

CEOs' Prior Professional Experiences and Bank Risk

Rebel Cole*

Luis Garcia-Feijoo†

Esteban Hernandez‡

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*College of Business, Finance, Florida Atlantic University, 777 Glades Road, Boca Raton, FL 33431; Tel. 1-561-297-4969; Email: coler@fau.edu

†College of Business, Finance, Florida Atlantic University, 777 Glades Road, Boca Raton, FL 33431; Email: lgarciaf@fau.edu

‡Contact author: College of Business, Finance, Florida Atlantic University, 777 Glades Road, Boca Raton, FL 33431; Tel. 1-787-599-5200; Email: estebanherna2015@fau.edu

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Abstract

We investigate if CEOs' early-career professional experiences influence bank financial policies. We track the employment history of 658 U.S. commercial bank CEOs from 1992 to 2022. We find higher liquidity and capital ratios, and lower leverage ratios at banks whose CEOs previously worked (in a non CEO role) at banks that experienced distress, compared to banks with CEOs without those career experiences. More recent negative experiences have a stronger influence, while positive experiences do not affect bank policies. Exposure to the S&L crisis has a separate and weaker effect on bank policies than more general negative professional experiences. An examination of exogenous bank CEO turnover confirms the results and indicate a causal effect. Overall, we find evidence of experience effects related to prior negative professional experiences in the banking industry.

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1 Introduction

A growing body of literature documents that CEOs' past lifetime experiences influence corporate financial policies.¹ Research on "experience effects" in the banking industry, however, is scarce. This is surprising, as banks represent a large fraction of capital markets and their policies can have consequences for the well-being of the real economy. We examine how past formative professional experiences of bank CEOs affect the financial characteristics of the institutions they run.

The importance of experience for individual decision-making is well documented in the psychological and behavioral finance literature.² Furthermore, research shows that individuals tend to overweight the probability of rare events (Hertwig et al. (2004); Hertwig and Erev (2009); Hertwig (2012)), and past experiences of poor outcomes create a bias against risky decision choices, otherwise known as the "hot-stove" effect (Denrell and March (2001)). In the finance literature, Dittmar and Duchin (2016) and Faulkner and García-Feijóo (2022) focus on CEOs' negative professional experiences. They find that CEOs who earlier in their career worked at a company that experienced distress behave more conservatively by carrying higher cash balances and lower leverage, spending less on capital expenditure, and paying out lower dividends.

¹ Research has shown that CEOs' personal experiences, such as exposure to the Great Depression (Malmendier, Tate, and Yan, 2011), the Chinese Famine (Feng and Johansson, 2018), or natural disasters (Bernile et al., 2017); or professional experiences, such as financial distress (Schoar and Zuo, 2017; Dittmar and Duchin, 2016; Faulkner and García-Feijóo, 2022) or military experience (Benmelech and Frydman, 2015) affect corporate financing and investment decisions.

² Historical experiences are shown to have an impact on the future decision of individuals (Nisbett Richard E, and Lee Ross (1980)), and decisions backed by prior experiences appear to deviate from expected utility theory (Hertwig (2012)). For a review of experience effects in the finance literature, see Malmendier (2020, 2021).

We follow the prior literature examining the influence of negative professional experiences in a corporate setting. Dittmar and Duchin (2016) point out that a CEO's past professional experiences, rather than other life experiences, are likely more relevant for future firm decisions because these experiences tend to be more recent and occur in a similar setting. Further, they occur throughout a career and can drive evolution in manager decision-making. We examine if early-career negative professional experiences in the banking industry affect the decision-making of bank CEOs. This is a novel research question in the literature. Based on prior studies, it's reasonable to expect that an individual with negative professional experiences in the banking industry will adopt more conservative policies when appointed as bank CEO. However, it is also possible that negative experiences lead bank CEOs to adopt riskier policies. Bernine et al. (2017) report that early-life exposure to natural disasters without extreme negative consequences leads CEOs to adopt riskier corporate financial policies. Of course, there could also be no association between prior experiences and bank policies, our null hypothesis.

Building on Dittmar and Duchin (2016), we track the employment history of 658 bank CEOs from 497 U.S. commercial banks from 1992 to 2022 based on employment information in the BoardEx and ExecuComp databases. We define CEOs as having negative professional experiences if they worked at a bank that suffered distress at the time of their employment in a role other than executive. To define distress, we follow prior literature but adapt the approach to our context of financial institutions. Malmendier (2021) highlights the need to take into account context ("domain specificity") when investigating experience effects. Specifically, we use the following four measures to classify a bank as suffering distress in a given year. A bank experiences distress if it is in the lowest decile based on

the annual (i) capital ratio, (ii) change in operating cash flows, or (iii) stock return. We also define as having negative professional experiences any CEO who worked at a financial institution during the savings & loan (S&L) crisis (1980-1989) in a role other than CEO. Finally, we use a composite measure equal to one for a CEO who worked at a bank in distress or in the banking industry during the S&L crisis.³ We measure a CEO's prior career experiences based on non-CEO positions at banks that suffer distress while requiring that the CEO did not experience distress at the existing bank.

We examine the impact of a CEO's prior negative professional experiences on bank liquidity, capital ratios (Tier 1 and Combined), and financial leverage, controlling for bank and CEO characteristics. We find that banks with CEO that have negative experiences hold more cash, have higher capital ratios, and lower leverage ratios than banks with CEOs without those experiences. Our results are statistically and economically significant. For the average bank, prior negative experiences are associated with an increase in the liquidity ratio of 19.69%, an increase in the Tier 1 (Combined) capital ratio of 6.75% (7.23%), and a decrease in leverage by 0.99%.

Additionally, consistent with the psychology literature, we find no evidence that a CEO's early-career positive experiences influence bank risk. Furthermore, we find that recent professional experiences matter more, which is consistent with salience in experience effects in the banking industry.

We address endogeneity concerns in a number of ways. We use firm fixed effects to control for the possibility that a manager with prior negative professional experiences is

³ Our results are not driven but the S&L crisis. In Section 5.3, we show that the S&L experience is insignificant after controlling for other negative professional experiences.

appointed as CEO at a bank with conservative corporate policies. However, the appointment of a new bank CEO by itself can trigger conservatism in corporate policies. To address this concern, we examine the effect on bank policies of exogenous CEO turnover, separating CEOs with and without prior negative experiences. Exogenous CEO turnovers are due to death or illness and planned retirements. We find that when a new CEO with negative professional experiences replaces a CEO without experience, there is a subsequent increase in the liquidity ratio and the capital ratios and a decrease in the leverage ratio.

