

# Executive rewards put banks at greater risk

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(PhysOrg.com) -- New University of Edinburgh research has linked the risks taken by banks with the compensation received by their executives.

According to the research, which analysed US bank acquisitions from 1993-2007, [banks](#) are more likely to engage in risky takeovers when their executives are personally compensated for doing so.

Consequently, the amount of risk taken on by banks - a major factor in the ongoing [credit crunch](#) - is a direct result of the amount of incentives given to banking executives, according to the [Business School's](#) Jens Hagendorff.

As the link between executive pay and bank [risk](#) encourages financial volatility, regulators should consider limiting the incentives, such as stock options, that bankers receive, he says.

Jens Hagendorff, Senior Lecturer, University of Edinburgh Business School, said: "Chief executive pay in banking is much more geared towards rewarding risk-taking than in any other industry. Our research shows that banking chief executives are clearly responsive to the risk-taking incentives they receive."

The research - carried out by researchers at the University of Edinburgh Business School and the University of Leeds - found that during 1993-2007, chief executives were offered increasingly large amounts of risk-based compensation.

It also found that banks whose chief executives received higher incentives engaged in riskier behavior than they had previously.

**More information:** The paper is published in the *Journal of Corporate Finance*. It is available here: [dx.doi.org/10.1016/j.jcorpfin.2011.04.009](https://doi.org/10.1016/j.jcorpfin.2011.04.009)

Provided by University of Edinburgh

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