

# **The Effect Of Executive Compensation and revenue Diversification on Bank Insolvency Risk**

Jia Song

**Abstract:** This paper investigates the effect of executive compensation and revenue diversification on bank risks from 1992 to 2010 including 1465 bank-year observations using Cox proportional hazard model. Vega is used to measure the effect of executive compensation on insolvency risk, and non-interest income is used to measure the effect of revenue diversification. The result came out that both vega and non-interest income can help to reduce bank insolvency risk. In addition, when non-interest income is further divided into trading revenue and non-trading revenue component, the result shows that they are all negatively related to bank insolvency risk.