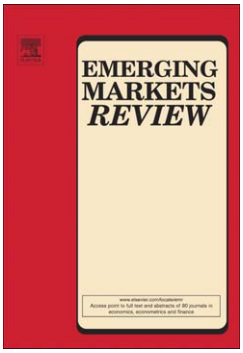

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Interconnectedness and systemic risk of China's financial institutions

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Abstract

We investigate the interconnectedness and systemic risk of China's financial institutions by constructing dynamic tail-event driven networks (TENETs) at 1% risk level based on weekly returns of 24 publicly-listed financial institutions from 2008 to 2016. Total connectedness reaches a peak when the system exhibits stress, especially during the recent period from mid-2014 to end-2016. Large commercial banks and insurers usually exhibit systemic importance, but some small firms are systemically important due to their high level of incoming (outgoing) connectedness. Our results provide useful information to regulators when they assess systemic risk of financial institutions and formulate macroprudential supervision policy.

Keywords: systemic risk, interconnectedness, financial crisis, financial regulation, financial institutions, CoVaR
JEL: G01, G18, G21

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