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Article

Theoretical and Methodological Foundations of Systemically Important Banks

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Abstract: The article theoretically studies the activities of systemically important banks. In particular, the opinions and scientific research of economists on this issue are studied. At the same time, the main emphasis is placed on the methodology for identifying global and national systemically important banks.The study highlights the critical role of systemically important banks in maintaining financial stability, preventing systemic crises, and ensuring resilience in the banking sector. It also examines how these banks' size, interconnections with other financial institutions, substitutability of their services, and cross-jurisdictional activity contribute to systemic risk. By reviewing both theoretical approaches and practical regulatory measures, the article emphasizes the need for additional capital, liquidity, and risk management requirements for SIBs. Moreover, the study discusses the global and national policy implications, including the formulation of early warning mechanisms, stress-testing practices, and macroprudential oversight.

Keywords: commercial bank, systemically important banks, global systemically important banks, national systemically important banks, assessment indicators, Basel Committee.

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1. Introduction

"Systemically important banks" is a term used in the financial and credit sector to refer to banks that are of particular importance to the stability and soundness of the financial system.

These banks are so large and important that any problems or failures they may encounter could have a serious impact on the entire country's economy, and even the global economy [1].

Typically, the definition of systemically important banks includes various criteria, such as the size of assets, the impact on international financial markets, the bank's relationships with other financial institutions, etc. Supervisory authorities and international organizations are forming a list of systemically important banks to establish additional requirements for banks' capital, liquidity, and risk management in order to prevent crises and ensure financial stability [2].

Analysis of literature on the topic

Systemically important banks are so large and important that their operations and condition are critical to the health of the entire financial system. Experts and industry professionals view "systemically important banks" as key financial entities that play a strategic role in the stability of the financial system. These banks are often considered the "pillars" of the financial infrastructure, and their stability is important for the overall well-being of the economy [3].

“In order to develop approaches to identifying "systemically important banks", the Basel Committee on Banking Supervision issued a document in October 2012, Approaches to Identifying "National Systemically Important Banks", based on the identification of "Global Systemically Important Banks". According to this document, the factors discussed above are taken into account when assessing systemically important banks, with the exception of international (cross-border) activities, since, according to the Basel Committee on Banking Supervision, “National Systemically Important Banks The methodology for determining "banks" should primarily reflect an assessment of the impact of bankruptcy on the national economy [4].

J. Larosier notes in his research that the emphasis on large systemically important banks raises doubts. Today, the most dangerous in Europe are not systemically important banks, rather, they are banks with excessive exposure to questionable mortgage loans and sovereign debt. As the crisis has shown, the root of the problem lies not in the size of banks, but in the concentration of risky assets, the interconnectedness of banking activities, and their excessive dependence on short-term financial markets. A typical average increase in the Tier 1 capital ratio of a systemically important bank by 2.5% would reduce the return on equity by one-third. This would have serious consequences, such as a reduction in the assets of systemically important banks to the extent that it would harm economic growth, a decrease in their competitiveness, and an increase in the tendency for mergers and transfers to unregulated banks [5].

A. Demirguch-Kunt in his research emphasizes the need to distinguish between the concepts of "systemic bank size" and "absolute bank size" that is, large banks in terms of bank assets are not always "systemically important banks". A number of economists emphasize the need to assess the degree of diversification of financial institutions' activities.

S. Zhou concludes that there is a direct relationship between the level of diversification of a bank and its systemic importance, i.e. credit institutions with a well-diversified portfolio can also be classified as systemically important [6].

2. Materials and Methods

"Systemically important banks" is a term used in the financial sector to refer to banks that are of particular importance to the stability and soundness of the financial system.

These banks are so important that any problems or failures that may arise in them can have a serious impact on the banking system, the economy of the entire country, and even the global economy. Typically, the definition of systemically important banks includes various criteria, for example, the size of assets, influence on international financial markets, the bank's relations with other financial institutions, etc. Supervisory authorities and international organizations regulate the capital of banks in order to prevent crises and ensure financial stability, The practice of forming a list of systemically important banks to establish additional liquidity and risk management requirements is currently being used . Systemically important banks are banks that play an important role in ensuring the stability of the country's financial system and economic development, and their activities have a significant impact on national and international financial markets, credit policy, and economic growth processes.

