

Chapter 4

Systemic Financial Institutions' Corporate Governance Features: Comparative Insights

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ABSTRACT

Several international and European regulatory and supervisory authorities, such as the Basel Committee for Banking Supervision, the European Banking Authority or the European Central Bank, are increasingly emphasizing that the structure of banks' managing bodies is a key driver of future financial stability and ask for reviews of existing skills, competencies, and expertise in order to cope with the newest economic, social, and technological challenges. The chapter subscribes to these views and aims at investigating two research directions: 1) whether there are resemblances in large, systemic banks' management board structure and 2) whether systemic banks' financial performance is determined by the management board's features (board size, number of women in the board, number of independent members). The empirical approach relies on several complementary methods (descriptive statistics, cluster analysis, panel regression) to reveal dominant board features in a sample of 29 European systemic banks, over a time frame of 11 years.

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INTRODUCTION

Traditionally, the structure and composition of banks' management boards, their diverse range of professional qualifications, competencies, know-how, experience as well as personal reputation, age and gender balance are considered important features for the efficient conduct of a banking business. In establishing the composition of the board, large banks are increasingly more emphasizing the need for diversity in terms of banking and insurance expertise and experience, as well as awareness on societal and the most recent technological developments (such as digitalization or the heavily reliance on IT for providing banking products and services) which are compatible with the financial business.

Banks' managing boards are in charge with designing a proper business strategy, in defining the risk appetite framework and in developing and monitoring risk management capabilities in tight connection with the financial and non-financial risks they are going to undertake. These key issues have to be adapted, tailored to the size of the bank, the complexity of its financial operations, and the interconnection with other financial institutions on the interbank market.

Several international authorities such as the Basel Committee for Banking Supervision, the European Banking Authority or the European Central Bank (ECB), have taken the initiative and made important steps in elaborating guidelines and roadmaps focused on charting good bank governance.

The most comprehensive guideline is the one proposed by the Basel Committee on Banking Supervision (2015) which defines and explains a set of governance principles. It is highlighted the crucial intermediating role performed by banks within the economy, which makes corporate governance a critical issue in the safe and sound functioning of the banking sector. In the spotlight are large banks, playing a significant role in the financial system, whose governance weaknesses may trigger a spillover of their intrinsic, idiosyncratic vulnerabilities across the banking sector and the economy as a whole. The guideline explicitly mentions that the implementation of these principles should be adapted to the size, complexity, structure, economic significance, risk profile and business model of the bank or the financial group it belongs to. Systemically important banks need to implement corporate governance structure which is adequate with their potential impact on national and global financial stability.

At European Union level, the European Banking Authority has been mandated by the European Commission to develop guidelines in order to further harmonize financial institutions' internal governance mechanisms. The requirements within the 2017 EBA guidelines on internal governance entered into force in June 2018.

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