Capital Won't Save a Badly Governed Bank

Whose Interests Really Govern a Bank?

BCBS d328 · FINMA Circ. 17/1 · Balancing stakeholder interests · Lessons from Credit Suisse

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5%
fall in asset value can erase a bank's minimum CET1 capital

0
francs of capital that can offset deficient governance

13
Basel governance principles, one public-interest mandate

1/3
minimum independent directors FINMA requires on the board

Sources: BCBS d328 (2015) · FINMA Circ. 17/1 · F. Restoy, FSI/BIS (2026)

KEY TAKEAWAYS

- Governance failure — not capital — felled Credit Suisse
- Depositors' interests rank ahead of shareholders'
- Rules are necessary; supervision and culture decide

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Whose Interests Really Govern a Bank — and What Basel and FINMA Ask of the Board

By Anwarul Hasan (MBA, PhD)
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A bank answers to its regulator, its board, its executives, its shareholders and its depositors — all at once, and all with different interests. Good governance is the discipline of holding those competing interests in balance around one objective the Basel Committee states plainly: **safeguarding stakeholders' interests in conformity with the public interest, on a sustainable basis.** For a retail bank, that means depositors' interests rank *ahead* of shareholders'.

When that balance breaks, banks fail — and they rarely fail for the reason we instinctively reach for. The 2023 collapse of Credit Suisse, like the Great Financial Crisis and the failures of US regional banks and Spanish savings banks before it, was not primarily a shortage of capital. It was a failure of governance, culture and risk management. As Fernando Restoy of the BIS Financial Stability Institute put it this year: **"there is simply no feasible amount of capital that could compensate for the risks caused by deficient risk management or poor governance."**

Why Capital Was Never the Whole Answer

Because banks are leveraged, the link between governance and solvency is non-linear. Restoy makes the arithmetic vivid: a mere **5% fall in asset values** would deplete a bank's minimum Common Equity Tier 1 capital under Basel III. A small deterioration in asset quality — the kind that flows directly from weak underwriting and poor risk oversight — can therefore wipe out the capital that regulation so carefully requires. Capital is the buffer; governance determines whether the buffer is ever tested.

One Standard, One Transposition — Thirteen Principles

Two instruments frame governance for Swiss banks. Internationally, the Basel Committee's *Corporate governance principles for banks* (d328, 2015) set **thirteen principles** spanning the board's overall responsibilities, board composition and structure, senior management, group governance, the risk-management function and the CRO, risk identification and communication, compliance, internal audit, compensation, disclosure, and the role of supervisors. Nationally, **FINMA Circular 2017/1** makes them binding for Swiss institutions, applied proportionately across supervisory categories 1 to 5.

Three actors carry that framework:

- **The regulator (FINMA)** sets the principles, supervises for compliance and intervenes when governance fails.
- **The board of directors** — the governing body — sets strategy and risk appetite and supervises execution. FINMA requires at least **one third** of the board to be independent.

- **The executives** — the CEO and C-suite — orchestrate resources and execute within the boundaries the board defines.

> *"The primary objective of corporate governance is to safeguard stakeholders' interests in conformity with the public interest — and, for retail banks, depositors' interests rank ahead of shareholders'." — BCBS d328*

Whose Interests Win? Balancing by Severity and Likelihood

Every stakeholder tries to maximise its own stake, and those stakes compete. The way to govern them is to weigh each by **impact and likelihood** — and the pattern is revealing. The regulator's interest in national economic stability carries a **Very High impact** but **Very Low likelihood**: the disorderly failure of a major bank would disrupt payments, deposits and credit across the economy, which is precisely why the entire supervisory apparatus exists to keep it rare. Shareholders and the board carry High impact at Low likelihood; executives, where accountability and controls function, Medium impact at Very Low likelihood. Customers and markets — lower in systemic impact — face a higher everyday likelihood of erosion through information asymmetry, which is why disclosure and conduct rules target exactly those frictions.

Sound governance does not eliminate competing interests. It **orders and bounds** them so that no single stake — not executive ambition, not shareholder return — can be maximised at the expense of the public interest.

When the Balance Breaks

The recurring root causes of failure are remarkably consistent: weak governance and risk management; misaligned strategy and incentives; ambiguous accountability; complacency about risk; and, on the execution side, misuse of authority and a minimalistic, tick-the-box approach to compliance. The most dangerous structural weakness is the **"escalation gap"** — the failure of internal escalation to reach the board with undiluted, timely risk information. At Credit Suisse, the lesson was exactly that: an inability to enforce risk-appetite limits despite repeated internal warnings.

> *"There has not been a case of a major prudential or conduct failing in a firm which did not have among its root causes a failure of culture." — Andrew Bailey, Governor, Bank of England*

What Actually Strengthens Governance

The through-line is simple: **rules are necessary but not sufficient.** Overly prescriptive requirements reduce oversight to a tick-the-box exercise. What strengthens governance is substance.

For the regulator

- Shift the marginal effort from regulation to **supervision** — qualitative weaknesses are caught early by supervisors, not by new rules.
- Give supervisory judgment structure through **supervisory risk-appetite frameworks**.

- Reinforce **individual accountability** with documented senior-manager responsibilities.

For the board

- Weight **banking and finance expertise** alongside independence and diversity.
- Guarantee the **CRO unfettered, unfiltered access** to the board.
- **Measure risk culture** with evidence, not assertions.

For executives

- **Own risk in the first line** rather than outsourcing it to the second.
- Build the **data and risk-aggregation capability** to see risk early — and extend governance to the AI models and data now driving risk decisions, a FINMA expectation since its 2024 AI guidance.

The Distance Between Compliance and Resilience

Governance, properly understood, is not a compliance exercise. It is the mechanism that keeps a bank answerable to everyone it serves at once — and the reason capital alone has never been, and will never be, enough. Compliance with the letter of a circular guarantees only that the paperwork is in order when the next disruption arrives.

> *"Capital is the buffer. Governance decides whether it ever holds."*

I would welcome your perspective — how does your institution balance the competing interests it serves, and keep governance ahead of the next crisis? Connect on LinkedIn or reach out at anwarul.hasan@riskvizon.com.

Read the complete White Paper:

"Strengthening Banking Governance: From the Basel Principles to FINMA Supervision — Stakeholder Interests, Governance Failures, and the Path to Resilience"

Available at: **www.riskvizon.com**

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