1. Banks in the Financial System

This chapter explains the economic functions and organizational structure of contemporary banking. It first discusses the role of banks in the economy, offering a brief account of the role of the financial system in capital allocation and risk management as well as key bank functions in this respect. It then details the rise and fall of the multifunctional bank in the era of globalization, and the different aspects of the too-big-to-fail bank problem and its possible causes. It explains the international nature of bank regulation and the standard-setting and regulatory coordination provided by key transnational regulatory networks such as the Basel committee on Bank Supervision and the Financial Stability Board; discusses the legal definition of the term ‘bank’ in the US and of ‘credit institution’ under EU legislation; advances a new understanding of what the term ‘bank’ means in the post-2008 era.