NETWORK MOTIF OF INTERBANK PAYMENT AS AN EARLY WARNING SIGNAL OF LIQUIDITY CRISIS

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The widespread impact of the global the financial crisis is due to the connectedness between actors on the financial markets.

In contrast to previous studies (Kawada, 2016; Squartini, et al., 2013), the present study intends to compare the motif connectedness between two banks (dyadic motif) in RTGS transactions, with clearing transactions as early warning signals.

Inter-agency economic connectedness in the financial system are dynamic (Squartini, et al., 2013). The patterns of connectedness can be altered either due to endogenous factors, or exogenous factors due to the pressures in the economy transmitted through interconnected financial linkages.
THE THEORETICAL BASIS

<table>
<thead>
<tr>
<th>YEAR</th>
<th>RESEARCH</th>
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<tbody>
<tr>
<td>2006</td>
<td>National crises may lead to changes in the payment system network topology</td>
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<td>2008</td>
<td>Analyzing relationship patterns within a network in UK using the degree of heterogeneity approach</td>
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<td>2013</td>
<td>Introducing Reciprocal Configuration Model (RCM) approach to explain the relationship motifs among the 3 banks in the network and the triadic motif in the network payment system is able to show early warning signal.</td>
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Soramaki et al.  
Becher et al.  
Schmitz and Puhr  
Squartini  
Kawada  
Craig and Von Peter  
Baek  
Leji et al.  

BANK INDONESIA
To compare the motif connectedness between two banks (dyadic motif) in RTGS transactions with clearing transactions as an early warning signals.

High-value payment transactions (RTGS) and retail transactions (clearing) in Indonesia.

1. Null Model
2. Dyadic Motif
3. Cross Correlation Function
The network structure of the interbank exposure transaction used in this study was analyzed based on the dyadic motifs i.e. the motifs formed from the relationship between two nodes in the directed network. Dyadic motifs consist of single link, reciprocated link, and null link.

To further explore the patterns of interbank payment transaction movement, the cross-correlation (CCF) is used to determine whether a series includes lagging or leading indicator.
Local Constraint (Null Model)

The Hamiltonian DRG was formulated as follows:

\[ H(A, \hat{\theta}) = \theta L \]

\[ P(A|\hat{\theta}) = \prod_{i} \prod_{j(\neq i)} p^{a_{ij}} (1 - p)^{1-a_{ij}} = p^L (1 - p)^{N(N-1)-L} \]

where \( p = \frac{x}{1+x} \) with \( x \equiv e^{-\theta} \). Parameter \( x \) can be changed to \( x^* \) that maximizes likelihood \( \hat{A}^* \). In this case,

\[ \langle L \rangle = \sum_{i} \sum_{j(\neq i)} \frac{x^*}{1+x^*} = L^* \]

The expected value of the adjacency matrix entry becomes \( a_{ij} = p^* = \frac{x^*}{1+x^*} \). Then the P parameter formula i.e.:

\[ p^* = \frac{L^*}{N(N-1)} \]

which is a link density. The DCM model has two-degree sequences for the local constraint i.e. out-degree sequence, \( k^{out}_i = \sum_{j(\neq i)} a_{ij} \) and \( k^{in}_i = \sum_{j(\neq i)} a_{ij} \). The DCM is obtained if in- and out-degree are entered as constraints in vector \( \hat{\mathbf{c}} \). The Hamiltonian DCM is formulated as follows:

\[ H(A, \hat{\theta}) = \sum_{i=1}^{N} (\alpha_i k^{out}_i + \beta_i k^{in}_i) \]

\[ P(A|\hat{\theta}) = \prod_{i} \prod_{j(\neq i)} p_{ij}^{a_{ij}} (1 - p_{ij})^{1-a_{ij}} \]

where \( p_{ij} = \frac{x_i y_j}{1+x_i y_j} \) with \( x_i \equiv e^{-\alpha_i} \) and \( y_j \equiv e^{-\beta_i} \). Parameters \( \{x_i\} \) and \( \{y_j\} \) can be replaced with values \( \{x_i^*\} \) and \( \{y_j^*\} \) which maximize likelihood \( \hat{A}^* \). In the following case,

\[ \langle k_i^{out} \rangle = \sum_{j(\neq i)} \frac{x_i^* y_j^*}{1 + x_i^* y_j^*} \]

\[ \langle k_i^{in} \rangle = \sum_{j(\neq i)} \frac{x_j^* y_i^*}{1 + x_j^* y_i^*} \]

After all of the parameters have known values, the expected value of the adjacency matrix entry becomes:

\[ \langle a_{ij} \rangle = p_{ij}^* = \frac{x_i^* y_j^*}{1+x_i^* y_j^*} \].

