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Measuring the systemic importance and resilience of the building societies sector

Research report summary

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Foreword

Building societies play a central role in the UK financial system, particularly in mortgage lending and household savings. This report examines the systemic importance and resilience of the sector over the period 2000–2024, focusing on its exposure to system-wide financial stress.

Using a range of balance-sheet and market-based indicators, the analysis highlights clear differences between building societies and commercial banks in terms of risk-taking and transmission of stress. While a small number of large societies account for most of the sector's systemic footprint, the findings suggest that building societies overall pose limited risks to financial stability. The report aims to inform ongoing policy discussions on proportionate regulation and macroprudential oversight of the sector.

About the author

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Disclaimer

This research was funded by a Building Societies 250th Anniversary Award, marking the founding of the first known building society. The views expressed are those of the author and do not necessarily reflect those of the BSA. Any errors or omissions remain the author's own.

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1. Are building societies systemically important?

- **Growing macrofinancial significance:**

Building societies have expanded from £150 billion in 2000 to over £600 billion in 2024, maintaining positive growth even during major crises. They now account for 6.4% of UK financial system assets, employ over 55,000 staff, and have seen far fewer branch closures (around 7%) compared with banks (roughly 60%).

- **Central role in household finance:**

The sector holds approximately 23% of UK retail savings deposits (2025 Q1). In 2024, building societies approved more than 412,000 mortgages worth £77bn, with mortgage balances rising to nearly £500 billion and market share reaching approximately 30%.

- **Increasing regulatory attention:**

As the PRA withdraws SS20/15 and transitions the sector into the Strong and Simple Framework, building societies are receiving greater supervisory focus. This aligns with the Bank of England's emphasis on collective systemic risk, correlated mortgage exposures, and system-wide stress testing (e.g. the System-Wide Exploratory Scenario).

What is systemic risk?

Systemic risk is the risk that distress or failure in significant financial institutions, markets, or instruments triggers widespread disruption to the financial system and the broader economy.

Why non-listed institutions are challenging to assess:

Traditional systemic-risk measures (such as SRISK, Conditional Value-at-Risk (CoVaR), or other market-based indicators) rely on equity prices and market returns. Because building societies are not listed, they are not captured by traditional market-based systemic-risk measures that rely on equity price data.

How the report fills this gap

The report provides a comprehensive assessment of the systemic importance of building societies over 2000–2024 by combining multiple complementary approaches that jointly evaluate their solvency strength, their contribution to system-wide stability, and their sensitivity to broader financial stress.

2. Evaluating the stability of the building societies sector

Building societies maintain stronger solvency buffers and more stable earnings, making them markedly less risky across the cycle.

- Over the period 2000–2024, building societies consistently maintain equity-to-asset ratios of around 9% (compared with 5% to 6% for banks) and remained above 5% even during the Global Financial Crisis (GFC), while banks fell below 4%.

- Although banks earned higher ROA, especially during expansions, building societies operate with lower but steadier returns, making them structurally less risky and less volatile across the cycle. According to our data, the volatility of ROA is 0.13% for the largest societies versus 0.37% for systemic banks (and 0.12% versus 0.95% when the full populations are compared).

- **Building societies exhibit substantially higher Z-scores than UK banks, indicating markedly lower default risk.** Their Z-scores remained elevated even during the GFC and the COVID-19 period, highlighting strong capital buffers, low earnings volatility, and overall balance-sheet resilience.

