

## Systemic importance: some simple indicators<sup>1</sup>

*Are there simple yet reliable indicators of banks' systemic importance? In addressing this question, this article explores three model-based measures of systemic importance and finds that bank size helps approximate each of them. A bank's total interbank lending and borrowing provide useful complementary information.*

*JEL classification: G20, G28, L14.*

A pressing policy objective is to finalise and implement a regulatory framework for systemically important financial institutions. Meeting this objective calls for measures of systemic importance. The recent academic literature has proposed a number of such measures, underpinned by sophisticated economic and statistical techniques. Despite their intellectual appeal, these measures pose serious challenges for practitioners. They are demanding on data, computationally intensive and difficult to communicate to the general public. In addition, given that the measures require detailed system-level information, individual institutions would not be able to use these measures directly in order to assess and manage their own degree of systemic importance. This prompts the question whether there are simple, readily available indicators that are reliable proxies for the more sophisticated measures.

In this article, we address this question empirically. We use data on 20 large internationally active banks to test the relationship between three sophisticated, model-based measures of systemic importance and three simple indicators. Given the multifaceted nature of systemic importance, we consider both top-down and bottom-up measures. The top-down measures first derive systemic (ie system-wide) risk and then allocate it to individual institutions. We explore two such measures that differ in terms of their perspective on systemic importance and, consequently, in the way in which they allocate system-wide risk. We also consider one bottom-up measure, which first assumes distress in a particular institution and then evaluates the level of system-wide risk associated with that event. We then compare each of these measures to simple indicators that are

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<sup>1</sup> The views expressed are those of the authors and do not necessarily reflect those of the BIS. Jörg Urban and Marek Hlaváček provided excellent research assistance. Claudio Borio, Stephen Cecchetti, Robert McCauley, Kostas Tsatsaronis and Christian Upper provided helpful comments on earlier drafts of the article.