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The Impact of Female Directors and ESG on Bank Risk: Evidence from the Asian Banks

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ABSTRACT

This study aims to investigate the impact of female directors and environmental, social, and governance (ESG) practices on bank risk. The empirical quantitative study covers a sample of 64 Asia banks for the period of 2016 to 2022 and analyzes using the System Generalized Method of Moments (GMM), we find that the presence of female directors significantly lowers risk. Their diverse perspectives foster richer board deliberations and less-overconfident decision-making, leading to more prudent risk assessments and greater resilience. By contrast, ESG practices alone do not appear to reduce risk. An interaction analysis shows, however, that when female directors and robust ESG engagement coexist, bank risk declines in emerging economies-an effect not observed in developed markets. These findings suggest that expanding female representation on bank boards can curb risk exposure and that empowering these directors to drive ESG initiatives further strengthens risk management, especially in less-developed countries. Regulators might therefore consider incentives that encourage banks to increase female board participation and deepen directors' sustainability expertise.

Keywords: ESG, Women Directors, Bank Risk, GMM
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