The main characteristics of systemically important banks are as follows:

1. Large share of the economy and important role in financial markets;
2. Strong interconnections with other financial institutions;
3. Primary role in providing liquidity and providing credit resources;
4. Playing a decisive role during national and international financial crises.

The activities of systemically important banks are often subject to additional supervisory requirements, as their failure can have a negative impact on the entire financial system. Therefore, international financial institutions and central banks impose additional requirements and standards aimed at ensuring the stability of these banks.

3. Results

It is worth noting that the term "systemically important banks" is widely used in the areas of stability and supervision. The European Central Bank defines systemically important banks as "banks whose financial activities are disrupted and whose failure would result in significant losses for creditors and shareholders." The Financial Stability Board (FSB) associates systemically important banks with systemic risks, defining them as "organizations whose failure, disruption, or exit from the market could have a negative impact on the entire financial and banking system and the economy of a country, and which could spread through various channels." It can be said that the systemic importance of a bank depends on the following factors:

1. The size and international activities of the bank;
2. The bank's relationships and role in the industry;
3. The complexity and diversity of the bank's activities;
4. The content of its structural structure and activities.

J. Carmassi and R. Herring's study found that the number of branches and subsidiaries of a bank also increases its systemic importance. If we look at systemically important banks from a negative perspective, such banks can cause major crises in the financial system if they are not adequately supervised [7].

However, on the positive side, systemically important banks play a key role in ensuring the stability of the financial system [8].

The Basel Committee on Banking Supervision has proposed a methodology for measuring systemic risk and stress testing for financial institutions. Systemic risk is determined by the amount of insurance funds against financial crises, which is based on correlations between the probability of bank default and the return on assets[9]. The authors' analysis shows that during the 2008 crisis, the insurance funds needed to protect the 12 largest US banks from losses would have been about 15% of their total liabilities.
Yu. Yao, X. Ju va L. Vey Systematic significance index in authored studies (SIS - Systemically Important Score) they offered [9]

SIS = $\sum k \ x \ pk, N \ k$=1 (1.1)

Here:

a. N – the number of banks in the country's banking system;
b. Pk – an indicator (from 0 to 1) that indicates the probability that k banks will also default if a particular bank defaults;
c. k – The level of potential damage that can be spread through the bank.

Here, the value of k depends on the level of loss in the event of default, since in some cases the bankruptcy of one bank may not cause a "domino effect[10]." The results of the study showed that, in addition to the size of assets, the degree of interconnectedness with other banks is also an important factor determining systemic importance.

In conclusion, the advantage of the econometric approach to identifying systemically important banks is its objectivity[11]. The disadvantage is that the necessary data is not available in open sources.The concept of systemically important banks (SIBs) has become central in discussions regarding financial stability, regulation, and supervision. These banks are considered critical due to the potential consequences their failure could have on both national and global financial systems [12]. The European Central Bank defines systemically important banks as "banks whose financial activities are disrupted and whose failure would result in significant losses for creditors and shareholders." Similarly, the Financial Stability Board (FSB) emphasizes the systemic risk posed by such institutions, describing them as "organizations whose failure, disruption, or exit from the market could negatively impact the entire financial and banking system and the national economy, with potential spillover effects across multiple channels [13].

The systemic importance of a bank depends on multiple factors, including the size of its assets, international presence, relationships within the financial industry, complexity and diversity of operations, and structural characteristics. Studies by J [14]. Carmassi and R. Herring indicate that the number of branches, subsidiaries, and networked operations further enhances a bank's systemic significance. From a negative perspective, the lack of adequate supervision over SIBs can trigger severe financial crises [15]. Conversely, these banks play a vital role in stabilizing the financial system, providing liquidity, and maintaining confidence in interbank markets.

4. Conclusion

In conclusion, we all know that assessing the financial stability of commercial banks and ensuring the economic stability of the country are important issues. At the same time, it is known that the financial difficulties of large banks lead to a "domino effect" that complicates the activities of economic entities and aggravates the economic situation, which leads to negative consequences.

Therefore, identifying systemically important banks, designating national and global systemically important banks, and regulating their activities will prevent any problematic situations. It is important for the supervisory authorities of all countries to establish additional economic standards for systemically important banks and ensure the stability of their activities. To this end, constantly studying the experience of foreign countries, while implementing the recommendations of the international Basel Committee on Banking Supervision, will help prevent various complex situations.

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