Two recent papers examine the impact of CEO crisis experiences on bank outcomes. Ahmed et al. (2019) report that bank executives and directors during the global financial crisis (GFC) who also had experience as executives or directors at financial institutions during the S&L crisis are associated with better bank outcomes during the GFC, such as stronger ROA performance, lower exposure to real estate loans, and better accounting quality. Their sample period covers the years 2004-2009. Furthermore, Yu (2021) examines whether exposure to the S&L crisis, measured as early-career employment in a state with a higher number of failed bank deposits, affects a CEO risk management style during the GFC. She reports that banks of CEOs with S&L crisis exposure are associated with lower levels of risk and higher ROA performance during the GFC. Her sample spans the 1995-2009 period. Ahmed et al. (2019) and Yu (2021) are interested in formative experiences that lead an individual to learn from intense and rare crisis events. In contrast, we are interested in formative career experiences not triggered by infrequent and extreme macroeconomic events. Experience effects have been found to be context or domain-specific. From this perspective, Ahmed et al. (2019) and Yu (2021) examine learning from "crisis" experiences, while we are interested in whether more

general professional experiences in a corporate setting have a lasting impact on decision-making. Nevertheless, we examine differences between these two complementary lines of research. Specifically, we conduct three checks to ensure our findings are not driven by CEOs' exposure to the S&L crisis. First, we exclude CEOs whose prior professional experiences are solely based on the S&L crisis. Second, we introduce a separate indicator variable for CEOs exclusively exposed to the S&L crisis. Lastly, we apply a stricter definition of S&L crisis exposure, including in our sample only CEOs who worked at a bank during the S&L crisis while holding a non-executive position. In all these checks, our results remain consistent in the sense that our prior professional experiences variables remain statistically significant, whereas the S&L experience loses significance when both types of experiences are separately included in the same regression. We conclude that broad early-career professional experiences of bank CEOs, beyond their exposure to the S&L crisis, have a substantial and persistent influence on the financial policies of their banks.

We contribute to several strands of literature. First, behavioral corporate finance researchers have shown that experience effects are present not only among consumers and individual investors but also among sophisticated and well-trained professionals, and in their area of expertise, such as corporate managers or analysts (i.e., Malmédier, 2021). We find bank CEOs are affected by prior professional experiences that go beyond having been exposed to a banking crisis, complementing recent work by [Ahmed et al. \(2019\)](#) and [Yu \(2023\)](#). Research by [Dittmar and Duchin \(2016\)](#) and [Faulkner and García-Feijóo \(2022\)](#) shows that prior negative professional experiences appear to make CEOs prefer more cautious financial policies in industrial companies. We complement these papers by showing similar effects in the banking industry, a novel finding in the literature. Second, we contribute to the

literature on CEO characteristics and bank risk. Prior work has shown that characteristics such as education, gender, or the behavioral trait of overconfidence affect bank policies and risk (Ho et al., 2016; Faccio et al, 2016; King et al., 2016). We find that a bank CEO's early career experiences also affect bank financial policies. Specifically, negative professional experiences make bank CEOs more risk averse, which translates into higher bank liquidity and capital ratios, as well as lower leverage.

The remainder of the paper is organized as follows. Section 2 provides an overview of the existing psychological and behavioral finance literature. Section 3 constructs research hypotheses. Section 4 describes the data and the empirical methodology. Section 5 reports the empirical results. Section 6 concludes.

2 Literature Review

Our work is related to two streams of literature, experience effects in behavioral corporate finance, and CEO characteristics and bank risk.

2.1 Experience effects

The behavioral finance literature has traditionally highlighted the emotional biases and cognitive limitations of consumers and individual investors. Recent research in the area of behavioral corporate finance, however, shows that lifetime experiences can also influence the beliefs and choices of highly educated and trained professionals in their areas of expertise.⁴ In particular, a small but growing number of papers show that personal (i.e.,

⁴ Past experiences also affect investor behavior, for example past experiences related to stock and bond returns, or IPO returns, affect future participation in those markets (Malmendier and Nagel, 2011; Kaustia and Knüpfer, 2008; and Chiang et al., 2011).

early-life) and professional (i.e., early career) experiences affect CEO decision-making and hence corporate policies.

[Malmendier and Nagel \(2011\)](#) find CEOs who grew up during the Great Depression are less likely to utilize debt for financing and rely more on the internal finance of their corporation. [Feng and Johansson \(2018\)](#) suggest that the personal experience of the Chinese Famine is associated with more conservative financial, investment, and cash-holding policies by corporate managers. [Bernile et al. \(2017\)](#) find a nonmonotonic relation between early life exposure of CEOs to fatal disasters and their corporate risk-taking behavior, such that CEOs with extremely negative experiences of deadly disasters behave more conservatively, while CEOs exposed to such disasters without negative consequences tend to take on aggressive corporate policies.

[Schoar and Zuo \(2017\)](#) find that CEOs who began their first job during periods of recession exhibit a more conservative style, as they undertake lower capital expenditures, focus more on cost cutting, and limit firm reliance on leverage, suggesting that the early work experience of CEOs influences their future decision-making. [Dittmar and Duchin \(2016\)](#) find that CEOs with distressed experience in a previous firm behave more conservatively by taking on lower financial leverage, accumulating liquidity, and spending less on capital expenditures. [Faulkner and García-Feijóo \(2022\)](#) examine the impact of previous professional experiences of CEOs on their firm payout policies. Their study indicates that corporate payout policy is substantially affected by the CEO's prior experience of a distressing event while working in another firm in a non-CEO position. Consequently, the experience-driven conservatism of CEOs reduces their probability of issuing dividends and increases the

existing rate of dividends per share. Instead, they are more focused on repurchasing shares and paying lower levels of dividends.

Furthermore, [Custódio and Metzger \(2013\)](#) find that a prior experience of an acquiring company's CEO in the target company's industry allows the acquirer to achieve a better M&A deal, with lower premium payments and higher announcement returns. [Benmelech and Frydman \(2015\)](#) indicate that CEOs with a military service background are less likely to engage in aggressive corporate policies and fraudulent activities, and their experience is also associated with higher firm performance during periods of industry downturn.

Our work is related to the literature on experience effects in that we also examine the impact of a CEO's prior negative professional experiences on corporate policies. However, in contrast to the existing literature, we focus on the experience effects of CEOs in the banking industry, a novel question in the literature.

2.2 CEOs and bank risk

Literature studying the impact of prior professional experience on the future decision-making of bank CEOs is scant. Existing studies focus on CEO's behavioral characteristics as opposed to experiences. For example, studies indicate that overconfident bank CEOs are associated with higher risk, such as higher leverage, systemic risk, and loan defaults ([Ho et al. \(2016\)](#); [Liu et al. \(2022\)](#)). Similarly, [Faccio et al. \(2016\)](#) indicate that gender plays a significant role in deciding the corporate strategies of financial institutions, with female CEOs being associated with lower leverage, less volatile earnings, and a higher survival probability than firms run by male CEOs. [King et al. \(2016\)](#) indicate that the education

attainment of CEOs is associated with bank performance, such that banks with CEOs holding MBA degrees outperform their peers.

More closely related to our paper, [Minton et al. \(2014\)](#) investigate the impact of the financial experience of independent directors on the performance of US banks during the financial crisis of 2007-2008, finding that financial experience is strongly associated with lower performance during the crisis. Therefore, the results suggest higher risk-taking behavior by experienced independent directors before the crisis. [Ahmed et al. \(2019\)](#) investigate the effect of a previous banking crisis experience (the S&L crisis) on the subsequent corporate behavior of bank executives and directors during another banking crisis (the Global Financial Crisis). Banks led by these executives showed strong performance, higher accounting quality, and lower risk-taking during the global financial crisis, and the effects were found to be more pronounced among bank leaders for whom the banking crisis of the 1990s was more salient. Our article differs from [Ahmed et al. \(2019\)](#) in many ways. First, we do not limit professional experiences to prior banking crisis experiences; instead, we explore a broader definition of professional experiences of bank CEOs and their impact on financial policies. Second, we look at the CEOs' previous professional experiences at a bank where they did not hold an executive position. [Ahmed et al. \(2019\)](#) focus on the CEO and directors' experiences that were also directors and CEOs at the time of the crisis experience. Finally, consistent with the different research questions, their sample covers the period of 2004-2009, while our sample covers a broader period, from 1992 to 2022. Our paper emphasizes the importance of CEOs' corporate backgrounds in shaping their banks' financial decisions beyond just crisis management.