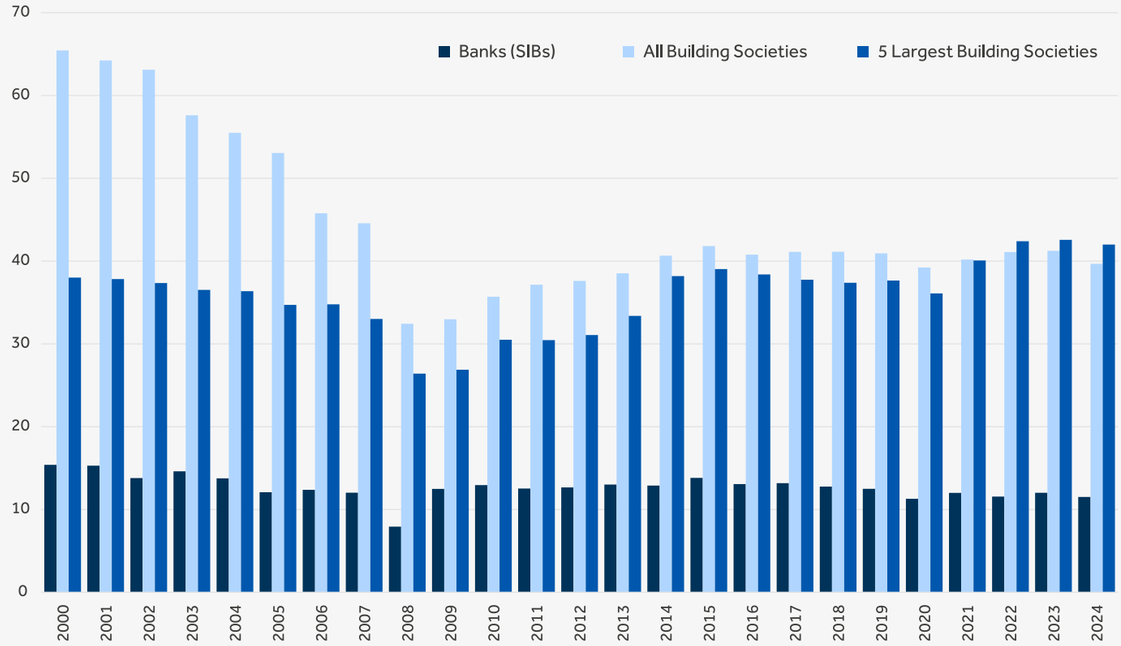


Figure 1: Z-score for UK banks and building societies
Source: Author's calculations based on BSA and EIKON Datastream data.

3. Building societies as a source of system resilience

To complement the standard Z-score analysis, we use the Leave-One-Out (LOO) Z-score approach of Li et al. (2020) to assess how much building societies contribute to the stability of the wider financial system. Whereas the regular Z-score measures each institution's own distance to default, the LOO Z-score asks a simple but policy-relevant question:

What happens to system-wide solvency if we remove one institution (or sector) from the system?

- **Positive stability contribution:**

If removing the building societies sector lowers the aggregate Z-score, this indicates that the sector enhances system-wide resilience. As shown in Figure 2, excluding building societies reduces system-wide solvency by around 2% to 5%, with the strongest stabilising effects during the GFC and the post-2018 period.

The effect increases to 5% to 8% when the comparison is restricted to banks alone. This confirms that building societies act as a net stabiliser, strengthening the resilience of the UK financial system rather than amplifying risk.

- **Stability driven by smaller institutions:**

A second result emerges when we examine heterogeneity within the sector. Removing the five largest building societies increases the sector's Z-score by 15% to 25%, implying that the strongest stability contribution comes from small and mid-sized societies. These institutions operate with more conservative balance sheets and higher solvency buffers, while the largest societies exhibit risk characteristics more closely aligned with commercial banks.

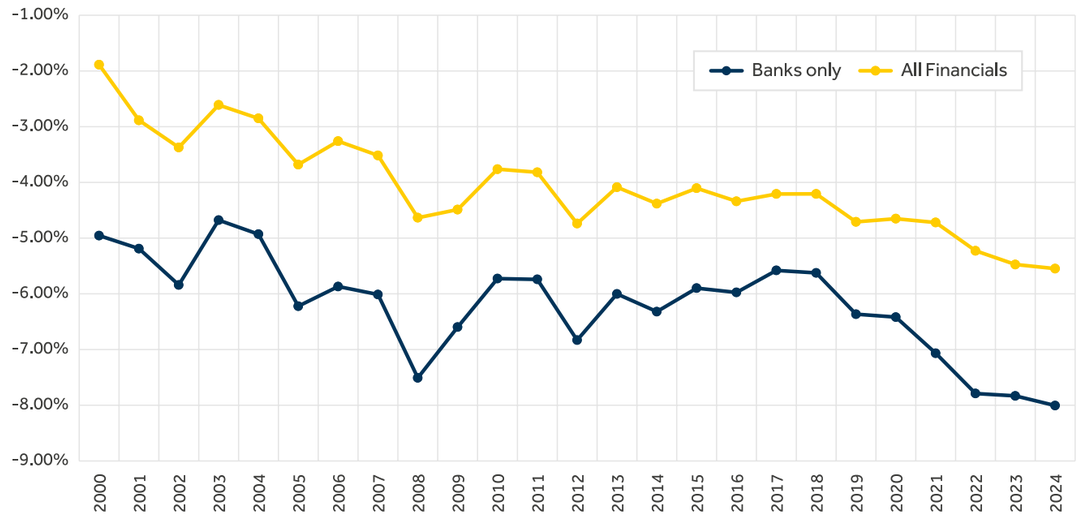


Figure 2: Impact of including building societies on system-wide stability (% difference)
Source: Author's calculations based on BSA and EIKON Datastream data.

4. Systemic risk estimates: SRISK

- To evaluate the potential systemic importance of building societies under severe market stress, we estimate SRISK developed by Brownlees and Engle (2017), a widely used measure of the capital shortfall an institution would face during a crisis. SRISK quantifies how much additional capital an institution would need to remain solvent during a financial crisis and is widely used to gauge systemic importance.

