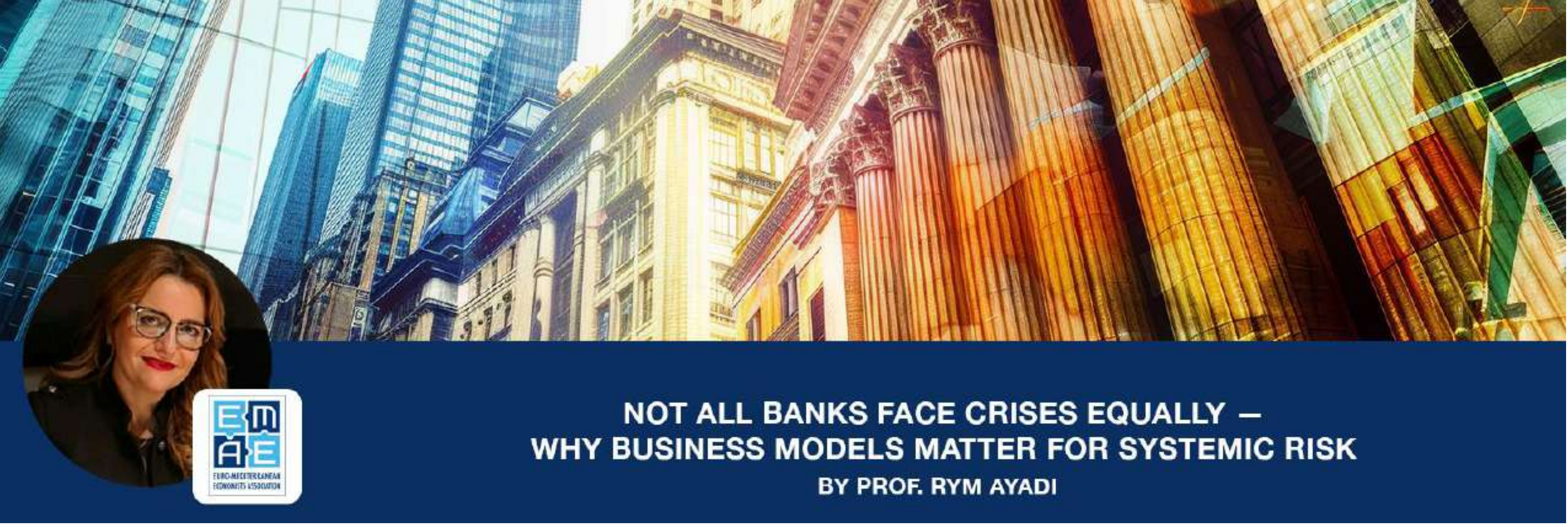

Not All Banks Face Crises Equally —Why Business Models Matter for Systemic Risk

As the world continues to grapple with economic uncertainty, climate risk, geopolitical tensions, and the lasting effects of health crises, one crucial lesson emerges: the resilience of our financial system hinges not only on regulation and capital buffers, but on the core business models that banks choose to operate.

In our latest study published in the Journal of Financial Stability, we examined the role of bank business models in shaping exposure to systemic risk across different types of crises—economic, financial, political, and health-related. Using a unique dataset covering European listed banks between 2005 and 2020, we found that business models matter far more than previously understood.

Banks are not monoliths. Some prioritize retail lending and relationship banking. Others are heavily invested in market-based activities or rely on complex, interconnected funding mechanisms. Each model carries its own risk dynamics. What we found is that these differences are not just technical—they are structural contributors to how shocks propagate through the financial system.

For instance, in times of financial turmoil, investment-focused banks tend to amplify risk due to higher leverage and interconnected exposures. Conversely, relationship-oriented retail banks often act as shock absorbers, stabilizing credit provision during downturns. The same patterns do not always hold during political or health crises—showing that the origin of instability also shapes systemic outcomes.

These insights have deep implications. Current regulatory frameworks often apply a one-size-fits-all approach, focusing on capital adequacy, liquidity coverage, and stress testing. While these tools are essential, they miss a vital component: the diversity of bank business models and how they interact with specific risk environments. Regulators and supervisors must now embrace a more differentiated approach—one that recognizes the heterogeneity in how banks operate and how that influences systemic vulnerability.

Looking forward, the picture becomes even more complex. Banks are rapidly adapting to digital transformation, integrating artificial intelligence, engaging in green finance, and facing pressure to respond to climate-related financial risks. These shifts will give rise to new business models—or evolve existing ones in ways that are not yet fully understood. The urgency to monitor and evaluate these dynamics is growing.

Our findings suggest that future financial stability research must go deeper into understanding how new and evolving business models interact with systemic risk—especially in an era of polycrises. Regulators, academics, and financial institutions must work together to build a more nuanced risk assessment architecture—one that aligns business model analysis with real-time risk detection and forward-looking supervision.

In an interconnected world, safeguarding stability will require more than managing risk. It will require understanding where that risk originates—and how different players in the system are wired to respond.

Prof. Rym Ayadi – President, Euro-Mediterranean Economists Association (EMEA)

The paper "**The Origin of Financial Instability and Systemic Risk: Do Bank Business Models Matter?**", was published by the Journal of Financial Stability on March 2025.

The paper was co-authored by EMEA President **Prof. Rym Ayadi**, Professor at Bayes Business School, City University of London, and CEPS Senior Advisor; **Prof. Barbara Casu**, Professor of Banking and Finance & Director of the Centre for Banking Research at Bayes Business School, City University of London, and EMEA Advisor; **Dr. Doriana Cucinelli**, Associate Professor of Financial Intermediaries at the University of Parma, Italy, and EMEA Research Fellow; and **Prof. Paola Bongini**, Professor of Banking and Finance at the Università degli Studi di Milano-Bicocca, and member of the EMEA Expert Panel.

For more info please visit:

- Paper on the Importance of Bank Business Models for Financial Stability Co-Authored by R. Ayadi, B. Casu, D. Cucinelli, and P. Bongini Published in the *Journal of Financial Stability*
- Banking Business Models: Definition, Analytical Framework and Financial Stability Assessment
- Banking Business Models Research Platform

It should be noted that Prof. Rym Ayadi served as the Chair of the European Banking Authority (EBA) Banking Stakeholders Group (BSG) of which she acted as elected Chair from February 2019 to July 2024. Please see "The EBA publishes the End of Term of Office report of the EBA Banking Stakeholder Group Chaired by Prof Rym Ayadi"