Recently, Yu (2023) also examines the influence of CEO crisis experiences in the banking industry. She focuses on how early-career exposure of bank CEOs to the S&L crisis affects the outcomes of the banks they subsequently manage, with particular attention to risk characteristics and performance during the GFC. Yu (2023) measures CEO crisis exposure by the bank failure rate in the states where CEOs worked during the S&L crisis, offering a nuanced understanding of how historical industry crises influence bank behavior. Similar to Ahmed et al. (2019), she is interested in the impact of crisis experiences. A financial crisis can be considered a "traumatic" event that affects not only the individual bank employing the future CEO but also the banking industry and the broader economy. In contrast, our paper examines individual professional experiences that are not necessarily "traumatic" and are not shared by others in the industry or economy. Thus, our study complements the work of Yu (2023) and Ahmed et al. (2019).⁵

In sum, the existing literature has generally not examined the broad influence of CEOs' early-career lifetime experiences in the banking industry. We fill this gap in the literature by focusing on the impact of negative professional experiences on the policies implemented by bank CEOs.

3 Hypothesis Development

Based upon the psychological concept of the "hot-stove effect" (Denrell and March (2001)), we expect that bank CEOs with past experiences at companies with poor outcomes, such as experiencing distress, broadly defined, will attempt to avoid similar outcomes in the

⁵ Our paper covers a broader period, from 1992 to 2022, with 4,471 bank-year observations for 629 CEOs from 472 banks, while Yu's (2023) sample covers the period from 1995 to 2009, with 2,966 bank-year observations for 426 CEOs from 336 banks.

future. Prior negative experiences will create a bias against risky decisions, leading a bank CEO to become more cautious and implement policies that reduce bank risk. Consistent with "hot stove effects," [Dittmar and Duchin \(2016\)](#) report lower financial leverage, less capital expenditures, and higher liquidity accumulation at industrial companies with CEOs who experienced corporate distress earlier in their career. Similarly, [Faulkner and García-Feijóo \(2022\)](#) report that CEOs with corporate distress experiences adopt more conservative payout policies. Therefore, our main hypothesis states that a bank CEO with negative professional experiences will adopt a more cautious management style and implement less risky financial policies.

H1. Prior negative professional experiences of bank CEOs are negatively associated with bank risk.

Furthermore, professional experiences occur throughout the career of bank CEOs, and their role in shaping the management style of a bank CEO could vary depending on their nature, timing, and frequency of occurrence. For example, the impact of a positive professional experience may differ from that of a negative experience, and the effect of a recent experience may differ from that of a distant professional experience.

First, consistent with the findings of psychology literature indicating a repetition of the recently observed event by individuals ([Watson, 1930](#)), [Dittmar and Duchin \(2016\)](#) find that recently experienced professional outcomes have a more substantial impact on a firm's corporate policy as compared to distant professional experiences. Consequently, our second hypothesis posits that the effect of bank CEOs' prior negative experiences varies depending upon the timing of the experience, such that recent experiences would have a stronger impact than distant ones.

H2. The effect of a bank CEO's prior negative professional experiences on bank risk is stronger when the experiences are more recent.

Second, consistent with the concept of the "hot stove" effect, the psychological literature indicates that individuals react more strongly to low outcomes in the negative domain relative to the positive domain (Kuhnen, 2015), such that negative outcomes are overweighed by individuals when forming a decision (Kahneman and Tversky, 1979). Consistent with this pessimism-bias hypothesis, Dittmar and Duchin (2016) and Faulkner and García-Feijóo (2022) find that a CEO's prior positive experiences have no impact on corporate policies.

H3 The effect of a bank CEO's prior professional experiences on bank policies will be stronger when the experiences are negative rather than positive.

4 Data and Methodology

To test the impact of CEOs' prior professional experiences on bank financial policies, we follow the research methodology employed by Dittmar and Duchin (2016). We use the Compustat Bank Fundamentals Quarterly database to identify and include only banks incorporated in the United States in our sample.

4.1 Sample Construction

We obtain CEOs' employment data from the BoardEx and ExecuComp databases. ExecuComp is a firm's executive year panel data set that spans 1992 to 2022. It includes data on 3,992 firms and 56,432 directors, of which 9,216 are CEOs in at least one year. BoardEx records the employment of various types of directors in a firm. Each record shows the start and end dates of the role. The initial data include information on 475,902 individuals employed in 39,994 firms. We use a fuzzy matching technique to combine the data sets. Most of the CEO names (90%) show an exact match between the two datasets, and we manually checked 10% of the names. After combining the two datasets, removing individuals with missing role start and/or end dates and CUSIP (ISIN), and limiting CEOs with at least one year of CEO experience, we get the sample with 26,824 individuals. After imposing conditions that a CEO must have (1) at least ten years of experience, (2) at least one year of CEO experience, (3) at least one year of non-CEO experience, and (4) has worked for at least one company before holding the CEO position, we get 16,328 CEOs working at 12,548 firms.

We obtain information on bank financial statements from Compustat Bank Fundamentals Annual, the FR Y-9C reports for bank holding companies (BHCs), and forms FFIEC 031 and 041 for commercial banks. The data set provides detailed financial data for operating and historical holding companies, banks, and credit unions between 1955 and 2022. After limiting the database to include only banks with 10 and 11 share codes and headquarters in the United States, we get 120,596 quarter-end observations for 2,239 banks. We integrate employment and financial statement data and add stock return information from

the CRSP database. The final sample contains 18,973 bank-quarter observations from 1992 to 2022 for 658 CEOs from 497 banks.

4.2 Bank Risk Variables

We measure bank risk using liquidity, capital, and leverage ratios. The liquidity ratio, the cash and government securities divided by total assets (AT), represents the ability of a bank to make investments and acquisitions and pay off current financial obligations. The risk-adjusted Tier 1 capital ratio (RACR Tier 1) represents the risk-adjusted capital adequacy of banks, as established by the 1988 Basel Accords (Fatima, 2014)). It is calculated by dividing Tier 1 capital (equity plus minority interest less a portion of perpetual preferred stock and goodwill) by total risk-weighted assets. The RACR total ratio (RACR Combined) is the combined core and supplementary capital ratios established for banks by the 1988 Basel Accord to report risk-adjusted capital adequacy. It is calculated by dividing the sum of Tier 1 and Tier 2 capital (cumulative preferred stock plus qualifying debt and qualifying allowance for credit losses, less than 50% investment in certain subsidiaries) by adjusted risk-weighted assets. Finally, the leverage ratio is the total equity scaled by the total assets.

4.3 Past Employment of CEO and Bank Distress

We examine the effect of CEOs' prior professional experiences on bank risk. Following Dittmar and Duchin (2016), we focus on professional (early-career) rather than personal (early-life) experiences. Professional experiences are more frequent events and may significantly influence a CEO's management style and decision-making. We track the employment information of CEOs to determine if they were previously employed in a non-

CEO role at a distressed bank. Our focus on career experiences in a non-CEO position is different from recent work by Ahmed et al. (2019) and Yu (2023) and allows us to mitigate the concern that CEOs were chosen because of their professional experience managing distressed banks.

