

Depositors Disciplining Banks: The Impact of Scandals

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Over 700,000 People Demand Banks Stop Financing the Dakota Access Pipeline

While Trump, Energy Transfer Partners and Sunoco Logistics race to complete the pipeline, over 700,000 people say "No!" to the banks behind the project

Over 700,000 people have signed one of [six petitions](#) demanding that the banks financing the Dakota Access Pipeline (DAPL) remove their support of the project. The figure includes individuals who collectively report having over US\$2.3 billion invested in these banks through checking, mortgage, and credit card accounts, which they are ready to divest if the banks continue financing DAPL. Thousands have already closed their accounts at those banks, removing over US\$55 million and counting.

Motivation

- Depositors serve a **monitoring and disciplining** role for banks.
- They discipline banks by either **withdrawing deposits** or by **requiring higher interest rates** (*Martinez Peria and Schmukler, 2001; Maechler and McDill, 2006*)
- So far, the attention has concentrated on **bank fundamentals**, such as perceived solvency and probability of default.
- Does this disciplining behavior hold for **other** sources of information?

Research Questions

- **Do depositors react to information beyond financial fundamentals?**
 - ▶ Do depositors react to bank scandals?
- **If yes, is it because of financial motives or something else, such as altruism?**
- **Do non-scandalous banks get rewarded by depositors?**

Main Findings

- Banks who financed the highly controversial Dakota Access Pipeline, had significant **decreases** in deposit growth
- Effects are greater for branches located in **pipeline states** as well as **environmentally** and **socially** conscious counties
- **Savings banks** were among the main beneficiaries of this depositor movement
- On a global scale, deposit growth **decreases** when banks are involved in tax evasion, corruption or environmental scandals

Related Literature

Environmental, Social & Governance (ESG) Finance

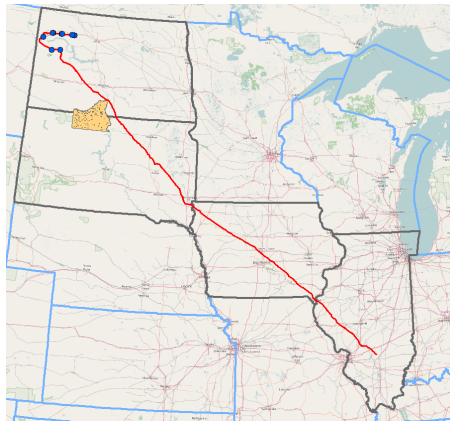
- Extensive literature - **Krüger (2015); Dimson et al. (2015); Ferrell et al. (2016); Lins et al. (2017); Liang and Renneboog (2017); Servaes and Tamayo (2017); Kitzmueller and Shimshack (2012)**...
- **Contribution:** Real ESG & Real Bottomline

Purpose of the Firm

- **Hart and Zingales (2017)** - Should corporations maximize shareholder value or welfare?
- **Contribution:** Banks should condition corporate policies on the **non-financial preferences** of their creditors

Dakota Access Pipeline (DAPL)

- Grassroots movements in reaction to an approved pipeline project
- Pipeline begins in the **Bakken shale oil fields** in northwest North Dakota
- Continues to South Dakota, Iowa and ending in Illinois.
- Pipeline intended to cross ancient burial grounds and both the Missouri and Mississippi Rivers
- Movement drew in native americans (Standing Rock Sioux tribe), environmentalists and U.S. army veterans



Dakota Access Pipeline (DAPL)

- Project Financing: 17 banks
- Banks with significant US branch level presence:
 - 1) Bank of Tokyo Mitsubishi UFJ
 - 2) BBVA
 - 3) BNP Paribas
 - 4) Citigroup
 - 5) SunTrust Robinson Humphrey
 - 6) TD Bank
 - 7) Wells Fargo
 - 8) Mizuho Bank
 - 9) SMBC
- Data: *FDIC Summary of Deposits*
- Years: 2012 - 2017
- Branches: Approximately 100,000

