ABSTRACT

This study aims to examine the role of risk-based capital buffer adjustment (RBCBA) in mediating the effect of corporate governance (CG) and bank business models on the systemic risk of banks in the Asia Pacific region. RBCBA is a ratio that shows how quickly a bank adjusts its actual capital buffer level to the targeted capital buffer level while simultaneously prioritizing the speed of adjustment of its actual risk level to the targeted risk level. This RBCBA is proposed as a concept that is expected to play a role in mediating the influence of CG and the bank's business model on systemic risk.

In conducting the analysis, this study uses 113 banks as research samples with an observation period from 2006 to 2020. As a measure of CG, this study uses board size (BS), board independence (BI), board meetings (BM), and ownership concentration (OC), while as a measure of the bank's business model, this study uses asset structure (AS)), liability structure (LS), capital structure (CS), and income structure (IS). As a measure of systemic risk, this study uses the Delta Conditional Value at Risk (ΔCoVaR). Meanwhile, RBCBA is a ratio between the capital buffer adjustment speed and the risk adjustment speed.

The results of this study indicate that the corporate governance mechanism, which is characterized by a larger number of boards of directors and a greater proportion of the number of board independence, is quite capable of reducing the level of bank contribution to systemic risk, meanwhile, the frequency of board of directors meetings and ownership concentration are not sufficient to affect the level of bank contribution to systemic risk. In addition, the bank's business model, which is characterized by a lower loan to total asset ratio, a higher level of non-deposit funding, and a lower Tier I capital to total asset ratio, is actually quite able to reduce the bank's contribution to systemic risk, meanwhile, the income structure characterized by the level of non-interest income is apparently not sufficient to influence the level of bank contribution to systemic risk. In relation to RBCBA, the corporate governance mechanism, which is characterized by a larger number of board of directors, a greater proportion of board independence, a high frequency of board of directors' meetings, and more dispersed ownership, is apparently sufficient to encourage the bank's top management to make faster risk adjustments after an external shock occurs, as indicated by a small RBCBA level. In addition, the bank's business model, which is characterized by a higher loan to total asset ratio, lower non-deposit funding level, and a lower Tier I capital to total asset ratio, is also quite capable of encouraging the bank's top management to make risk adjustments more quickly after an external shock occurs, as indicated by the small RBCBA level, meanwhile, the income structure which is characterized by the level of non-interest income is apparently not sufficient to encourage the bank's top *management to make risk adjustments more quickly after an external shock occurs. Overall, the role of RBCBA in mediating the influence of CG and the bank's business model on bank systemic risk can be of concern to banks at the individual level as well as to policy makers at the authority or regulatory level.*

Keywords: *board size, board independence, board meeting, ownership concentration, asset structure, liability structure, capital structure, income structure, capital buffer adjustment, risk adjustment, systemic risk*