Figure 3.6. Size-Adjusted Compensation and Risk Taking (z-statistics)

The level of compensation (conditional on bank size) does not relate consistently to measured bank risk.

Sources: Bankscope; Standard and Poor’s Capital IQ database; and IMF staff estimates.

Note: The figure shows Stouffer’s z-statistics—a measure that summarizes the joint statistical significance of a number of t-tests having the same null hypothesis. In this case, it gives a statistical indication of the significance of the effect of each explanatory variable on risk as measured jointly by the regressions with the different risk variables on the left side of the equation. The significance levels were adjusted using the Benjamini-Hochberg procedure to account for correlation among dependent variables. Solid and dashed lines indicate 5 and 10 percent levels of significance, respectively. The level of compensation is adjusted for bank size by regressing total compensation on the logarithm of book assets.