- Because building societies are non-listed and SRISK (like most firm-level measures of systemic risk) normally requires market-return data, we apply the **indirect balance-sheet-based estimation method** proposed by Engle et al. (2024) for the Euro Area and adopted by Skouralis (2026) for the UK, which allows us to evaluate the systemic footprint of building societies.

- **Low systemic risk footprint:** The results, presented in Figure 3, indicate that building societies contribute only a small share of system-wide capital shortfall. Across the 2000–2024 period, **the sector accounts for around 3.5% of aggregate UK SRISK** (4.6% in 2024), and approximately 6% when focusing solely on the combined population of banks and building societies. This confirms that, at the country level, the sector's systemic importance is modest, especially when compared to large commercial banks.

- **Systemic risk concentrated among the largest societies:** Systemic risk is not evenly distributed across the sector. Figure 4 presents the contribution to sector-wide SRISK from different groups of building societies defined by their total assets.

- **The five largest building societies account for over 92%** of total sector SRISK, reflecting their scale, mortgage-market concentrations, and higher sensitivity to system-wide stress. This pattern is fully consistent with the LOO Z-score evidence, which shows that removing these institutions increases the sector's aggregate Z-score and therefore improves overall stability. Although these societies remain fundamentally sound, their size implies a greater potential to contribute to systemic shortfalls during adverse conditions. Alternatively, **medium and small building societies exhibit negligible systemic importance.**

Figure 3: SRISK decomposition across UK financial sectors
Source: Author's calculations based on BSA and EIKON Datastream data.

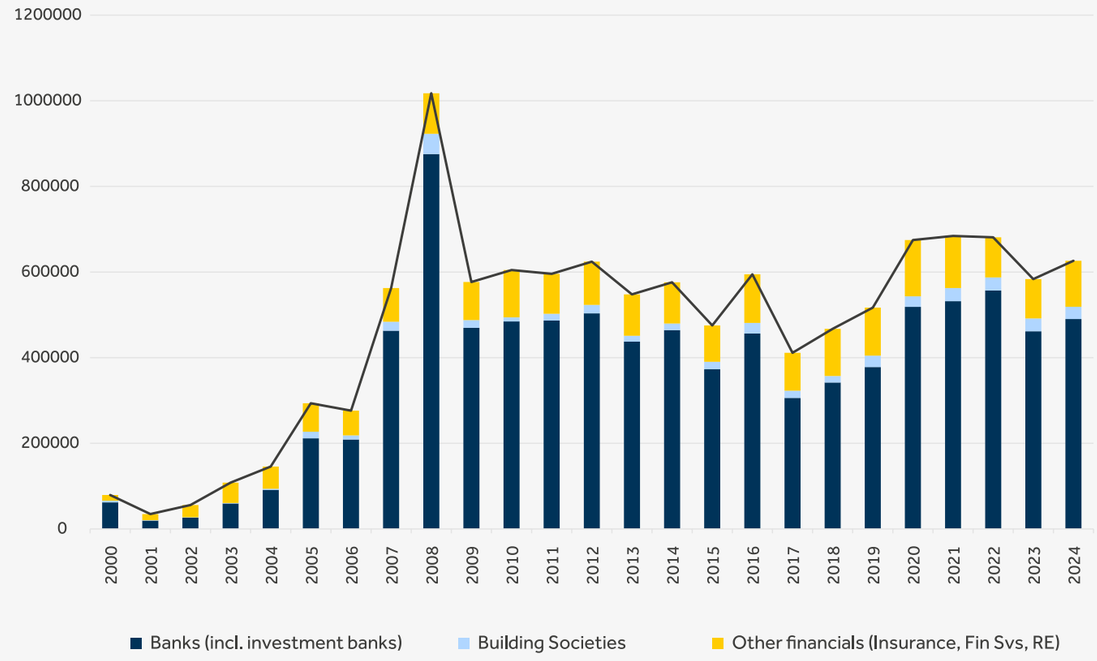
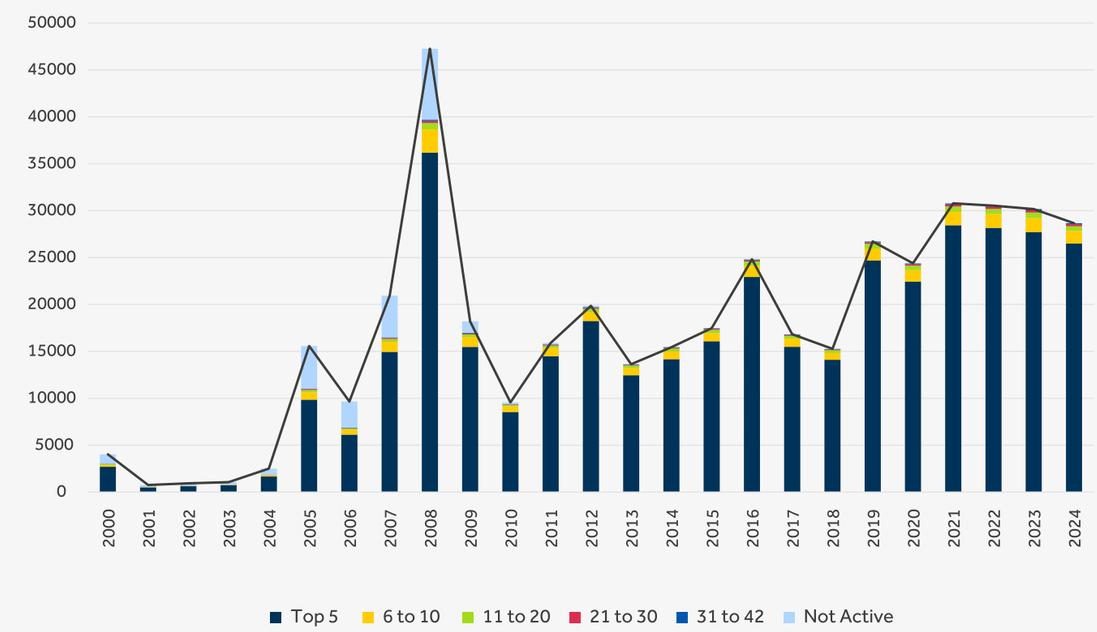