Dittmar and Duchin (2016) use bankruptcy filings as one of their measures of corporate distress. However, bank bankruptcy filings are relatively rare, other than at a time of a bank crisis. Therefore, we instead use the risk-adjusted Tier 1 capital ratio (RACR), which serves as an important indicator of a commercial bank's capacity to absorb downturns without experiencing insolvency (Fatima, 2014)). Thus, it appears to be an appropriate measure of bank distress. Accordingly, *PE (capital adequacy)* is an indicator variable equal to one if the manager worked at a bank that belonged to the lowest decile of Compustat banking firms based on RACR, excluding past employment at the CEO's bank.

Following Dittmar and Duchin (2016), our second and third measures of professional experience are based on adverse shocks to a bank's operating cash flows and stock returns. Specifically, *PE (cash flow shocks)* is an indicator variable equaling one if the manager worked at a bank that belonged to the lowest decile of Compustat banking firms based on annual changes in operating cash flows, while *PE (stock returns)* is an indicator variable equaling one if the manager worked at a firm that belonged to the lowest decile of Compustat banking firms based on annual stock returns, again excluding the CEO's bank. We also utilize a measure of distress experiences that is related to the S&L crisis. *PE (S & L crisis)* is an indicator variable equal to one if the manager worked at a financial institution during the S&L crisis (1980-1989). In addition to these four measures of professional experiences, we create a composite index *PE (Composite)* that is equal to the maximum of the four measures,

thus equaling one if any of the measures mentioned above is equal to one, as in Dittmar and Duchin (2016) and Faulkner and García-Feijóo (2022).

4.4 Control Variables

In our analysis, we control for firm-level variables that capture bank performance and that can affect bank risk levels. These variables include return on assets (*ROA*), the ratio of net income and total assets, the natural log of firm size, measured as the book value of total assets (*Firm Size (LN)*), and deposits (*Deposits*).

To ensure that our results are driven by the professional experiences of bank CEOs and not personal experiences, we control for CEO traits that may affect bank policies. We control for CEO age (Bertrand and Schoar (2003)), gender (Faccio et al., 2016), and MBA degree (King et al., 2016). Additionally, we control for CEO tenure because CEOs with longer tenures would have had more time to be exposed to different bank-related distress experiences. Appendix 1 defines all the variables used in the study.

4.5 Descriptive Statistics

Table 1 provides summary statistics. Banks in our sample exhibit an average liquidity ratio of 10% and average RACR Tier 1 and RACR combine ratios of 12% and 15%. The average bank CEO is around 58 years of age, has over 22 years of experience in six different banks, and has been performing duties as CEO for around 13 years. On average, 32% of bank CEOs have attained an MBA degree, while an average of 2% of bank CEOs are female. Depending on the bank distress measure, 17-52% of CEOs in our sample have experienced corporate distress in at least one year of previous employment. After combining the four

measures, 72% of bank CEOs had negative professional experience in our sample. Excluding the S&L crisis, 52% of bank CEOs in the sample have negative experiences.

<Insert Table 1 here >

Table 2 reports sample correlations among the main variables. In Panel A, we report sample-wide correlations between firm-level dependent and independent variables in our study. Leverage is positively related to bank liquidity ratios, suggesting banks' higher reliance on leverage with higher amounts of liquidity. Not surprisingly, the highest correlations are between the risk-adjusted Tier 1 and the combined capital ratios (0.75) and the total capital and leverage ratios (-0.62). In Panel B, we report the correlations between the measures of negative professional experiences. Except for the savings and loan crisis, all measures of negative professional experiences are positively related at the 1% level. The highest correlations of 0.42 and 0.43 are between capital adequacy and cash flow shocks and cash flow shocks and stock returns. The lowest correlation of 0.02 is between stock return shocks and the savings and loan crisis. The low absolute value of correlations between the S&L measure and the other measures of professional experiences indicates that the savings and loan crisis was largely independent of the internal financial policies of the banks and was driven by exogenous shocks. In general, the measures of professional experience employed are imperfectly correlated, reinforcing the benefit of using a composite index in our main analysis.

<Insert Table 2 here>

5 Results

5.1 Preliminary Analysis

We start by performing univariate tests comparing liquidity, capital, and leverage ratios for banks with CEOs with and without prior negative professional experiences. We report the results in Table 3.

As shown in Panel A, bank CEOs with prior negative experiences are statistically significantly associated with higher liquidity ratios (around 10% on average) than bank CEOs without experiences (9%), except when experiences are measured based on low capital adequacy ratios. In panels B and C, bank CEOs with negative experiences are associated with higher capital ratios when experiences are measured based on cash flow or stock return shocks. However, when experiences are measured on the S&L crisis, capital ratios for bank CEOs without experience are significantly higher. In Panel D, leverage ratios are lower for bank CEOs with experiences when measured based on capital adequacy or cash flow shocks but not based on the S&L crisis. The results of Table 3 are suggestive but do not control for many relevant variables affecting bank liquidity, capital, and leverage ratios, as well as for other bank and CEO characteristics, which we do in the next section.

<Insert Table 3 here>

5.1 The effect of CEOs' prior professional experiences on bank financial policies

We want to understand whether CEOs' prior negative professional experiences affect bank characteristics, such as liquidity, capital, and leverage ratios. We test the null hypothesis that bank CEOs' prior career experiences have no impact on bank financial policies.

We perform OLS panel regression using different measures of bank risk and report results in Table 4. The dependent variable is the liquidity ratio in column (1), the RACR

Tier 1 ratio in column (2), the RACR Combined in column (3), and the leverage ratio in column (4). We initially report results for the *PE Composite Index* as the measure of bank CEOs' prior corporate distress experiences. As control variables, we include firm and quarter fixed effects, ROA, firm size, and CEO traits, including age, gender, tenure, and MBA degree.

A bank CEO's prior negative professional experiences are associated with a 1.969 percentage point increase in the liquidity ratio, a 0.81 (1.085) increase in RACR Tier 1 (Combined), and a 0.895 decrease in the leverage ratio, all statistically significant at a 5% level of better. Furthermore, the results are economically significant. For the average bank, previous negative experiences are associated with an increase in the liquidity ratio of 19.69%, an increase in Tier 1 (Combined) capital ratio of 6.75% (7.23%), and a decrease in the leverage ratio of 0.99%

<Insert Table 4 here>

The components of our *Professional Experience Composite* measure of prior career experiences are different in nature and, hence, may have different effects on bank policies. In Table 5, we report results separately by the different types of prior experiences. In Panel A, there is evidence that all prior negative experiences, whether associated with capital adequacy, cash flow, or stock returns, affect bank liquidity, except for exposure to the S&L crisis. This result highlights how our investigation is different and complementary to those of Ahmed et al. (2019) and Yu (2023). They report that banks whose CEOs had experienced the S&L crisis were able to perform better during the GFC. We find that experiencing the S&L crisis does not have a significant effect on bank liquidity on average.

In Panel B, prior negative experiences related to capital adequacy or the S&L crisis significantly affect Tier 1 ratios, and in Panel C, prior negative experiences related to capital adequacy or poor stock returns affect Combined capital ratios. That a CEO's prior negative experiences associated with capital adequacy ratios affect bank capital ratios is intuitive and consistent with the observation from the behavioral corporate finance literature that experience effects are domain-specific (Malmendier, 2021). In Panel D, all four types of prior experiences are negative associated with leverage ratios, though only experiences to capital adequacy or stock returns are statistically significant.

