Introduction to the Special Issue: ‘Contemporary Issues in Banking’

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Abstract

The recent financial crisis revealed limitations and deficiencies in the corporate governance of many financial institutions on both sides of the Atlantic that, to some extent, could have facilitated excessive risks. Specifically, it was observed that the composition of the board, its organization and functioning, its relation with risk management and its control, and even the way in which managers and directors were remunerated, could alter the risk profile of the credit institution and, consequently, its conduct.

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Policy concerns relating to these issues have resulted in the introduction of various regulations focusing on: greater oversight of risk-taking (including limits to certain high-risk areas); tougher capital and liquidity requirements; greater transparency on the remuneration packages paid to bank directors and senior management; new rules on the composition of such packages and also on procedures for approving such payments. Banks have been forced to boost capital, mainly by reducing risk-assets, hold more liquidity on-balance sheet – both features of Basel III – and also implement improved risk, pay and operational oversight with enhanced corporate governance in the spirit of unprecedented policy changes.

This new environment has encouraged the banking industry to make a huge effort to simplify, recapitalize and reorganize its operations. Moreover, financial entities have taken greater interest in promoting good practice, strengthening corporate governance, fostering greater transparency and increasing sensitivity to environmental and socioeconomic issues.

Currently, banks must assume and implement a set of practices, principles and values that allow them to take on the new challenges and fulfill the basic functions that society and financial markets have entrusted to them, which are simply financing the economy, protecting their clients and promoting financial stability.

This special issue of Global Policy aims to contribute to the debate by analyzing the new challenges posed to the global banking industry.

The paper by Carbó Valverde, Cuadros-Solas and Rodríguez-Fernández ‘The Effect of Banks’ IT Investments on the Digitalization of their Customers’ exploits the fact that banks’ IT investments are mostly allocated to digital technologies to examine if such investments affect the digitalization of bank customers. The results show that banks’ IT investments have a significant positive impact on the adoption of financial digitalization by customers. These investments also increase the likelihood that bank customers undertake their financial transactions through digital channels rather than in the physical branch. This represents a change in the relationship banking channel. These findings shed light on the impact of banks’ IT investments on end-users and not just on bank productivity and efficiency.

Forcadell, Aracil and Ubeda’s article ‘The Impact of Corporate Sustainability and Digitalization on International Banks’ Performance’ also investigate the financial digitalization. They analyze the implications for international banks of two contemporary megatrends: corporate sustainability (CS) and digitalization. The digital environment and the availability of massive data from customers generate asymmetric information for banks to the detriment of customers, who experience individual vulnerabilities such as privacy rights. This can hinder the positive influence of digitalization in banks’ performance, with relevant managerial and political implications. In this context, the reputation generated by CS strategies can constitute a credence factor that reduces customers’ fears of opportunistic behavior and information
asymmetries. Their findings, over a sample of large international banks, shed light on the mutual reinforcement of CS and digitalization strategies in enhancing banks’ market performance and efficiency.

Financial regulation and its effects on banking variables are studied in the next two papers. Polizzi, Scannella and Suarez analyze ‘The Role of Capital and Liquidity in Bank Lending: Are Banks Safer?’ They examine whether and to what extent bank capital requirements and liquidity standards influence the level of bank stability. From a sample of commercial banks from developed and developing countries, the authors conclude that capital and liquidity have a negative direct impact on the level of bank stability. However, this influence is counteracted by an indirect positive effect through the increased level of credit, they find positive effects of capital requirements and short-term liquidity buffers on the growth of lending.

The paper ‘Does the Single Supervisory Mechanism Reduce Overall Risk in the European Stock Market?’ by Abad, García-Olalla and Robles investigates the economic impact of the Single Supervisory Mechanism as measured by the reaction of the major stock market indexes of the European Union countries. Moreover, the authors study the impact on systematic risk, overall risk and the degree of integration among markets. The results show significant market reactions that decrease value and increase risk on the banking sector. The main effects are heterogeneous across different EU countries, belonging to the euro zone, financial development, investor protection and perceived levels of corruption are relevant factors in determining the market response to the SSM development process.

The paper by Fernández, Odriozola and Luna, ‘How Corporate Governance Mechanisms of Banks Have Changed After the 2007–08 Financial Crisis’ highlights that weak and ineffective corporate governance mechanisms in banks have been pointed out as the main factor that contributed to the crisis. They analyze empirically how the global financial crisis has impacted on banks’ governance mechanisms, comparing the differences between the two most important models of corporate governance (the shareholder and stakeholder models), and if these changes are related to improvements in banks’ governance effectiveness. They show that Anglo-American banks maintained their high level of governance effectiveness after the financial crises while Continental European banks have increased their effectiveness changing some practices in their corporate governance mechanisms what led to a convergence of both governance systems.

The paper ‘A Behavioral Perspective on Saving Decisions. Empirical Evidence for Policymakers in the European Union’ by Clifton, Díaz and Llamosas argues that individuals do not always behave as strictly ‘rational’ customers of the banking sector as neoclassical models of economics would assume. Instead, scholars and policymakers are increasingly arguing that behavioral economics offers a more useful and realistic means of understanding customer behavior in the real economy. Drawing on data from the European Central Bank harmonized household survey at the European level and Eurostat, they find evidence that loss aversion bias exists in saving behavior as regards an individual’s current level of income, and they also find strong evidence that socio-demographic factors and cross-country differences influence individuals’ saving behavior.

The research ‘Misconduct and Risk Climate in Banking: Development of a Multidimensional Measurement Scale’ by Fernández-Muñiz, Montes-Peón and Vázquez-Ordás reviews recent studies and regulatory documents on both topics to further the understanding of the dimensions that underlie these new, distinct risks to the global banking sector. This review makes possible the development of a multidimensional measurement scale for misconduct and risk climate (M&R climate), which provides a tool in line with the main guidelines and recommendations issued by international standards bodies with the objective of evaluate the M&R climate and monitor the prevalence of misconduct and excessive risk-taking behaviors in banking.

Finally, Lozano and Yaman’s paper ‘The European Financial Crisis and Firms’ Cash Holding Policy: An Analysis of the Precautionary Motive’ considers how the European financial crisis affected the cash holding policy across different periods and argues that the variations come from changes in precautionary motives. They find evidence that the relation between cash volatility and cash holding is positive for short crisis period but turns negative for the long crisis period. These findings provide guidelines for firms, governments, and stakeholders by outlining the relevance of the precautionary motive, especially with regard to firms’ financial decisions related to cash holding.

Author Information

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