



# Incentives vs. risk in the banking sector

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A photograph of two people on a zipline against a blue sky with scattered white clouds. The person on the left is a man wearing a red shirt and black shorts, hanging upside down. The person on the right is a woman wearing a black top and black pants, also hanging upside down. They are both holding onto the zipline ropes. The text "Excessive risk-taking" is overlaid in white on the lower part of the image.

# Excessive risk-taking

# Causes

- Shareholder value
- Agency problems
- Short-term vs. long-term
- Culture

# Solutions

# Variety of measures

- New regulations to change the culture and internal governance
  - Mitigate excessive risk-taking
  - Align incentives between agents
  
- Banking Recovery and Resolution Directive (BRRD)
  - Mitigates risk for taxpayers
  - Encourages sounder risk-taking by banks

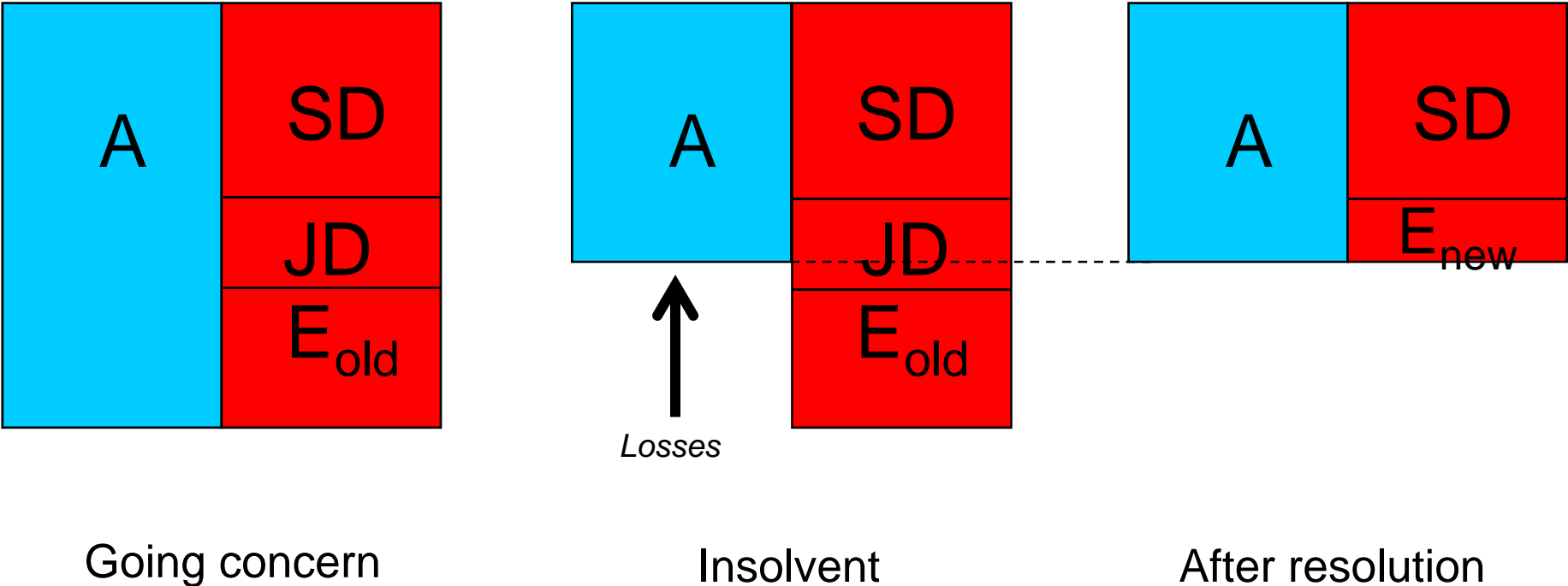
# Internal governance and risk

- A clearer organisational structure for risk and internal governance
- Clearer responsibilities of the board
- Remuneration structure

A dramatic scene of a firefighter on a bucket truck spraying water on a large fire. The fire is intense, with bright orange and yellow flames and thick, billowing black smoke that fills much of the sky. The firefighter is positioned high up, and the water spray creates a misty trail as it falls towards the fire. The overall atmosphere is one of a major emergency response.

**No more bailouts**

# Resolution and bail-in







# The Carnegie story