Figure 4: SRISK within the building societies sector by size group
Source: Author's calculations based on BSA and EIKON Datastream data.



5. Systemic Resilience: How building societies respond to systemic stress

- We then assess the systemic resilience of the sector, or in other words, how vulnerable building societies are to broader financial-system downturns. Our approach follows the CoVaR framework and uses quantile regressions to estimate how building societies' asset growth behaves when the financial system enters a tail-risk state. Specifically, we model firm-level (or sector-level) asset growth conditional on the financial system being at its 5th percentile versus its median.

- The difference, **Exposure-ΔCoVaR,** between these two conditional outcomes **captures how strongly a building society's balance-sheet dynamics deteriorate when the entire financial system is under stress.** To address the small sample size and to obtain reliable inference at the tail of the distribution, we compute confidence intervals using non-parametric bootstrap resampling with 1,000 replications. By using asset growth instead of equity returns, the method provides a consistent and comparable measure of systemic sensitivity for both listed banks and non-listed building societies.

- **Moderate exposure to systemic shocks:** The findings show that **building societies experience asset-growth declines of around 2.5% to 4.5% during system-wide stress episodes, compared with much sharper 6% to 10% contractions for UK banks.** This indicates that, while building societies are not entirely immune to systemic downturns, their balance-sheet dynamics are far less procyclical and materially less likely to amplify systemic shocks than those of commercial banks.

6. Policy implications

Integrate building societies into systemic risk oversight:

The majority of building societies are not captured from traditional market-based systemic risk assessments. Incorporating indirect SRISK and Exposure-ΔCoVaR into the UK macroprudential toolkit would close this gap and align monitoring with the sector's growing macrofinancial relevance.

Maintain proportionate regulation:

Given their low systemic risk and stabilising effect on the financial system, prudential requirements should remain proportionate and risk based (consistent with the PRA's transition away from SS20/15 and toward the Strong and Simple Framework) rather than adopting bank-centric standards.

Enhance supervisory focus on the largest societies:

Systemic risk is concentrated in the five largest institutions, warranting targeted supervisory attention without extending unnecessary regulatory burdens to smaller building societies.

Preserve institutional diversity:

The mutual model provides countercyclical stability and limits correlated risk exposures. Therefore, maintaining a diverse financial system should therefore remain an explicit macroprudential objective.

Monitor housing-market and funding concentration risk:

While not explicitly analysed in this study, the sector's rising mortgage market share and reliance on retail deposits warrant ongoing monitoring, particularly under adverse housing and funding conditions.

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Building Societies Association

Established in 1869, the Building Societies Association (BSA) is the trade body representing all 42 UK building societies and seven of the largest credit unions through the National Credit Union Forum. Together, its members serve around 26 million customers across the UK and play a central role in the provision of mortgages, savings, and retail financial services.

The BSA works with government, Parliament, regulators, including the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), and international partners to support a diverse and resilient financial system. It provides policy, economic, and technical expertise to its members across areas including housing finance, savings, financial regulation, and green finance.

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