Controls

Detailed Controls

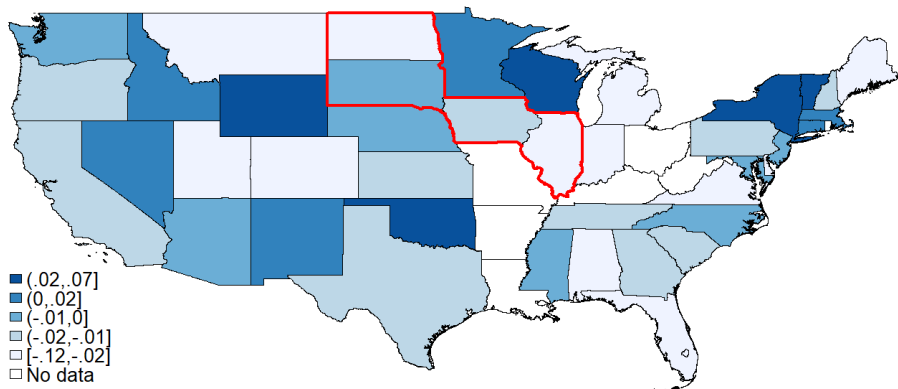


Dakota Access Pipeline - Timeline of Events

-
- 2016 ● **April** - Protests begin.
 - 2016 ● **July** - FDIC Data for 2016.
 - 2016 ● **September** - Banks are targeted.
 - 2016 ● **December** - 1st Signforgood petition starts targeting DAPL project financing Banks.
 - 2017 ● **February** - Petitions reach 700,000 people.
 - 2017 ● **June** - 2nd Signforgood petition starts further targeting DAPL corporate financing banks.
 - 2017 ● **July** - FDIC Data for 2017.
-

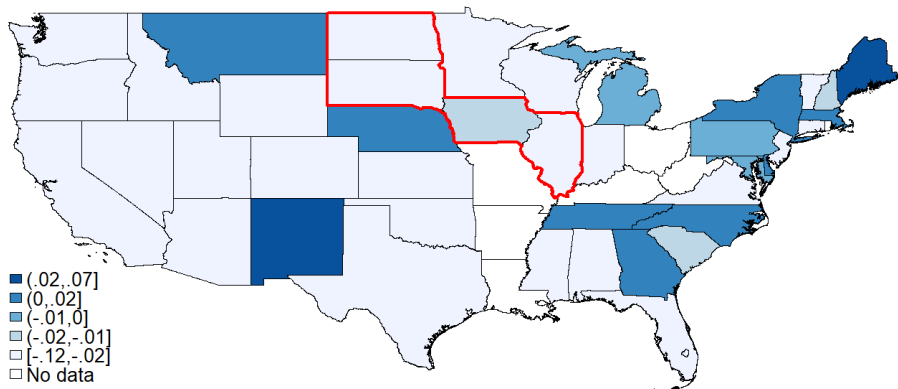
Heat Maps - DAPL

Figure: 2016 State-Average Adjusted Deposit Growth Rates for Treated Banks



Heat Maps - DAPL

Figure: 2017 State-Average Adjusted Deposit Growth Rates for Treated Banks



Total Deposit Growth - Full Sample

VARIABLES	(1)	(2)	(3)
	Branch Total Deposit Growth (Wnsor. 01)	Branch Total Deposit Growth (Wnsor. 01)	Branch Total Deposit Growth (Wnsor. 01)
Financed DAPL * 2017	-0.018*** (0.002)	-0.022*** (0.003)	-0.015*** (0.003)
Financed DAPL	-0.022*** (0.002)		
Observations	416,594	416,513	411,930
Controls	Yes	Yes	Yes
Branch FE	No	No	Yes
Bank FE	No	Yes	No
State*Year	Yes	Yes	No
County*Year	No	No	Yes
Years	All	All	All
Cluster	Branch	Branch	Branch
States	All	All	All

Economic Effect: 10,902 (treated branches) x 101\$ Mil. (average deposits per branch in 2016) x -0.015 (or -0.020) = **16.5\$ Bil.**(or 22.0)

Is this a financial story?

