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Summary

This dissertation consists of three chapters in which I study malpractice within banks as well as in the environments in which they operate. It illustrates how the multiple ways in which malpractice manifests itself are important to the health of financial firms.

In the first two chapters, I focus on the role of agency conflicts in driving bank conduct failures, as well as the importance of leverage and risk-taking when considering the behaviour of financial firms. The first chapter, entitled “A Survey on Bank Malpractice,” overviews the current state of knowledge on bank malpractice and its causes. It shows that from a theoretical perspective, misconduct can arise as a result of shareholder profit maximisation as well as managers acting in self-interest. Empirical studies overviewed provide evidence which could be seen as supporting both of these explanations. The paper also outlines potential future research directions, as studies on how malpractice is affected by bank capital structure and fragility are lacking.

The second chapter “Bank Risk-taking and Misconduct” builds a theoretical model which shows how misconduct arises as a side-effect of compensation schemes designed to induce managerial risk-taking. There, the implementation of profitable but risky projects requires more aggressive pay structures, in turn increasing manager incentives to engage in other activities that boost short-term returns. The paper introduces a novel dataset on malpractice that resulted in conduct costs in a sample of 30 financial institutions during 2000-2016, and shows that misconduct initiation is indeed related to bank remuneration schemes, increasing with CEO bonuses in periods of high economic growth and when bank leverage is high.

In the final chapter, entitled “Corruption and Failing Bank Resolution,” I examine how political corruption affects bank resolution in a cash in the market pricing framework. Using a theoretical model, I show that corruption can make bank failures costlier by reducing the health of potential acquirers. There, lower profitability of banks operating in a corrupt area depresses the price that the deposit insurer can realise through purchase and assumption transactions, increasing the risk of liquidations. Such effects can prevail even after accounting for the direct effects through which corruption reduces bank charter value. Data on bank failures in the United States during 1976-2013 confirms that financial institutions operating in corrupt areas are less likely to purchase their failing counterparts. Such banks are more likely to be liquidated, and their resolution results in higher costs to the deposit insurance corporation.

Samenvatting

Dit proefschrift bestaat uit drie hoofdstukken waarin de wanpraktijken van banken worden bestudeerd. Dit proefschrift concludeert dat factoren die doorgaans niet in acht worden genomen belangrijk zijn voor de financiële prestaties en gezondheid van banken.

In de hoofdstukken 1 en 2 ligt de focus op de rol van principaal-agent problemen in het verklaren van bank misdragingen en het verklaren van de essentiële rol die het hefboomeffect en risico nemen spelen in bankgedragingen. Hoofdstuk 1 “A Survey on Bank Malpractice“ laat zien dat van een theoretisch oogpunt misdragingen niet alleen voortkomen uit winstmaximalisatie voor aandeelhouders, maar ook als het gevolg van managers die in hun eigenbelang handelen. Empirische studies leveren bewijs dat deze beide gevallen ondersteunt.

In het tweede hoofdstuk, “Bank Risk-taking and Misconduct”, laat ik met behulp van een theoretisch model zien dat bank misdragingen voortkomen als neveneffect van compensatieregelingen die ontworpen zijn om het nemen van risico te stimuleren. Een nieuwe data set bestaande uit data van 30 financiële instituties ondersteunt de bevinding dat bank misdragingen gerelateerd zijn aan de vergoedingen voor managers. In periodes van economische groei en als het financiële instituut gebruikt maakt van een groot hefboomeffect zijn er meer misdragingen als CEO-bonussen hoger zijn.

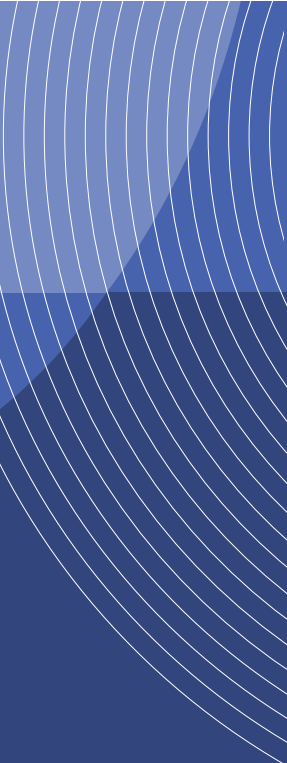
In het laatste hoofdstuk “Political Corruption and Bank Resolution,” bestudeer ik hoe politieke corruptie bank resolutie beïnvloed in een “cash in the market pricing” framework. Ik laat met behulp van een theoretisch model zien dat corruptie bankfalen duurder maakt door de financiële gezondheid van mogelijke kopers te verminderen. De data wat betreft falende banken in de United States in de periode 1976-2013 bevestigt dat er een kleinere kans is dat financiële instituties die in een corrupte omgeving opereren falende medebanken op kopen. Zulke banken worden dus vaker geliquideerd, en hun resolutie heeft hogere kosten voor het depositoverzekering stelsel.

The Tinbergen Institute is the Institute for Economic Research, which was founded in 1987 by the Faculties of Economics and Econometrics of the Erasmus University Rotterdam, University of Amsterdam and VU University Amsterdam. The Institute is named after the late Professor Jan Tinbergen, Dutch Nobel Prize laureate in economics in 1969. The Tinbergen Institute is located in Amsterdam and Rotterdam. The following books recently appeared in the Tinbergen Institute Research Series:

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This dissertation consists of three chapters that focus on misconduct in the financial sector. The first two chapters attempt to tackle the question of what factors contribute to misconduct in banks, focusing on the role of agency conflicts and how these change with bank risk. The final part of this dissertation studies how misconduct by public officials - corruption - is related to bank health, resolution methods and costs. The common theme in this dissertation is malpractice, and both theoretical models and empirical methods are employed to investigate how it arises in financial firms or affects their functioning.

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