Dyadic motif

The number of occurrences of a particular motif was denoted by \( N_m \) and \( m = L^*, L^-, L^+ \). Formula \( N_m \) for the dyadic motif i.e.:

\[ N_{L^-} = \sum_{j(\neq i)} a_{ij}(1-a_{ji}), N_{L^+} = \sum_{j(\neq i)} a_{ji}(1-a_{ij}), N_{L^0} = \sum_{j(\neq i)} a_{ij}a_{ji} \]

The original value information, the expected value, and the \( N_m \) variant can be used to compare the observed value and the expected value, known as z-scores, i.e.:

\[ z_m = \frac{N_m(A^*) - \langle N_m \rangle^*}{\sigma^*[N_m]} \]

where \( \sigma^*[N_m] \equiv \sqrt{\langle N_m^2 \rangle^* - (\langle N_m^* \rangle)^2} \) is the standard deviation of the null model.
Null link motifs were more dominant compared to the other motifs, since a transactional relationship between banks occurs as a result of the need for liquidity or placement funds. It was being considered that there were selective process (including risk consideration) in RTGS which caused dominant null link.

Reciprocated link motifs were more dominant compared to other motifs since the interbank transactions through the clearing are random, and the transactions are initiated by the customers.

Figure 1. Series (a) Reciprocated, (b) Single, and (c) Null Links within the period of 2006-2016.

*) SKN: National Clearing System of Indonesia
Either on RTGS or clearing transaction, z-score results from both models, the DCM produced smaller z-scores compared to the DRG. The results showed that the DCM approach, in both RTGS and clearing transactions, can estimate more accurately compared to the DRG approach.

Figure 2. Z-score results normalization of the DRG and DCM at various link motifs.

*) SKN: National Clearing System of Indonesia; *) FSI: Indonesia Financial System Stability Indicator (ISSK)
Most of the CCFs between RTGS transactions and the FSI (Financial Stability Index) showed significant results prior to lag 0, indicating that the RTGS transaction is leading towards the FSI. In addition, the transaction motif, of the reciprocated link on the DCM z-score, had the highest correlation with the FSI. This indicated that the DCM approach, using the reciprocated motifs, had the best results in terms of capturing the crisis signal compared to the FSI.

Figure 3. CCF results from RTGS to FSI.

*) FSI: Indonesia Financial System Stability Indicator (ISSK)
In the clearing transactions, the CCF results revealed a significant correlation before and after the lag 0, signifying that the lagging status or the clearing leading z-score status towards the FSI is unknown. The z-score values of the clearing transactions are not as good as those of the RTGS transaction in capturing the crisis signal.

* FSI: Indonesia Financial System Stability Indicator (ISSK)

Figure 4. CCF results from clearing to FSI.
There was a leading signal from the z-score in the clearing towards the RTGS transactions due to the clearing transaction is the beginning of the emergence of a bank liquidity needs. At the end of clearing transactions settlement, a bank in a negative clearing net position will seek funds on the interbank market through the RTGS system to cover its shortfall. The clearing transaction becomes one of the sources affecting liquidity needs in the RTGS.

Figure 5. CCF results from RTGS to SKN.

*) SKN: National Clearing System of Indonesia; *) FSI: Indonesia Financial System Stability Indicator (ISSK)
The null link motif dominates the RTGS transactions, while the reciprocal link motif commands the clearing transactions in the SKN*. This occurs because, in RTGS transactions, the interbank relation is more concentrated in some banks only and do not spread to other banks.

The estimation of the DCM approach is more accurate than that of the DRG approach in both types of transactions. This showed that the DCM model, in the RTGS transaction, has a potential as an early warning signal for the liquidity crisis conditions.

The presence of leading signals from the z-score of the clearing towards RTGS transaction, indicating that a clearing transaction may affect the liquidity requirement of an RTGS transaction. Thus, although the clearing transactions do not have the potential to reflect the liquidity conditions, they precisely and firstly signal the RTGS transactions.

The RTGS payment transactions can be an indicator of the occurrence of financial liquidity. The DCM model and interbank reciprocal relationship can be used as an early warning signal of the liquidity crisis.

The next study can be more focused on the z-score threshold measurement. In addition, the payment motif between the three banks (triadic motif) can be an alternative to better understand the interbank payment transaction motifs.

*) SKN: National Clearing System of Indonesia
THANK YOU FOR YOUR ATTENTION