- Unlikely
- Quarterly **uninsured deposit growth** rates show no changes
Uninsured Deposits
- Quarterly **deposit growth** rates reveal differential changes
Total Deposits Yearly Interactions
- Bank level **analyst reports** rarely mention the DAPL incident
- Focus on **established branches** ¹
- Depositors are insured by the FDIC up to at least **\$250,000**

¹all entities with over 1\$ billion in deposits, less than 100,000\$ in deposits or had been recently acquired, were removed from the analysis

Total Deposit Growth - DAPL States

VARIABLES	(1) Branch Total Deposit Growth (Wnsor. 01)	(2) Branch Total Deposit Growth (Wnsor. 01)
Financed DAPL * 2017 * DAPL State	-0.026** (0.012)	-0.023* (0.012)
Observations	416,594	416,513
Controls	Yes	Yes
Bank FE	No	Yes
State*Year	Yes	Yes
Years	All	All
Cluster	Branch	Branch
States	All	All

Yale Program on Climate Change Communication

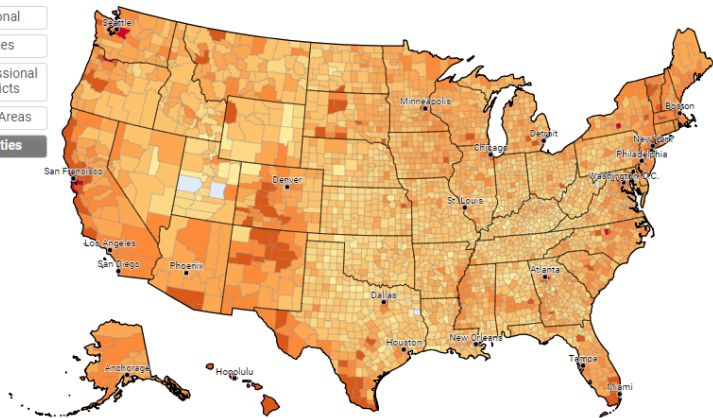
Estimated % of adults who think global warming is happening, 2016

Display model output:

[Permalink](#)

Click on map to select geography, or:

- National
- States
- Congressional Districts
- Metro Areas
- Counties**



Yale Program on Climate Change Communication

VARIABLES	(1) Branch Total Deposit Growth (Wnsor. 01)	(2) Branch Total Deposit Growth (Wnsor. 01)
Happening 70 * Financed DAPL * 2017	-0.013*** (0.005)	-0.019*** (0.005)
Observations	398,980	395,158
Controls	Yes	Yes
Bank Fe	Yes	No
Branch FE	No	Yes
Year FE	Yes	No
State*Year	No	Yes
Cluster	Branch	Branch
States	All	All

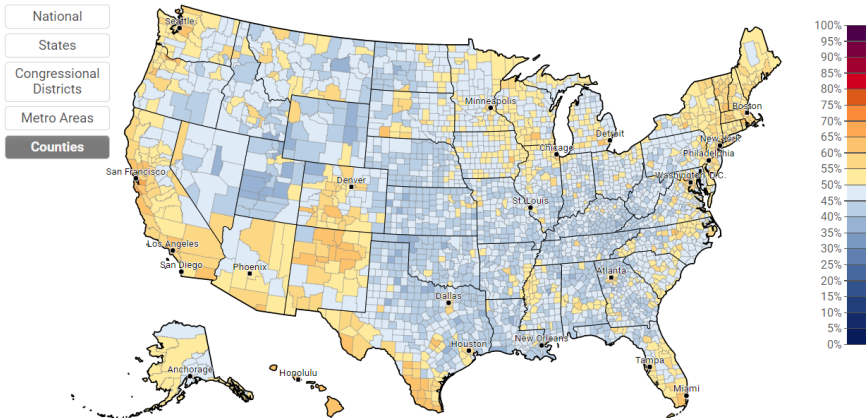
Controls: 1) Percentage of adults with a bachelor's degree or higher, 2012-2016 2) Percentage of the county that voted for Barack Obama in the 2012 presidential elections 3) County population, 2014

Yale Program on Climate Change Communication

Estimated % of adults who think global warming is mostly caused by human activities, 2016

Display model output:

Click on map to select geography, or:



Yale Program on Climate Change Communication

VARIABLES	(1) Branch Total Deposit Growth (Wnsor. 01)	(3) Branch Total Deposit Growth (Wnsor. 01)
Human 55 * Financed DAPL * 2017	-0.010** (0.005)	-0.016*** (0.005)
Observations	398,980	395,158
Controls	Yes	Yes
Bank Fe	Yes	No
Branch FE	No	Yes
Year FE	Yes	No
State*Year	No	Yes
Cluster	Branch	Branch
States	All	All

