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EDITORIAL NOTE

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We are delighted to introduce the first issue of 2019 of the Journal of Financial Management, Markets and Institutions, with a timely focus on corporate governance and risk management in financial institutions. One of the main lessons from the global financial crisis learned by financial institutions, policymaker and practitioners is the need to strengthen corporate governance, both in terms of the frameworks and related rules and in terms of the best practices of financial institutions. Since October 2010 the Basel Committee published a set of revised principles to promote enhanced corporate governance practices within European banks. However, despite the progress made, the Financial Stability Board's review on corporate governance found in 2017 that the effectiveness of corporate governance framework can be impacted if the division of responsibility among financial sector regulators is unclear or if the various requirements overlap, leave unwarranted gaps, or are, otherwise, not well aligned with each other.

Policymakers — both at the European and domestic level — have tried to address the perceived flaws of the existing bank governance structures with a series of initiatives to control bank risk-taking. They have generally reinforced the governance requirements for banks focusing on the role and responsibilities of the management body for sound governance arrangements. Among various regulatory changes, the Directive 2013/36/EU stresses the importance of a robust supervisory function that challenges management decision-making and the need to establish and implement a sound risk strategy and risk management framework. Corporate governance and risk management are strongly linked as the management body is responsible, among other tasks, to implement a sound risk culture and to strengthen the risk management frameworks of banks.

Academics have recently investigated the impact of corporate governance on bank risk-taking, establishing that weak corporate governance in banks leads to inadequate risk management, especially insufficient risk monitoring through the board. The latter is a factor that contributed significantly to the bank instabilities during the crisis and eventually led to actual bank failures. Recent academic

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contributions aimed at identifying efficient bank governance structures, and mostly converge with regulators' recommendations.

Also, banks have directed significant attention to improving corporate governance and risk adjustment practices. They focus more intensively on the impact of compensation and related performance management mechanisms can have on incentives, their corresponding risks and their implications for the long-term health of banks. These tools can play an essential role in addressing corporate governance flaws by providing both ex-ante incentives for ethical conduct and ex-post adjustment mechanisms that support appropriate accountability when an error occurs.

The current issue collects some of the most relevant papers in terms of research questions, methodologies and policy implications presented at the International conference "Corporate Governance and Risk Management in financial institutions: how to move between sustainable management and performance goals?", held at the University of Foggia in May, 2018.

The first article is entitled "The peculiarity of the Cooperative and mutual model: evidence from the European banking sector" by Vincenzo Pacelli, Francesca Pampurini and Stefania Sylos Labini. It focuses on the European mutual banks' industry which encompasses a specific business model, and corporate governance structure. According to the authors, these features have probably allowed mutual banks to withstand the financial crisis better. More specifically, this article investigates the cost efficiency of European mutual banks using a sample which includes all the banks operating in Italy, Germany, France, and Spain over the period 2011–2016. The authors employ a stochastic approach to determine the effects of the recent financial crisis on the efficiency level of mutual banks, to investigate whether the mutual bank business model may be still attractive nowadays. The main contribution of the paper is the assessment of the impact of the financial crisis on mutual banks' cost efficiency in the EU. Their results also contribute to the recent debate about the cooperative and mutual banking system and its raison d'être. The paper supports the view that European mutual banks are more cost efficient as compared to commercial banks.

The second contribution to this issue is "How Do You Disclose? Some Evidence On It Governance In European Banking System" by Sabrina Leo, Claudia Panetta, Fabrizio Santoboni and Gianfranco Vento. This article is an empirical contribution that examines trends in banks' IT governance using IT public disclosure and stays in the less explored strand of literature on IT governance transparency. IT governance is of particular relevance for regulators and banks as the greater diffusion and complexity of IT pose new challenges to the financial sector. The authors suggest that IT processes should be fully integrated into all business processes, especially into risk management. In principle, this article reviews IT governance after the crises and investigates whether the greater importance ascribed to IT governance is due to the external pressure or banks' independent decisions. Then, it investigates the impact of IT governance disclosure on banks performance, finding a positive impact on banks' charter value and cost efficiency.

The third article of this volume deals with life insurance companies. It is entitled "Financial intermediaries' asset-liability dependency and low-interest-rate

environment: evidence from EU life insurers" by Nicola Borri, Rosaria Cerrone, Rosa Cocozza, and Domenico Curcio. This article studies the relationships between asset and liability sides of life insurers' balance sheet in a low market rates framework. By using canonical correlation analysis, the authors analyze the relationship within and between the asset and liability sides of 24 major European Union life insurers over the 2007–2015 period. The authors find strong evidence that life insurers' assets and liabilities have become more independent over time. They argue that the declining trend of market interest rates fosters this phenomenon, and has made insurance companies more exposed to ALM-related risks.

The fourth article is "Sustainable compensation and economic performance: an empirical analysis on European banks" by Elisabetta D'Apolito, Antonia Patrizia Iannuzzi, Edgardo Sica, and Stefania Sylos Labini. This article investigates the financial and non-financial impacts of the use of sustainability criteria in banks' executive compensation plans. The sample covers the globally and systemically important European banks over the period 2013–2017. The implementation of sustainable criteria in the banks' remuneration contracts negatively affected economic performance, and the risk profile. It positively impacts sustainability performance. These findings have important implications for investors, as well as banks. Indeed, these results are encouraging for the use of sustainability targets in executive compensation for restricting excessive risk-taking behaviours and improving sustainability performance.

The current issue closes with a commentary entitled "Corporate Governance in the European Banking Sector: some remarks on diversity" by Francesca Arnaboldi. The commentary discusses some of the critical aspects of bank corporate governance in the EU. Enhancing sound corporate governance practices has become one of the major concerns in the supervisory authority's agenda and one of the critical features to evaluate banks' stability. The global rethinking about corporate governance rules has translated into a stronger focus on board diversity for EU banks. The existing literature and sound corporate governance practices support the view that different types of board members may bring different capabilities to their banks. Even if board diversity may add complexity to the functioning of the board, the advantages it brings are of utmost importance in the challenging environment banks are facing. The author highlights the fragmentation of the EU corporate governance rules as banks have to comply with 27 sets of different regulations and codes. This complexity should not be ignored, as member states' specificities, legal systems, and a more general openness to diversity influence the effect reforms may have on banks' performance and stability.

Santiago Carbo-Valverde
Editor-in-Chief
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Francesca Arnaboldi, Vincenzo Capizzi, Stefano Dell'Atti
and Pasquale di Biase
Special Issue Guest Editors

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