<Insert Table 5 here>

Overall, the results of this section confirm the presence of experience effects in the banking industry. Prior negative professional experiences appear to make bank CEOs adopt more conservative bank practices.

5.3 CEO turnover

To further capture the causal relationship between negative professional experiences and bank policies, we follow Dittmar and Duchin (2016) and examine exogenous CEO turnover events in this section. Specifically, we use a subsample of banks where the CEO dies, departs due to health-related reasons, or is at least 60 years old. Using exogenous turnover mitigates the concern that CEO turnover may be driven by poor performance, changes in bank policies, or other determinants of bank policies. CEO turnover stemming from death, health-related issues, or retirement occurs unexpectedly or as a part of the bank's succession plan and is unlikely to lead to changes in corporate policies. We obtain information about the date of the CEO's death and their age from the BoardEx database. However, as Huson, Parrino, and Starks (2001) and Dittmar and Duchin

(2016), we verify the reason for the CEO turnover using articles in the *Wall Street Journal* and the bank press releases.

We report the results in Table 6. For brevity, we report only results for the composite index. We find that a bank CEO's prior negative professional experiences are associated with an increase in liquidity and Tier 1 (combined) capital ratios by 2.060 and 1.026 (1.117) percentage points, respectively, significant at the 5% (10%) level. In addition, leverage ratios decrease by 0.969 percentage points, which is significant at a 1% level.

In Table 6, Panel B, we use a stricter definition of CEO turnover based on CEO retirement at the age of 65. Results are similar, but with higher estimated coefficients than in Panel A. Overall, results based on exogenous CEO turnover alleviate concerns that the findings in the previous sections are due to omitted variables.

<Insert Table 6 here>

5.2 Recency and pessimism-bias of CEOs' professional experiences

Consistent with the psychology literature, [Dittmar and Duchin \(2016\)](#) and [Faulkner and García-Feijóo \(2022\)](#) find that recently experienced outcomes have a larger influence on corporate policies than distant professional experiences. In this section, we provide evidence of recency effects in bank policies.

We measure recent negative professional experiences by creating a dummy variable equal to one if the year of the most recent experience is less than the mean of the years since the last experience (eight years). We compare the impact of recent and distant negative experiences on liquidity, capital, and leverage ratios in Table 7, Panel A.

We find that recent experiences are positively associated with bank liquidity and capital ratios, significant at levels of 1% and 5%, and negatively associated with the leverage ratio,

significant at a level of 1%. Estimated coefficients on distant experiences tend to have the expected sign but are not statistically significant. Estimates suggest that recent experiences are associated with a 1.817 percentage point increase in liquidity, a 0.798 percentage point increase in RACR Tier 1, a 1.071 percentage point increase in RACR combined capital, and a 0.898 percentage point decrease in leverage. Overall, the results align with the recency hypothesis, confirming that a CEO's recent negative professional experiences impact bank policies more than distant experiences.

<Insert Table 7 here>

Moreover, we next test whether a CEO's prior positive professional experiences affect bank risk, or the pessimism-bias hypothesis. Positive experiences are based on the capital adequacy, cash flow, and stock returns measures of experiences, but now, the positive experience occurs when the firm belongs to the top decile based on any of the measures in any particular year. As before, we use a composite measure that takes a value of one if any of the components equals one.

We report the results in Table 7, Panel B. Estimated coefficients indicate that positive experiences are not statistically significantly related to bank policies, except leverage ratios. A CEO's prior positive experiences are associated with lower leverage ratios by 0.510 percentage points, significant at a 5% level. This result is opposite to what we would expect if pessimism-bias was irrelevant, in which case we would expect managers with prior positive professional experiences to have a preference for higher (riskier) leverage ratios, not lower. Overall, we find support for pessimism bias in our sample of bank CEOs.

Furthermore, [Bernile et al. \(2017\)](#) find that CEOs with negative early-life experiences of deadly natural disasters behave more conservatively, while CEOs exposed to such disasters

without fatal consequences tend to take on aggressive corporate policies. We examine if similar effects affect bank CEOs in Panel C. CEOs' prior positive professional experiences that follow negative ones are associated with higher liquidity and capital ratios and lower leverage ratios. This result indicates that negative experiences more strongly influence decision-making, consistent with pessimism bias and our earlier results.

5.3 The S& L Crisis

One of our measures of a CEO's prior negative professional experiences is based on whether the CEO worked in the banking industry during the S&L crisis.⁶ As shown in Table 1, 50% of our CEO sample meets this condition. Furthermore, in recent work, Yu (2023) examines the influence of CEOs' early-career exposure to the S&L crisis on bank outcomes, showing that banks whose CEOs had prior S&L crisis experience performed better during the 2008 GFC. In this section, we examine the impact of the S&L crisis experience on our results, with the goals of (i) checking whether the S&L crisis drives our results, and (ii) clarifying our contribution to the literature.

We perform several checks. First, we exclude from the sample CEOs whose prior negative experiences consisted solely of having experienced the S&L crisis. We report results in Table 8, Panel A. Negative professional experiences are associated with an increase of 1.628 percentage points in the liquidity ratio (significant at 5%), 0.667 percentage points in the RACR Tier 1 combined ratio (significant at 10%), and a decrease of 0.883 percentage points in the leverage ratio. Compared to the results reported including the S&L crisis experience in Table

⁶ We require the CEO to have worked at a different bank, and in a role other than CEO.

4, estimated coefficients in Table 8 are smaller in magnitude for capital ratios but similar for the leverage ratio.

Second, we run regressions similar to those in Panel A but including as a separate indicator variable CEO experiences exclusively related to the S&L crisis. That is, we break up the full sample of prior negative experiences into those related exclusively to the S&L crisis and those related to capital adequacy, cash flow, and stock returns, with or without additional exposure to the S&L crisis. In Table 8, Panel B, we find that none of the estimated coefficients on the S&L crisis experiences indicator is statistically significant. By contrast, estimated coefficients on prior negative experiences related to capital adequacy ratios, cash flow, or stock returns are positively associated with liquidity and capital ratios and negatively with leverage ratios, with estimates statistically significant (at the 5% level), except for the Tier 1 ratio. Thus, S&L crisis exposure does not influence bank policies when regressed together with other definitions of previous negative professional experiences.

Third, we use a stricter definition of exposure to the S&L crisis by identifying any CEO working at a bank in any role during the crisis. This stricter definition is met by 17% of the CEOs in our sample. Using this stricter definition in the construction of the Composite Index, we find in Panel C that prior negative professional experiences are positively related to liquidity and capital ratios and negatively to leverage ratios, though statistically significant only for RACR combined and leverage. Moreover, when we add S&L crisis experiences in the CEO role as a separate variable in Panel D, we find that both prior professional experiences and the S&L crisis experience affect RACR Tier 1 (estimated coefficients are 0.520 and 0.673, respectively, significant at 10%) but only professional experiences affect RACR combined and leverage (with coefficient of 0.785 and -0.872 , significant at 10% and 1%, respectively).

<Insert Table 8 here>

Overall, we conclude that our previous results indicating that CEO prior negative professional experiences affect bank policies are not driven by exposure to the S&L crisis. Additionally, because we do not solely focus on the influence of a CEO's prior experiences on bank outcomes during times of crisis, in contrast to Ahmed et al. (2019) and Yu (2023), our results indicate that a CEO's prior negative professional experiences influence bank policies more generally.

