important question, so it might be worthwhile to…
  - let the reader feel this and spice up the story
    $\rightarrow$ maybe discuss tension between CEO and CRO perspectives earlier in the paper
  - look for a crisper title
  - streamline the paper, especially the introduction
  - put more focus on the new and unique data and your contribution and less on the variables that have been widely used
  - reduce redundancies (e.g. for data and variable descriptions, robustness tests)

Comments: Empirical analysis

- How is risk governance related to bank characteristics and especially the riskiness of a bank's business?
  - Are banks that take on a lot of risk more or less likely to have good risk governance structures? Basically, what is the relation between risk taking, performance and (risk) governance? Causalities?
    - Show if / how firms with and without risk governance features differ
    - Show correlations between the explanatory variables
  - How well do the control variables capture banks' risk taking?
    - If they don't well, there is an omitted variable problem and results are biased (lagged performance and / or governance measures will be correlated with error term) → More discussion is needed

Comments: Empirical analysis

- Effects of risk committee characteristics
  - Construction of variables dilutes them towards zero
  - Run estimations just on the subsample of banks with risk committee
- Variable definitions
  - CEO equity ownership: why defined in USD and not e.g. as stocks and options as a percentage of total pay?
  - Directors older than 72: why this specific threshold?
- How big is the economic significance of the various explanatory variables?
  - Important for policy implications

Conclusion

- Timely and interesting research question
- New dataset
- Extension of the existing literature
- Implications for designing good governance structures of financial firms

- Try to push the empirical analysis one step further / deeper and catch the reader's excitement