



9th Annual
Macroprudential Conference,
June 18-19, Amsterdam.

DeNederlandscheBank

EUROSYSTEM



Becht, Bolton, Röell (2025)
“Bank Governance: Lessons Still Not Learned”

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“Lesson” presumes knowledge...

- What do we know?
- What do policy makers know?
- What do bankers know?
- Some thoughts on why bank governance reform receives little attention

What do we “know” (BBR)?

- 13 references between 1976 and 2015
 - 4 in our “top” journals
 - 3 WP/reports
- Post 2015
 - 2020 proposal for governance reform
 - 2023 WP on Italian banks
 - 2024 paper on financial crisis
 - 2024 WP on Covid period

What do we “know” (BBR)?

- Can quibble with execution, e.g. Ellul and Yerramilli (JF, 2013), how do RMI and G-index survive BHC fixed effects, IV no fixed effects, Arellano Bond does not address endogeneity of RMI...
- Moreover, 72 BHCs

What do policy makers “know”?

- Example: Post financial crisis: The U.K. Treasury commissioned Sir David Walker to recommend measures to improve board-level governance at banks to the government
 - The Walker recommendations serve as the basis for a new U.K. Governance Code that took effect in 2010

References for chairman role, appointments of directors, and board and committee size

References

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9. Dunbar, R. (1993) Co-Evolution of Neocortex Size, Group Size and Language in Humans. *J. Behavioural and Brain Sciences* 16 (4): 681-735.
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14. Long, S. (2008) *The Perverse Organisations and its Deadly Sins*. Karnac, London, page 115.
15. Carr, W. (1996) Learning for Leadership: The Leadership and Organisation Development Journal, Vol. 17. No. 6. MCB University Press.
16. Jaques, E. (1989) *Requisite Organisation. The CEO's Guide to Creative Structure and Leadership*. Arlington, VA. Casco
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- 17 references, 14 of which are dated between 1948 and 2001.
- Not one of these references is from the finance or economics literature.
- Not one of the references concerns financial institutions.
- Finally, it is unclear how the references help support the arguments the Walker Review makes.

What do policy makers “know”?

- “In 2018, a contested election took place for a directorship on the board of the San Francisco Fed.¹ Two things were noteworthy about this election. First, given the Federal Reserve System’s call for more diversity in its directors following the 2007–08 financial crisis, it is noteworthy that a man won against a woman. ² Second, it is noteworthy that the winner was an executive officer of a bank under the direct supervision of the San Francisco Fed, while the loser was an executive of a national bank under the supervision of the OCC. In hindsight, the San Francisco Fed must wish the woman had won. The man was none other than Greg Becker, president and CEO of SVB Financial Group and CEO of Silicon Valley Bank. The Federal Reserve must now explain how a bank it supervises and that was led by one of its own directors failed and how Greg Becker was able to make large stock sales just days prior to the failure of SVB. Adams (2023) *ProMarket* <https://lnkd.in/dqCtJ3mT>
- PLUS: lobbying by banking industry,...

**What do
bankers
“know”?
Adams, Wu,
Zhu (2025) and
prior
iterations...**

- Are banks opaque even to insiders? We use legal insider trades of bankers to measure how much they know. Between 2003 and 2018, bank insider purchases conveyed less good news to the market than insider purchases in other industries. To identify the mechanism underlying these results, we exploit variation in the regulatory environment and changes in insider roles. Opacity seems to stem from the banks, not the regulatory environment or the ability of bankers. Our results suggest banks are difficult to understand—even for insiders. This has broader implications for governance models.

What do bankers “know”?