6 Conclusions

We examine the influence of bank CEOs' early-career negative professional experiences on the financial policies of the banks they run. Previous studies have mostly focused on industrial companies (Dittmar and Duchin, 2016; Faulkner and García-Feijóo, 2022), despite the importance of commercial banks for financial markets and the real economy. We find that banks whose CEOs experienced distress at another bank earlier in their career tend to behave more conservatively in the CEO role, such that their banks have higher liquidity, higher risk-adjusted capital ratios, and lower leverage. In contrast, a CEO's positive career professional experiences do not influence bank policies. Furthermore, more recent experiences have a stronger effect, consistent with the importance of saliency in experience effects.

Recent studies such as Ahmed et al. (2019) and Yu (2023) find that CEOs who experienced the Savings & Loan crisis of the 1980s subsequently adopted financial policies that helped their banks during the 2008 Global Financial Crisis. We complement

this literature by showing that a broader definition of prior negative professional experiences, beyond exposure to a financial crisis, also leads CEOs to prefer more conservative bank policies.

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Appendix 1: Description of Variables used in this Study

Name	Definition and source
<i>Dependent variables:</i>	
Liquidity Ratio	Cash (cdbl), government securities issued by the U.S. Treasury (usts), and securities of other U.S. Government Agencies and Corporations (sousga) divided by total assets (at).
RACR Tier 1	Core capital ratio calculation established for banks by the 1988 Basel Accord for reporting risk-adjusted capital adequacy. Equity capital plus minority interests less portion of perpetual preferred stock and goodwill divided adjusted risk-weighted assets.
RACR Combined	Combined core and supplementary capital ratio calculation established for banks by the 1988 Basel Accord for reporting risk-adjusted capital adequacy. Equity capital plus minority interests less portion of perpetual preferred stock and goodwill (Tier 1 capital) plus cumulative preferred stock plus qualifying debt plus qualifying allowance for credit losses minus 50 percent investment in certain subsidiaries (Tier 2 capital) divided adjusted risk-weighted assets.
Leverage Ratio	One minus total equity (ceq) divided by total assets (at).
<i>Independent variables:</i>	
Return on Assets	Net income (ni) divided by total assets (at).
Firm Size (LN)	The natural logarithm of the book value of total assets (at).
CEO Age	The number of years since the manager was born.
CEO Female	An indicator equal to one if the manager is a woman.
CEO Tenure	The number of years that the manager has been with the company.
CEO MBA degree	An indicator equal to one if the manager holds an MBA degree.

Name	Definition and source
<i>P.E. variables</i>	
P.E. (capital adequacy)	An indicator equal to one if the manager worked at a firm that belonged to the lowest decile of Compustat firms based on Risk Adjusted Tier 1 Capital Ratio, excluding past employment as the CEO of the other firm.
P.E. (cash flow shocks)	An indicator equal to one if the manager worked at a firm that belonged to the lowest decile of Compustat firms based on annual changes in operating cash flows, excluding past employment as the CEO of the other firm.
P.E. (stock returns)	An indicator equal to one if the manager worked at a firm that belonged to the lowest decile of Compustat firms based on annual stock returns, excluding past employment as the CEO of the other firm.
P.E. (s&l crisis)	An indicator equal to one if the manager worked at a bank during the savings & loan crisis (1980-1989), excluding past employment as the CEO of the other firm.
P.E. (composite index)	The maximum of the five Experience variables: P.E. (capital adequacy), P.E. (cash flow shocks), P.E. (stock returns), P.E. (savings & loan crisis), excluding past employment as the CEO of the other firm

Table 1: CEOs: Summary statistics, employment, and professional experience history.

The table reports descriptive statistics of the sample by bank risk measures and firm-level variables (Panel A), CEO characteristics (Panel B), employment history and professional experience (Panel C), and a frequency of professional experiences (Panel D).

Panel A: Firm-level, Summary statistics, CEOs								
	Mean	SD	Min	p25	p50	p75	Max	N.Obs.
<i>Dependent variables:</i>								
Liquidity Ratio	0.10	0.09	0.01	0.03	0.06	0.14	0.44	18627
RACR Tier 1	0.12	0.03	0.05	0.1	0.12	0.13	0.25	16986
RACR Combined	0.15	0.04	0.09	0.12	0.14	0.16	0.4	17047
Leverage	0.9	0.03	0.76	0.89	0.9	0.92	0.98	18576
<i>Independent variables:</i>								
Return on Assets	0.02	0.01	-0.01	0.02	0.02	0.03	0.05	17900
LN Total Assets	8.21	1.71	4.29	6.87	7.91	9.32	12.07	18601
	0.75	0.11	0.00	0.7	0.78	0.83	0.98	18596
Panel B: Summary statistics, CEOs								
	Mean	SD	Min	p25	p50	p75	Max	N.Obs.
CEO Age	57.97	6.87	36.00	54.00	58.00	62.00	83.00	18973
CEO Female	0.02	0.16	0.00	0.00	0.00	0.00	1.00	18973
CEO Tenure	12.64	8.91	1.00	6.00	11.00	18.00	46.00	18973
CEO MBA degree	0.32	0.47	0.00	0.00	0.00	1.00	1.00	18973
Panel C: Employment history and professional experience, All CEOs								
	Mean	SD	Min	p25	p50	p75	Max	N.Obs.
CEO total experience	22.12	8.79	6.00	15.00	20.00	28.00	43.00	18973
CEO N of firms	6.18	7.38	2.00	2.00	3.00	7.00	65.00	18973
Panel D: Frequency of Tier1 ratio professional experience, CEOs								
	Mean	SD				N. Obs.		
PE (Capital Adequacy)	0.18	0.39				18902		
PE (Cash Flow Shocks)	0.21	0.41				18784		
PE (Stock Returns)	0.32	0.47				18937		
PE (Savings Loan Crisis)	0.5	0.50				18973		
PE (Composite Index)	0.72	0.45				18973		
PE (S&L Crisis v2)	0.17	0.37				18654		
PE (Composite Index-S&L excluded)	0.52	0.50				18973		

Table 2: Correlation matrix

The table reports correlation coefficients of firm-level variables (Panel A) and negative professional experiences (Panel B). *, **, and *** indicate significance at 10%, 5%, and 1%, respectively.

Panel A: Firm Level Variables							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Liquidity Ratio	1						
RACR Tier 1	0.12***	1					
RACR Combined	0.12***	0.75***	1				
Leverage	0.11***	-0.53***	-0.62***	1			
Return on Assets	0.04***	0.02**	-0.05***	-0.11***	1		
LN Total Assets	0.10***	-0.20***	-0.17***	0.03***	0.19***	1	
Deposits	0.11***	0.12***	-0.12***	0.09***	-0.08***	-0.28***	1
Observations	16109						
Panel B: Negative Experiences							
	(1)	(2)	(3)	(4)	(5)		
PE (Capital Adequacy)	1						
PE (Cash Flow Shocks)	0.42***	1					
PE (Stock Returns)	0.29***	0.43***	1				
PE (Saving Loans Crises)	-0.03*	-0.08***	0.02**	1			
PE (Composite Index)	0.30***	0.32***	0.44***	0.63***	1		
Observations	18410						

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 3: Univariate analysis.