Controls: 1) Percentage of adults with a bachelor's degree or higher, 2012-2016 2) Percentage of the county that voted for Barack Obama in the 2012 presidential elections 3) County population, 2014

Social Capital

VARIABLES	(1) Branch Total Deposit Growth (Wnsor. 01)	(2) Branch Total Deposit Growth (Wnsor. 01)
Ln(Number of Non-Profits) * Financed DAPL * 2017	-0.005*** (0.002)	-0.006*** (0.002)
Observations	400,026	396,187
Controls	Yes	Yes
Bank Fe	Yes	No
Branch FE	No	Yes
Year FE	Yes	No
State*Year	No	Yes
Years	All	All
Cluster	Branch	Branch
States	All	All

About this action



The Seeding Sovereignty Project, born at Standing Rock to fight the Dakota Access Pipeline, empowers the Indigenous youth movement for an environmentally just future everywhere.

The Seeding Sovereignty Project is launching the "Own It" Campaign:

- Water is scarce
- Money is scarce
- Climate change is real and time is running out.

If you care about the planet you have to ask yourself:

What do you stand for?

Who do you stand with?

The Own It Campaign empowers young people everywhere to use their green capital to drive the change from fossil fuel to clean energy.

PLEDGE TO DIVEST

The banks below are currently investing in the Dakota Access Pipeline. Is your bank on the list?

Your Bank ▾

MAKE THE PLEDGE

PREPARE TO TRANSFER YOUR MONEY

Find a bank or local credit union that will use your money for causes you can be proud of.

Find a Credit Union

Zip Code

5 Miles ▾

SEARCH

Or

Move your money to one of these ethical financial institutions:

- [List of Ethical Banks](#)
- [Better World Handbook - Socially Responsible Banks - US](#)
- [Green America Guide to Socially Responsible Investing](#)
- [Ethical Bank Comparison - UK](#)
- [Ethical Banking Advice UK](#)

Savings Banks

VARIABLES	(1) Branch Total Deposit Growth (Wnsor. 01)	(2) Branch Total Deposit Growth (Wnsor. 01)	(3) Branch Total Deposit Growth (Wnsor. 01)
Savings Bank * 2017 * Proportion of DAPL Banks	0.077* (0.042)	0.135*** (0.051)	0.140** (0.071)
Observations	416,513	411,930	408,123
Controls	Yes	Yes	Yes
Branch FE	No	Yes	No
Bank FE	Yes	No	No
State*Year	Yes	No	No
Year*County	No	Yes	Yes
Bank*Year	No	No	Yes
Years	All	All	All
Cluster	Branch	Branch	Branch
States	All	All	All

Credit Unions

VARIABLES	(1)	(2)	(3)	(4)
	Branch Total Deposit Growth (Wnsor. 01)	Branch Total Deposit Growth (Wnsor. 01)	Branch Total Deposit Growth (Wnsor. 01)	Branch Total Deposit Growth (Wnsor. 01)
	With Credit Unions		Without Credit Unions	
Financed DAPL * 2017	-0.014*** (0.003)	-0.013*** (0.003)	-0.012*** (0.003)	-0.011*** (0.003)
Financed DAPL	0.002 (0.043)	-0.032 (0.048)	0.000 (0.043)	-0.035 (0.048)
Observations	443,145	442,521	412,562	411,935
Branch FE	Yes	Yes	Yes	Yes
State*Year	Yes	No	Yes	No
County*Year	No	Yes	No	Yes
Years	All	All	All	All
Cluster	Branch	Branch	Branch	Branch
States	All	All	All	All

- **Wells Fargo** - *Wells Fargo was going through a series of corruption scandals unrelated to the DAPL incident. The bank had created (without customer's permission) millions of **fraudulent** accounts as sales staff desperately tried to hit unreasonable sales targets. Furthermore, thousands of auto loan customers were charged for **car insurance** that they did not need (Fox and Duren, 2017).*

Wells Fargo's 11 months of scandals



Aug. 2
New York state's banking regulator subpoenas two Wells Fargo units for its contracts and agreements with New York borrowers, auto dealers and insurers.

July 27
Wells Fargo agrees to refund 570,000 auto loan customers over faulty collateral protection insurance for an estimated total of \$80 million in remediation.

