

## NCCR FINRISK “Financial Valuation and Risk Management”

The NCCR FINRISK (2001 – 2013) was the programme umbrella to position Switzerland as one of the leading centers worldwide in academic finance. To this end, the twelve FINRISK research projects were built upon a team of 170 dedicated Senior Researchers, Postdocs and PhD Students from seven research institutions across Switzerland.

The additional resources provided by the SNSF and the University of Zurich (as NCCR Leading House) have facilitated the pursuit of high impact research projects, many of which were ultimately published in top journals. This is the sine qua non condition for recognition in academia today. More than 600 research articles in peer-reviewed international journals appeared from FINRISK research in the following five areas:

- Asset pricing and portfolio management,
- Corporate finance,
- Risk management,
- Quantitative methods in finance,
- Banking and regulation.

Moreover, FINRISK member institutions hosted about twenty international academic conferences in finance, including the annual meetings of the European Finance Association (EFA 2006 and 2014), or the first European conference of the Society of Financial Econometrics (SoFiE 2009).

Overall, it seems fair to state that FINRISK has positioned Switzerland on the international academic finance landscape.

### **Relevant research on financial risk**

The credit crisis that broke out in 2007 in the subprime sector of the US mortgage market has had a dramatic impact on the world economy and on the financial sector. This financial crisis is likely to permanently change the way financial institutions operate and are regulated. It is also having a strong impact on best practices for private and institutional asset management.

Consequently, the core research topics covered by FINRISK aimed at a better understanding of the risks surrounding financial decision-making and their main implications for the economy at large as well as for individual and institutional portfolio formation.

Selected **research highlights** include:

*“Bank CEO Incentives and the Credit Crisis”* (2011) investigates whether bank performance during the recent credit crisis is related to CEO incentives before the crisis. It finds some evidence that banks with CEOs whose incentives were better aligned with the interests of shareholders performed worse and no evidence that they performed better. Banks with higher option compensation and a larger fraction of compensation in cash bonuses for their CEOs did not perform worse during the crisis. Also, bank CEOs did not reduce their shareholdings in anticipation of or during the crisis. Consequently, they suffered huge wealth losses in the wake of the crisis. The paper received wide-spread attention in the press - e.g. New York Times, Economist, Wall Street Journal, NZZ - and was used in testimonials in the US House and Senate.

*"False discoveries in mutual fund performance: Measuring luck in estimated alphas"* (2010) uses a new approach to determine the fraction of truly skilled managers among US domestic equity mutual funds over the 1975-2006 period. It finds that most funds pick stocks well enough to cover their trading costs and other expenses. It also finds a significant proportion of skilled funds prior to 1995, but almost none by 2006, accompanied by a large increase in unskilled fund managers - due both to a large reduction in the proportion of fund managers with stock-picking skills and to a persistent level of expenses that exceed the value generated by these managers. The paper has been widely cited in the international press, e.g. Financial Times and New York Times.

### **Achievements in knowledge transfer**

FINRISK researchers have launched more than 40 co-operations with the financial services industry and the public sector. They also (co-)organized about 20 practitioner-oriented conferences, including the Swiss Finance Institute Annual Meetings, which attract about 250 academics and practitioners every year.

Furthermore, FINRISK was quite successful in **outreach and communication**. This included more than hundred public talks by FINRISK researchers, as well as several hundreds of media appearances. More recently, research-based policy analysis and commentary has also been disseminated via the internet (e.g. blog entries on *VoxEU.org*).

### **Promotion of junior scientists and women**

FINRISK has helped to establish a nationally coordinated PhD in finance program, integrating 100 mostly international PhD students at five universities across CH. Today, a large variety of **training and workshops** for young researchers is successfully implemented within this world-class PhD program, now led by the SFI.

Ultimately, these efforts contributed to the successful placement of more than 100 PhD graduates at top institutions in academia, the financial services industry and the public sector over the past few years.

Two examples of successful careers and Advancements of Women in Academia:

- Maria-Cecilia Bustamante has graduated in 2009 from UNIL, she has been hired as tenure track assistant professor of finance at the London School of Economics (UK).
- Anna Cieslak completed the PhD thesis in 2011 at USI and was appointed assistant professor of finance at Northwestern University (USA) in 2012.

While only at the start of her career, both are already recognized as one of the leaders in her respective field worldwide.

### **Perspectives for the future**

Meanwhile, most FINRISK researchers have been integrated within the [Swiss Finance Institute](#) (SFI), a private foundation created in 2006 by Switzerland's banking and finance community in cooperation with leading Swiss universities. SFI has been set up as public-private partnership which gets supported by the Swiss banks, the Swiss Stock Exchange, Swiss universities and the Swiss Federal Government. As FINRISK did, SFI supports and advances research and doctoral training in banking and finance, thus rendering FINRISK's achievements permanent.

For further information please contact:

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