The table reports the mean difference in corporate policies on liquidity (Panel A), RACR Tier 1 (Panel B), RACR Total (Panel C), and Leverage ratios (Panel D) for bank CEOs with and without prior professional experiences of distress. Columns (1) and (3) report the number of observations and the mean for CEOs without professional experience. Columns (2) and (4) report the number of observations and the mean for CEOs with professional experience. Columns (5) and (6) report the difference in means for CEOs with and without negative professional experience and a p-value, respectively. *, **, and *** indicate significance at 10%, 5%, and 1%, respectively.

Panel A: Liquidity Ratio						
	CEOs w/o PE	CEOs w PE	Mean1	Mean2	Diff.	p-value
PE (Capital Adequacy)	15,212	3,344	0.096	0.096	0.001	0.650
PE (Cash Flow Shocks)	14,474	3,966	0.094	0.101	0.007***	0.000
PE (Stock Returns)	12,577	6,014	0.090	0.108	0.018***	0.000
PE (Saving Loans Crisis)	9,396	9,231	0.092	0.100	0.007***	0.000
PE (Composite Index)	5,314	13,313	0.086	0.100	0.014***	0.000
Panel B: RACR Tier 1						
	CEOs w/o PE	CEOs w PE	Mean1	Mean2	Diff.	p-value
PE (Capital Adequacy)	13,765	3,189	0.120	0.116	-0.004***	0.000
PE (Cash Flow Shocks)	13,044	3,817	0.119	0.120	0.001**	0.013
PE (Stock Returns)	11,298	5,652	0.119	0.120	0.001*	0.077
PE (Saving Loans Crisis)	8,766	8,220	0.121	0.117	-0.005***	0.000
PE (Composite Index)	4,913	12,073	0.121	0.118	-0.003***	0.000
Panel C: RACR Combined						
	CEOs w/o PE	CEOs w PE	Mean1	Mean2	Diff.	p-value
PE (Capital Adequacy)	13,838	3,177	0.146	0.148	0.001	0.107
PE (Cash Flow Shocks)	13,108	3,799	0.145	0.151	0.006***	0.000
PE (Stock Returns)	11,318	5,693	0.146	0.147	0.000	0.563
PE (Saving Loans Crisis)	8,769	8,278	0.149	0.144	-0.005***	0.000
PE (Composite Index)	4,909	12,138	0.150	0.145	-0.004***	0.000
Panel D: Leverage Ratio						
	CEOs w/o PE	CEOs w PE	Mean1	Mean2	Diff.	p-value
PE (Capital Adequacy)	15,116	3,389	0.901	0.898	-0.003***	0.000
PE (Cash Flow Shocks)	14,457	3,939	0.901	0.898	-0.003***	0.000
PE (Stock Returns)	12,549	5,991	0.900	0.900	0.000	0.866
PE (Saving Loans Crisis)	9,387	9,189	0.898	0.903	0.005***	0.000
PE (Composite Index)	5,312	13,264	0.899	0.901	0.001**	0.013

Table 4: CEO professional experience and risk (Composite Index)

The table reports the results of the OLS panel regression models with different measures of bank risk as a dependent variable on the composite index as a measure of bank CEO's prior professional experience. Columns (1) - (4) report the results for the liquidity ratio, the RACR Tier 1 ratio, the RACR Combined ratio, and leverage ratio, respectively. All control variables are defined in section 4.4 and Appendix 1. All regressions control for firm- and year-fixed effects with standard errors clustered by firm. Standard errors are in parentheses. *, **, and *** indicate significance at 10%, 5%, and 1%, respectively.

	(1)	(2)	(3)	(4)
	Liquidity Ratio	RACR Tier 1	RACR Tier Combined	Leverage Ratio
Professional experience	1.969*** (0.678)	0.810** (0.347)	1.085** (0.475)	-0.895*** (0.313)
<i>CEO-level controls:</i>				
CEO Age	-0.06 (0.060)	0.036 (0.022)	0.061** (0.030)	-0.038* (0.022)
CEO Female	1.406 (1.828)	1.353*** (0.343)	0.55 (0.382)	-1.457** (0.618)
CEO MBA degree	0.289 (0.811)	0.056 (0.239)	-0.007 (0.273)	-0.021 (0.260)
CEO Tenure	0.165*** (0.050)	-0.01 (0.019)	-0.042* (0.023)	0.027 (0.019)
<i>Firm-level controls:</i>				
Return on Assets	-41.563*** (15.133)	26.210*** (6.338)	20.963** (8.829)	-58.566*** (7.588)
Firm Size (LN)	-2.060*** (0.581)	-1.951*** (0.241)	-2.140*** (0.353)	0.65 (0.395)
Deposits	11.707*** (2.740)	-7.096*** (1.442)	-12.771*** (2.052)	10.233*** (1.830)
Constant	18.430*** (6.424)	30.297*** (2.777)	37.830*** (3.815)	80.748*** (4.095)
FIRM FE	YES	YES	YES	YES
QUARTER FE	YES	YES	YES	YES
R2	0.69	0.65	0.69	0.689
N	18372	16973	18194	18336

Standard errors in parentheses

* p < 0.1, ** p < 0.05, *** p < 0.01

Table 5: CEO professional experience and risk (Liquidity Ratio)

The table reports the results of OLS panel regression models with different measures of bank risk as a dependent variable on different types of bank CEO's prior professional experience. Panels A - D report the results on liquidity ratio, the RACR Tier 1 ratio, the RACR Combined ratio, and leverage ratio, respectively. Columns (1) – (4) in all panels below report the results of the models with prior experiences associated with capital adequacy, cash flow, stock returns, and S&L crises, respectively. All control variables are defined in section 4.4 and Table 1. All regressions control for firm- and year-fixed effects with standard errors clustered by firm. Standard errors are in parentheses. *, **, and *** indicate significance at 10%, 5%, and 1%, respectively.

Panel A: CEO professional experience and risk (Liquidity Ratio)				
	(2)	(3)	(4)	(5)
	Capital Adequacy	Cash Flow	Stock Returns	SL Crises
Professional experience	1.619*	2.197***	1.062*	1.113
	(0.948)	(0.626)	(0.633)	(1.025)
Constant	19.498***	19.928***	19.100***	20.389***
	(6.376)	(6.329)	(6.438)	(6.493)
CONTROLS	YES	YES	YES	YES
FIRM FE	YES	YES	YES	YES
QUARTER FE	YES	YES	YES	YES
R2	0.689	0.69	0.689	0.689
N	18301	18194	18336	18372
Panel B: CEO professional experience and risk (RACR Tier 1)				
	Capital Adequacy	Cash Flow	Stock Returns	SL Crises
Professional experience	0.628**	0.317	0.301	0.755**
	(0.301)	(0.308)	(0.270)	(0.346)
Constant	30.849***	31.030***	30.601***	31.003***
	(2.799)	(2.827)	(2.808)	(2.705)
CONTROLS	YES	YES	YES	YES
FIRM FE	YES	YES	YES	YES
QUARTER FE	YES	YES	YES	YES
R2	0.650	0.648	0.648	0.650
N	18301	18194	18336	18372