July 12
PIMCO sues Wells Fargo for holding more than \$90 million in funds from bond investors to cover legal costs related to the financial crisis.

June-July
News reports in June show Wells Fargo faces seven lawsuits regarding unsolicited changes to home loans of customers in bankruptcy; in July, a whistleblower files a suit claiming the bank falsified records so it could charge customers for delays in processing mortgage applications.

April 21
Fake accounts settlement raised to \$142 million from \$110 million to include customers who had unauthorized accounts going back to May 2002.

March 15
Wells settles for a combined \$165 million (along with Royal Bank of Scotland and Deutsche Bank AG) with a pension fund over RMBS issued by NovaStar.

Aug. 1
Rep. Maxine Waters, D-Calif., along with other Democrats, calls for hearing over unnecessary car insurance violations.

July 21
Wells Fargo accidentally releases confidential information for at least 50,000 clients after a small part of the information was subpoenaed as part of a defamation lawsuit.

July 19
Sen. Elizabeth Warren, D-Mass., calls for the Federal Reserve Board to remove 12 directors from Wells Fargo's board who were on the board during the fake accounts scandal.

May 15
City of Philadelphia sues Wells Fargo over alleged discrimination against minority borrowers.

March 28
Wells Fargo settles class-action lawsuit for \$110 million over its fake accounts scandal.

Jan. 12
Sens. Warren and Sherrod Brown, D-Ohio, lead group of senators in questioning Wells Fargo's disproportionate increase in income from overdraft charges, which grew 7.5% compared to 1.3% for the bank's peers.

Dec. 2, 2016
Senators introduce a bill to nullify Wells Fargo's mandatory arbitration clause in regards to its consumer accounts scandal.

Oct. 27, 2016
Sen. Warren and three other senators send a letter to chairman and CEO of auditor KPMG, regarding the company's failure to "detect and prevent" the fraudulent consumer accounts.

Oct. 7, 2017
Seattle cancels \$100 million bond deal.

Oct. 1, 2016
Illinois suspends business.

Sept. 29, 2016
OCC fines Wells Fargo a \$20 million civil money penalty over failing to provide an interest rate limit to servicemember obligations.

Sept. 27, 2016
John Stumpf agrees to forfeit \$41 million in equity, forgoes salary.

Sept. 16-20, 2016
Wells Fargo involved in six separate lawsuits over consumer accounts scandal.

Senate Banking Committee Democrats call on Wells Fargo to respond to allegations that the bank gave branches warning of regulatory inspections, giving the bank time to covers its tracks by shredding and forging documents.

Jan. 2
Wells Fargo settles a racial discrimination lawsuit for \$35 million.

Oct. 31, 2016
Wells Fargo settles for \$50 million a 2012 lawsuit that accused it of overcharging for appraisals and not clearly disclosing charges to customers.

Oct. 12, 2016
John Stumpf retires early.

Oct. 5, 2016
City of Chicago suspends business.

Sept. 30, 2016
DOJ fines Wells Fargo \$4.1 million over repossessing 413 cars in violation of the Servicemembers Civil Relief Act.

Sept. 28, 2016
State of California suspends business with Wells Fargo.

Sept. 22, 2016
CEO John Stumpf resigns from Fed advisory council.

Sept. 8, 2016
Wells Fargo settles for \$185 million over illegal accounts, with \$100 million going to CFPB, \$35 million to OCC and \$50 million to the City and County of Los Angeles.

Data compiled Aug. 3, 2017.
This timeline includes select events of note regarding Wells Fargo.
Source: S&P Global Market Intelligence
Credit: Zain Ullah

No Wells Fargo

VARIABLES	(1)	(2)
	Branch Total Deposit Growth (Wnsor. 01)	Branch Total Deposit Growth (Wnsor. 01)
Financed DAPL * 2017	-0.031*** (0.004)	-0.021*** (0.005)
Observations	386,975	382,411
Controls	Yes	Yes
Branch FE	No	Yes
Bank FE	Yes	No
State*Year	Yes	No
County*Year	No	Yes
Years	All	All
Cluster	Branch	Branch
States	All	All

Banks Funding DAPL

The oil companies behind the pipeline are rich, but they aren't rich enough to shell out the whole amount needed to build the pipeline at once.