Panel A. 2003-2018								
MODEL	Purchases			Sales				
	All Managers	Top5	Outsider	All Managers	All Managers	Top5	Outsider	All Managers
BANK	-6.73***	-7.47***	-5.45***	-6.72***	-2.82***	-2.59***	-3.23***	-2.82***
	(-7.94)	(-5.87)	(-9.03)	(-7.93)	(-8.75)	(-4.55)	(-6.55)	(-8.74)
LSIZE	-0.37	-0.49	-0.03	-0.37	0.13	0.20	0.19	0.13
	(-1.33)	(-0.97)	(-0.18)	(-1.33)	(1.49)	(1.37)	(1.40)	(1.49)
LBMR	1.70***	1.84**	1.51***	1.70***	0.18	-0.16	0.26	0.18
	(3.03)	(2.18)	(3.40)	(3.03)	(0.80)	(-0.42)	(0.74)	(0.80)
PR6	-0.04**	-0.09***	-0.02	-0.04**	0.01	0.02	0.01	0.01
	(-2.29)	(-2.92)	(-1.41)	(-2.29)	(0.71)	(1.02)	(0.32)	(0.71)
PR12	-0.01	0.01	-0.01*	-0.01	-0.01**	-0.01*	-0.00	-0.01**
	(-1.42)	(0.71)	(-1.83)	(-1.42)	(-2.31)	(-1.84)	(-0.51)	(-2.31)
STRONG BUY(SALE)	0.17	0.33**	0.19	0.17	-0.26***	-0.26**	-0.44***	-0.26***
	(1.26)	(2.03)	(1.52)	(1.26)	(-3.20)	(-2.38)	(-3.09)	(-3.20)
<i>Decomposing BANK</i>								
DISTRICT1	-3.53***	-3.52*	-2.52**	-3.53***	-3.00***	-5.27***	-2.28***	-3.00***
	(-3.22)	(-1.91)	(-2.12)	(-3.22)	(-3.65)	(-2.62)	(-2.62)	(-3.65)
DISTRICT2	-5.45***	-5.61***	-4.75***	-5.45***	-3.52***	-4.16***	-4.28***	-3.52***
	(-4.70)	(-2.68)	(-4.57)	(-4.71)	(-5.20)	(-3.15)	(-4.29)	(-5.20)
DISTRICT3	-5.85***	-5.04***	-5.05***	-5.86***	-2.29***	-3.37**	-0.70	-2.29***
	(-5.13)	(-2.88)	(-4.70)	(-5.13)	(-2.75)	(-2.02)	(-0.54)	(-2.75)
DISTRICT4	-5.56***	-5.98***	-4.24***	-5.56***	-3.01***	-1.64	-3.93***	-3.01***
	(-6.30)	(-4.31)	(-4.99)	(-6.30)	(-4.10)	(-0.84)	(-4.00)	(-4.10)
DISTRICT5	-7.85***	-8.47***	-6.56***	-7.85***	-3.87***	-3.09***	-4.27***	-3.87***
	(-6.34)	(-4.21)	(-6.29)	(-6.35)	(-4.89)	(-3.53)	(-3.48)	(-4.89)
DISTRICT6	-9.94***	-11.91***	-8.66***	-9.94***	-3.11***	-1.76	-5.72***	-3.11***
	(-4.36)	(-5.73)	(-5.61)	(-4.36)	(-4.04)	(-1.31)	(-4.92)	(-4.04)
DISTRICT7	-8.90***	-10.82***	-7.36***	-8.82***	-3.62***	-3.15*	-5.37***	-3.60***
	(-5.59)	(-4.02)	(-5.11)	(-5.59)	(-3.74)	(-1.73)	(-3.93)	(-3.73)
DISTRICT8	-3.82***	-5.29***	-1.92*	-3.82***	-1.76*	1.22	-1.94	-1.76*
	(-3.14)	(-2.96)	(-1.74)	(-3.15)	(-1.92)	(0.66)	(-1.54)	(-1.92)
DISTRICT9	-4.34**	-3.51	-2.06	-4.34**	0.86	1.53	0.22	0.86
	(-2.00)	(-0.87)	(-1.13)	(-2.00)	(0.90)	(0.66)	(0.12)	(0.90)
DISTRICT10	-4.17**	-3.14	-4.48**	-3.94*	-3.03***	-3.23**	-5.05***	-3.03***
	(-1.98)	(-0.79)	(-2.51)	(-1.91)	(-3.44)	(-2.53)	(-5.31)	(-3.44)
DISTRICT11	-0.37	4.30	-1.27	-0.37	-0.54	-0.66	-1.86***	-0.54
	(-0.28)	(1.40)	(-1.10)	(-0.28)	(-0.80)	(-0.24)	(-3.04)	(-0.80)
DISTRICT12	-6.16***	-6.07***	-5.20***	-6.13***	-1.66**	-1.30	-1.73*	-1.66**
	(-4.61)	(-3.09)	(-4.45)	(-4.59)	(-2.52)	(-1.38)	(-1.78)	(-2.52)
LOCALREGUL	-9.83***	-11.49***	-6.63***	-9.83***	-3.76***	-4.52***	-4.91***	-3.76***
	(-6.78)	(-5.20)	(-5.72)	(-6.77)	(-3.75)	(-2.76)	(-3.70)	(-3.75)
Firm clustering	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effect	Year	Year	Year	Year	Year	Year	Year	Year
Sample matched on spread				Yes				Yes
Observations	43,812	16,595	30,730	43,858	100,926	37,938	31,632	100,928
Adjusted R-squared	0.00710	0.00745	0.0112	0.00708	0.00318	0.00382	0.00593	0.00318

Three points

- The literature is underdeveloped.
 - Policy making is opaque: how does it get shaped, who has influence?
 - Banks are opaque.
- Research and policy are difficult.

Why does bank governance reform receive little attention from academics?

- (empirical) bank research extremely difficult to publish well
 - Own experience plus looking at BBR papers (could do this systematically)
- Why?
 - Single industry lacks “general interest” appeal for top journals
 - Sample size and data availability: governance variables typically not collected by bank regulators, so need to focus on listed banks. Example: Ellul and Yerramilli (2013): 72 BHCs
 - Catering: journal editors shut down “unpopular” research, potentially because of consulting/visiting gigs



Why does bank governance reform receive little attention from policy makers?

- Lack of incentives and knowledge?
- Connections to industry?
- ...



Anecdote: 2001 Bank governance center proposal

- “It would update data on the governance of banks collected for Banking Supervision.
- It would provide the data to researchers interested in studying the governance of banks.
- It would collect material on corporate governance standards and relevant regulations.
- It would act as a reference library on governance within the Bank.
- It would enhance the ability of RMAG to respond to client requests concerning governance if the need arises. An example of a question that the center could look at is: How does the design of top executive compensation in banks with insufficient capital adequacy affect risk taking by management?
- It would increase confidence in the Bank’s expertise within the business and banking communities.”

Suggestions for BBR

- Maybe we need some humility: difficult problem
- Please highlight that better data is needed!
 - Bank of England WP on minutes of bank board meetings a promising direction
 - Yet, only accessible to insiders
- Please highlight that more research is needed!
- But, as we know: Incentives matter!