Table 5 cont'd

Panel C: CEO professional experience and risk (RACR Combined)				
	Capital Adequacy	Cash Flow	Stock Returns	SL Crises
Professional experience	0.603*	0.493	0.711**	0.672
	(0.344)	(0.340)	(0.327)	(0.462)
Constant	38.841***	38.913***	37.849***	38.795***
	(3.869)	(3.895)	(3.831)	(3.794)
CONTROLS	YES	YES	YES	YES
FIRM FE	YES	YES	YES	YES
QUARTER FE	YES	YES	YES	YES
R2	0.671	0.670	0.671	0.670
N	17002	16894	16998	17034
Panel D: CEO professional experience and risk (Leverage Ratio)				
	Capital Adequacy	Cash Flow	Stock Returns	SL Crises
Professional experience	-0.642**	-0.296	-0.627**	-0.14
	(0.255)	(0.244)	(0.261)	(0.284)
Constant	80.207***	79.556***	80.582***	79.801***
	(4.161)	(4.240)	(4.170)	(4.174)
CONTROLS	YES	YES	YES	YES
FIRM FE	YES	YES	YES	YES
QUARTER FE	YES	YES	YES	YES
R2	0.683	0.675	0.678	0.676
N	18491	18382	18526	18562

Standard errors in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 6: Exogenous CEO turnover

The table reports the results of the tests using the subsample of CEO turnovers due to CEO death, health-related reasons, or retirement. Panel A reports the results of the tests using the age of departing CEO of 60 years old at the time of turnover as an indicator of retirement. Panel B reports the results of the tests using the stricter definition (65 years old). PE in all models is the composite index. All control variables are defined in section 4.4 and Table 1. All regressions control for firm- and year-fixed effects with standard errors clustered by firm. Standard errors are in parentheses. *, **, and *** indicate significance at 10%, 5%, and 1%, respectively.

Panel A: Exogenous CEO turnover				
	Liquidity	RACR Tier 1	RACR	Leverage
PE Composite	2.060** (0.837)	1.026** (0.452)	1.117* (0.618)	-0.969*** (0.348)
Constant	50.157*** (14.918)	30.708*** (3.772)	39.234*** (4.380)	90.843** (3.700)
CONTROLS	YES	YES	YES	YES
FIRM FE	YES	YES	YES	YES
QUARTER FE	YES	YES	YES	YES
R2	0.674	0.612	0.697	0.656
N	5828	5453	5496	5862
Panel B: Exogenous CEO turnover: stricter definition				
	Liquidity	RACR Tier 1	RACR	Leverage
PE	2.172* (1.139)	1.672*** (0.621)	1.818* (0.927)	-1.395*** (0.488)
Constant	33.530* (18.259)	27.696*** (4.332)	36.622*** (5.415)	90.750** (3.818)
CONTROLS	YES	YES	YES	YES
FIRM FE	YES	YES	YES	YES
QUARTER FE	YES	YES	YES	YES
R2	0.648	0.537	0.703	0.667
N	3703	3450	3456	3730

Standard errors in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 7: Variation in experience

The table reports the results of additional tests. Panel A tests the recency hypothesis by comparing the impact of recent and distant professional experiences. Panels B and C test the pessimism-bias hypothesis by examining the impact of positive experience on bank financial policies (Panel B) and experience of distress followed by a positive experience (Panel C). PE in all the models is the composite index. All control variables are defined in section 4.4 and Table 1. All regressions control for firm- and year-fixed effects with standard errors clustered by firm. Standard errors are in parentheses. *, **, and *** indicate significance at 10%, 5%, and 1%, respectively.

Panel A: Recency				
	Liquidity	RACR Tier 1	RACR Combined	Leverage
Recent PE	1.817*** (0.696)	0.798** (0.335)	1.071** (0.451)	-0.898*** (0.291)
Distant PE	0.515 (0.504)	-0.015 (0.213)	0.107 (0.277)	-0.238 (0.199)
CONTROLS	YES	YES	YES	YES
FIRM FE	YES	YES	YES	YES
QUARTER FE	YES	YES	YES	YES
R2	0.691	0.661	0.682	0.696
N	17695	16368	16413	17852
Panel B: Positive experience				
	Liquidity	RACR Tier 1	RACR Combined	Leverage
Positive PE	0.357 (0.660)	0.027 (0.275)	0.268 (0.337)	-0.510** (0.252)
CONTROLS	YES	YES	YES	YES
FIRM FE	YES	YES	YES	YES
QUARTER FE	YES	YES	YES	YES
R2	0.7	0.659	0.679	0.694
N	17695	16368	16413	17852
Panel C: Distress followed by a positive experience.				
	Liquidity	RACR Tier 1	RACR Combined	Leverage
NEG → POS	1.442* (0.776)	0.587* (0.315)	0.538 (0.425)	-0.682** (0.270)
CONTROLS	YES	YES	YES	YES
FIRM FE	YES	YES	YES	YES
QUARTER FE	YES	YES	YES	YES
R2	0.701	0.662	0.684	0.701
N	17695	16368	16413	17852

Table 8: Robustness: Savings and Loans

The table reports the sensitivity of earlier results to exposure to the S&L crisis. In Panel A, the sample excludes bank CEOs whose prior negative experience consisted solely of S&L crisis experience. In Panel B, those CEOs excluded from Panel A equals 1 in the variable “SL Crises” in the panel. In Panel C, we exclude CEOs who worked at a bank during the S&L crisis in any role (a stricter definition). In Panel D, the variable “SL Crises” equals 1 for those observations excluded from Panel C.

Panel A: Exclude S&L PE from Composite Index				
	Liquidity	RACR Tier 1	RACR	Leverage
PE	1.628** (0.744)	0.313 (0.246)	0.667* (0.398)	-0.883** (0.365)
CONTROLS	YES	YES	YES	YES
FIRM FE	YES	YES	YES	YES
QUARTER FE	YES	YES	YES	YES
R2	0.714	0.695	0.701	0.710
N	13138	12375	12387	13278
Panel B: Separate S&L PE from Composite Index				
	Liquidity	RACR Tier 1	RACR	Leverage
PE	1.975** (0.942)	0.57 (0.382)	1.045** (0.444)	-1.208*** (0.398)
SL Crises	-0.009 (1.308)	0.428 (0.379)	0.071 (0.404)	0.553 (0.352)
CONTROLS	YES	YES	YES	YES
FIRM FE	YES	YES	YES	YES
QUARTER FE	YES	YES	YES	YES
R2	0.690	0.651	0.672	0.679
N	18372	16973	17034	18562
Panel C: Exclude S&L PE from Composite Index (Strict S&L PE definition)				
	Liquidity	RACR Tier 1	RACR	Leverage
PE	0.823 (0.849)	0.397 (0.260)	0.623* (0.320)	-0.700*** (0.259)
CONTROLS	YES	YES	YES	YES
FIRM FE	YES	YES	YES	YES
QUARTER FE	YES	YES	YES	YES
R2	0.718	0.662	0.652	0.671
N	3952	3852	3856	3991
Panel D: Separate S&L PE from Composite Index (Strict S&L PE definition)				
	Liquidity	RACR Tier 1	RACR	Leverage
PE	0.928 (0.821)	0.520* (0.308)	0.785* (0.408)	-0.872*** (0.284)
SL Crises	0.724 (1.100)	0.673* (0.354)	0.662 (0.432)	-0.137 (0.298)
CONTROLS	YES	YES	YES	YES
FIRM FE	YES	YES	YES	YES
QUARTER FE	YES	YES	YES	YES
R2	0.702	0.649	0.649	0.666
N	4372	4240	4242	4419

Standard errors in parentheses

* p < 0.1, ** p < 0.05, *** p < 0.01