If Citibank, the Bank of Tokyo-Mitsubishi, Mizuho Bank and TD Securities were to hold back remaining \$1.4 billion the cash for the pipeline could dry up and the project could come grinding to a potentially permanent halt.

Please contact these banks today.

Citibank (Citigroup)*

TD Securities*

The Bank of Tokyo-Mitsubishi UFJ*

Mizuho Bank*

Wells Fargo
BNP Paribas
DNB Capital
BBVA Securities
SunTrust
Sumitomo Mitsui Bank
Credit Agricole
ABN Amro Capital
Intesa SanPaolo
ING Bank
Natixis
BayernLB
ICBC London
Societe General

Scotiabank
Citizens Bank
Comerica Bank
U.S. Bank
PNC Bank
Barclays
JPMorgan Chase
Bank of America
Deutsche Bank
Compass Bank

Credit Suisse
DNB Capital/ASA
Royal Bank of
Canada
UBS
Goldman Sachs
Morgan Stanley
Origin Bank
(formerly
Community Trust)
HSBC Bank

*primary leaders of the key DAPL loan

Further Protests - Corporate Financing Banks

VARIABLES	(1)	(2)
	Branch Total Deposit Growth (Wnsor. 01)	Branch Total Deposit Growth (Wnsor. 01)
Financed DAPL * 2017	-0.008*** (0.002)	-0.008*** (0.002)
Observations	416,594	416,513
Controls	Yes	Yes
Bank FE	No	Yes
State*Year	Yes	Yes

VARIABLES	(1)	(2)
	Branch Total Deposit Growth (Wnsor. 01)	Branch Total Deposit Growth (Wnsor. 01)
Financed DAPL * 2017 * DAPL State	-0.030*** (0.007)	-0.041*** (0.009)
Financed DAPL * 2016 * DAPL State	-0.027*** (0.007)	-0.035*** (0.009)
Observations	416,513	411,930
Controls	Yes	Yes
Branch FE	No	Yes
Bank FE	Yes	No
State*Year	Yes	No
County*Year	No	Yes

VARIABLES	(1)	(2)
	Branch Total Deposit Growth (Wnsor. 01)	Branch Total Deposit Growth (Wnsor. 01)
Happening 70 * Financed DAPL * 2017	-0.002 (0.004)	-0.001 (0.004)
Observations	395,158	395,158
Controls	Yes	Yes
Bank Fe	No	No
Branch FE	Yes	Yes
Year FE	Yes	Yes
State*Year	No	Yes

VARIABLES	(1)	(2)
	Branch Total Deposit Growth (Wnsor. 01)	Branch Total Deposit Growth (Wnsor. 01)
Ln(Number of Non-Profits) * Financed DAPL * 2017	-0.003** (0.001)	-0.003** (0.002)
Observations	400,026	392,560
Controls	Yes	Yes
Bank Fe	Yes	No
State FE	No	No
State*Year	No	Yes
Bank*Year	No	Yes

Aftermath

- 2017 ● **February** - Seattle cuts ties with Wells Fargo [▶ BanksTalking.org](#).
- 2017 ● **February** - ABN Amro and ING re-evaluate commitment.
- 2017 ● **February** - Nordea excludes three companies behind DAPL.
- 2017 ● **March** - ING sells stake in the DAPL loan.
- 2017 ● **March** - DNB & BNP Paribas sell their stakes.
- 2017 ● **March** - San Francisco moves to divest from DAPL companies.
- 2017 ● **March** - Norwegian pension funds divested from DAPL companies.
- 2017 ● **May** - U.S. Bank stops financing pipeline construction (later retracts)
- 2017 ● **June** - L.A. moves to divest from Wells Fargo.
- 2017 ● **November** - Norway's Wealth fund begins divesting from oil shares.
- 2018 ● **March** - Citizens Bank sell their stakes.

