Banks' risk culture put under microscope in new academic study

July 6 2012

(Phys.org) -- Modifying the cultures which led some banks to take unreasonable risks with their customers' money could go a long way to ensuring the financial sector does not become embroiled in another global scandal.

That is according to Dr. Simon Ashby, an Associate Professor in Financial Services at Plymouth University, was speaking after a parliamentary inquiry was launched into the banking sector amid accusations being made against some of its most respected figures.

It also followed news he and colleagues from the London School of Economics (LSE) have secured funding for a ground-breaking study which will examine the risk cultures of some of the nation's largest financial institutions, with a view to promoting a sea change in the way that they manage risk.

Dr. Ashby, said: "The banking sector has had a lot of bad press, and what has become clear is some organisations encouraged excessive risk taking. Every investment carries with it an element of risk and you cannot completely eliminate it or you will never make money. It is all about managing that risk in a sustainable way. It is here that a bank's risk culture become paramount in influencing both the risk taking behaviour of a bank's key decision makers and how the bank as a whole controls risk."

In recent weeks, the particular focus has centred on Barclays, which was fined £290million for its involvement in the LIBOR interest rate rigging scandal, prompting the resignation of chief executive Bob Diamond.

However Dr. Ashby, who previously worked for the UK Financial Services Authority, said it was important to realise the issue was confined to just one element of the financial sector.

“Bob Diamond made Barclays more corporate and investment focused because the simple fact is that it is hard to make money in retail banking,” he said. “However, investment banking is still only one arm of the bank and even then the bad behaviours that we have seen in this area are not representative of the majority of its employees. There is a danger that a situation like this can lead to everyone in the financial industry being tarred with the same brush and that is simply not a fair representation.”

Dr. Ashby’s study, which he is working on with Professor Mike Power and Dr. Tommaso Palermo from the LSE, marks the first time academics and bankers will work directly together on the topic of risk culture and what it means for financial institutions.

The year-long project is being funded by a number of bodies, including the Economic and Social Sciences Research Council, and Dr. Ashby hopes that it will be influential in helping to prevent future banking scandals like the one that has rocked Barclays over the last few weeks.

He said: “We will be working with a range of financial institutions – including banks, insurance companies and building societies – and helping them understand the culture of their organisations better. There is no one-size-fits-all approach, but by identifying the behaviors that create and control risk, we can help these institutions to manage their risks in a more sustainable way. Following the lastest LIBOR fixing crisis it would seem that there is also the political will for a change of approach in the sector, and we hope this can help institutions adapt the methods by which they do business in the future."

Provided by University of Plymouth

Citation: Banks' risk culture put under microscope in new academic study (2012, July 6) retrieved 1 May 2024 from https://phys.org/news/2012-07-banks-culture-microscope-academic.html