Global Scandals

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Simply Financing Extinction



Santander
what a bank shouldn't do

① Scandals

- ▶ Tax Evasion - *Tax Justice Network, ICIJ*
- ▶ Environment - *BankTrack, Global Witness, Greenpeace, Oxfam*
- ▶ Corruption - *BankTrack, Global Witness*

② Banks

- ▶ Deposits and Controls - *SNL Financial*

1 Scandals

- ▶ Tax Evasion - *Tax Justice Network, ICIJ*
- ▶ Environment - *BankTrack, Global Witness, Greenpeace, Oxfam*
- ▶ Corruption - *BankTrack, Global Witness*

Globally significant scandals

- ▶ 26 unique scandals
- ▶ Approximately 140 bank-scandals
- ▶ 150 quarter-bank-scandals

- **Baseline regression**

$$Deposits_{it} = \alpha_0 + \beta Scandal_{it} + \gamma_1 Controls_{it} + \gamma_2 FixedEffects$$

- **RE & FE** model with varying fixed effects (Year, Country, Country*Year, Bank, Quarter Number). Standard Errors clustered at the bank level

VARIABLES	(1) N	(2) mean	(3) sd	(4) min	(5) max	(6) p25	(7) p50	(8) p75
Total Deposit Growth (Winsor .01)	36,431	0.0139	0.0672	-0.196	0.486	-0.0156	0.00753	0.0339
Total Assets (Winsor .01)	36,431	2.102e+07	7.271e+07	36,885	4.717e+08	301,862	856,106	4.824e+06
Total Equity / Total Assets (Winsor .01)	36,431	10.12	3.865	2.510	35.14	8.029	9.805	11.76
NPLS / Total Loans (Winsor .01)	36,431	3.500	3.648	0	17.62	1.106	2.334	4.470
ROAA (Winsor .01)	36,431	0.469	1.176	-6.183	3.897	0.261	0.633	0.963

Main Results - Total Deposit Growth

VARIABLES	(1) Total Deposit Growth (Winsor .01)	(2) Total Deposit Growth (Winsor .01)	(3) Total Deposit Growth (Winsor .01)	(4) Total Deposit Growth (Winsor .01)	(5) Total Deposit Growth (Winsor .01)	(6) Total Deposit Growth (Winsor .01)
Scandal Start	-0.003 (0.007)	-0.004 (0.007)				
L. Scandal Start			-0.021*** (0.007)	-0.015** (0.006)		
L2. Scandal Start					-0.005 (0.009)	-0.002 (0.010)
Observations	36,431	36,431	36,431	36,431	36,087	36,087
Number of Banks	2,110	2,110	2,110	2,110	2,102	2,102
Country	OECD	OECD	OECD	OECD	OECD	OECD
Bank Controls	Yes	Yes	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	No	Yes	No	Yes	No
Year FE	Yes	No	Yes	No	Yes	No
Country x Year	No	Yes	No	Yes	No	Yes
Quarter Num FE	Yes	Yes	Yes	Yes	Yes	Yes
Years	>2009	>2009	>2009	>2009	>2009	>2009
Cluster	Bank	Bank	Bank	Bank	Bank	Bank

Standard errors are in parentheses and clustered at the bank level

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

Main Results - Total Deposit Growth

VARIABLES	(1) Total Deposit Growth (Winsor .01)	(2) Total Deposit Growth (Winsor .01)	(3) Total Deposit Growth (Winsor .01)	(4) Total Deposit Growth (Winsor .01)
L. Tax Evasion Start	-0.018* (0.010)			-0.022** (0.011)
L. Corruption Start		0.014 (0.011)		0.016 (0.012)
L. Environment Start			-0.027*** (0.010)	-0.026*** (0.010)
Observations	36,431	36,431	36,431	36,431
Number of Banks	2,110	2,110	2,110	2,110
Country	OECD	OECD	OECD	OECD
Bank Controls	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Quarter Num FE	Yes	Yes	Yes	Yes
Years	>2009	>2009	>2009	>2009
Cluster	Bank	Bank	Bank	Bank

Standard errors are in parentheses and clustered at the bank level

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

Conclusion

- Banks who financed the DAPL, had significant **decreases** in deposit growth for branches located closest to the pipeline.
- Effects are greater for branches located in **environmentally and socially conscious** counties and **savings banks** were among the main beneficiaries of this depositor movement
- On a global scale, deposit growth **decreases** when banks are involved in tax evasion, corruption or environmental scandals
- This is consistent with the disciplining and monitoring role of depositors, while extending to **non-financial** conditions
- The results show new and surprising, **yet important disciplinary channel for bank behavior**

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Thank You

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