



Risk assessment and pricing a bank failure - German approach

Bernd Bretschneider

6 December 2016 | Conference on bank resolution, crisis management and deposit insurance issues

Financial Stability Institute, BIS, IADI, Basel/Switzerland



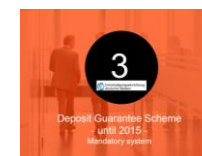
- Structure
- Deposit Protection Scheme since 1996
- Deposit Guarantee Scheme 2012 until 2015
- Deposit Guarantee Scheme since 2016
- GBB-Rating



slide 3



slide 6



slide 10



slide 13

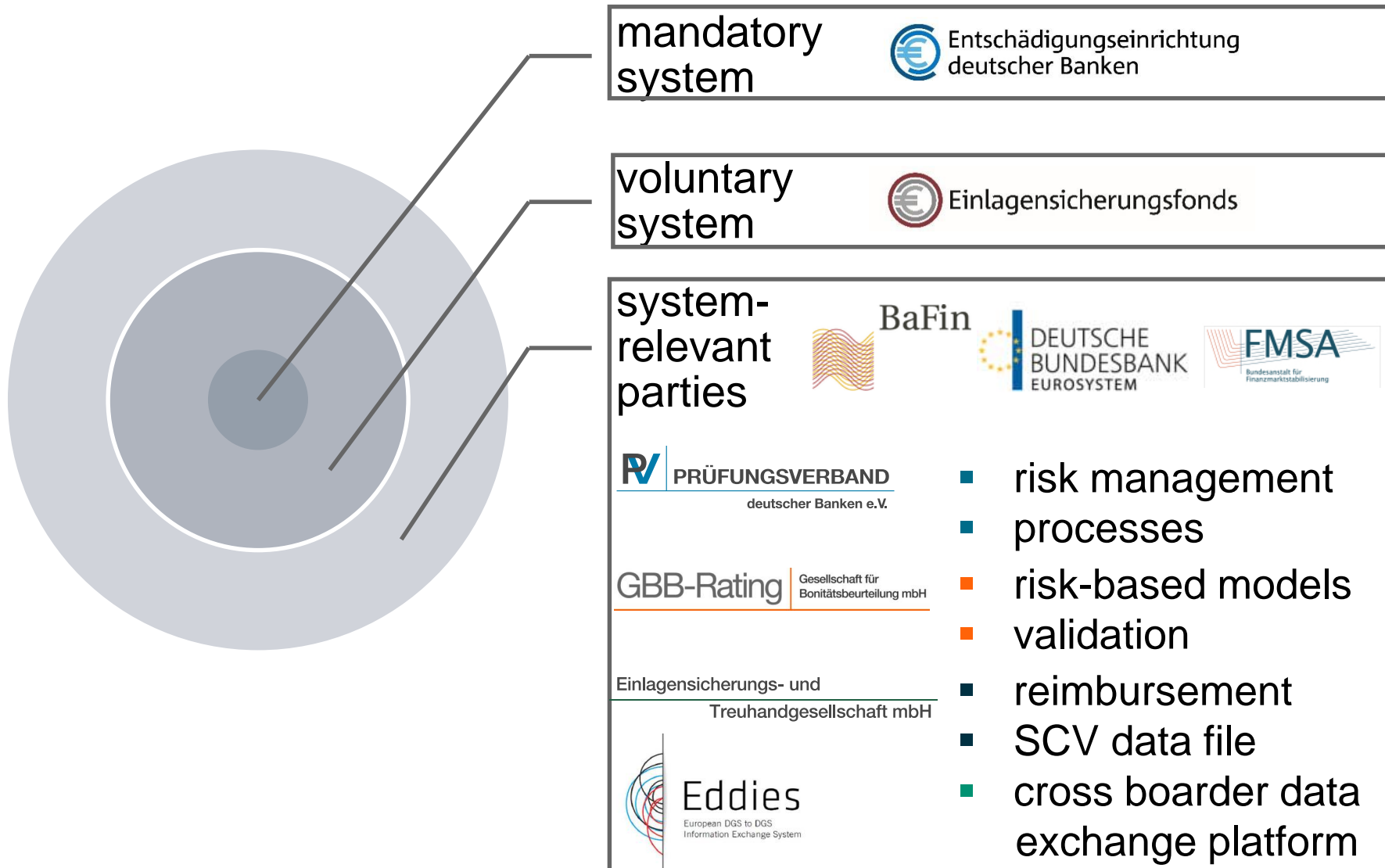


slide 20



1

The Structure
Germany



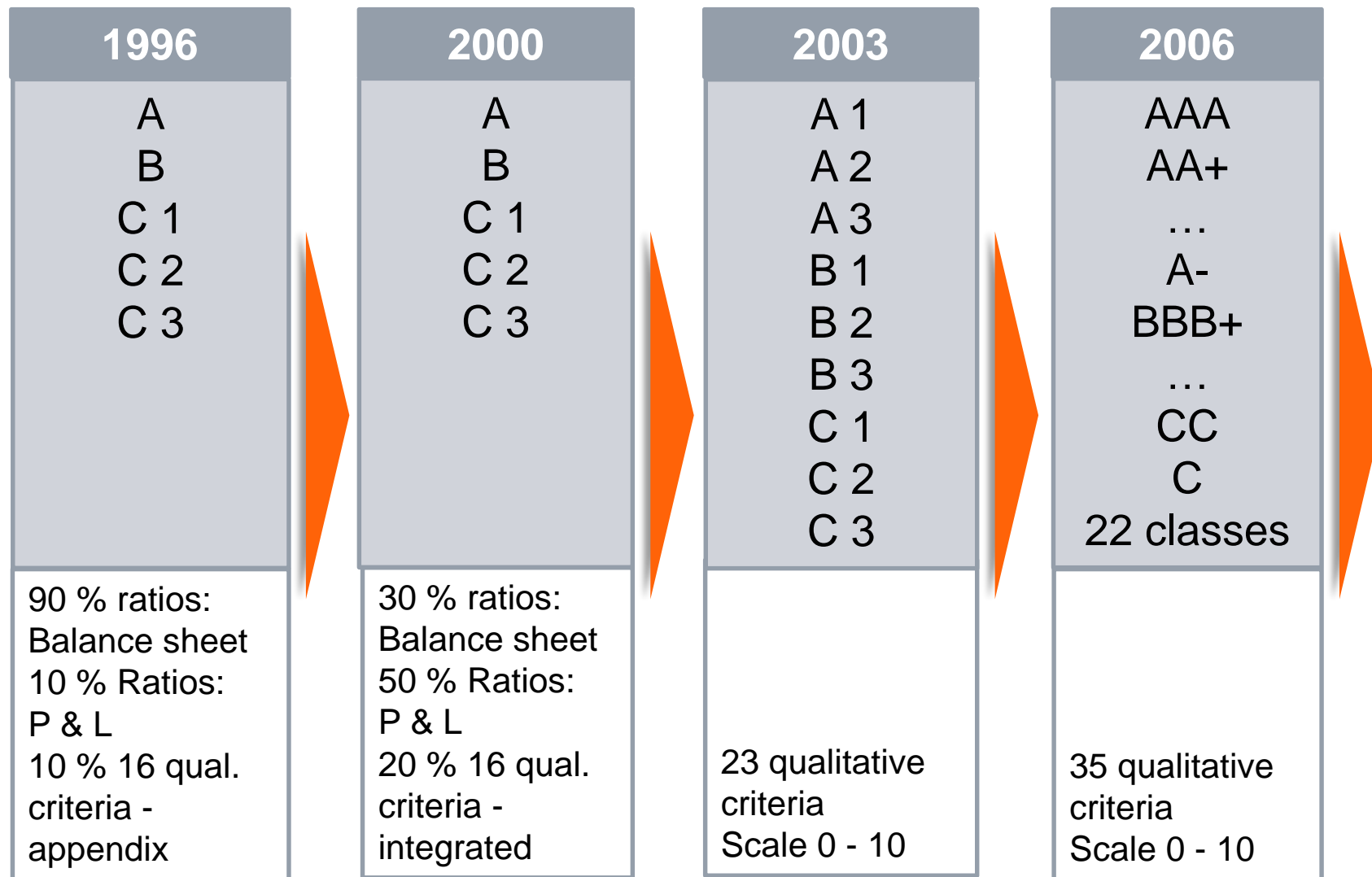
2

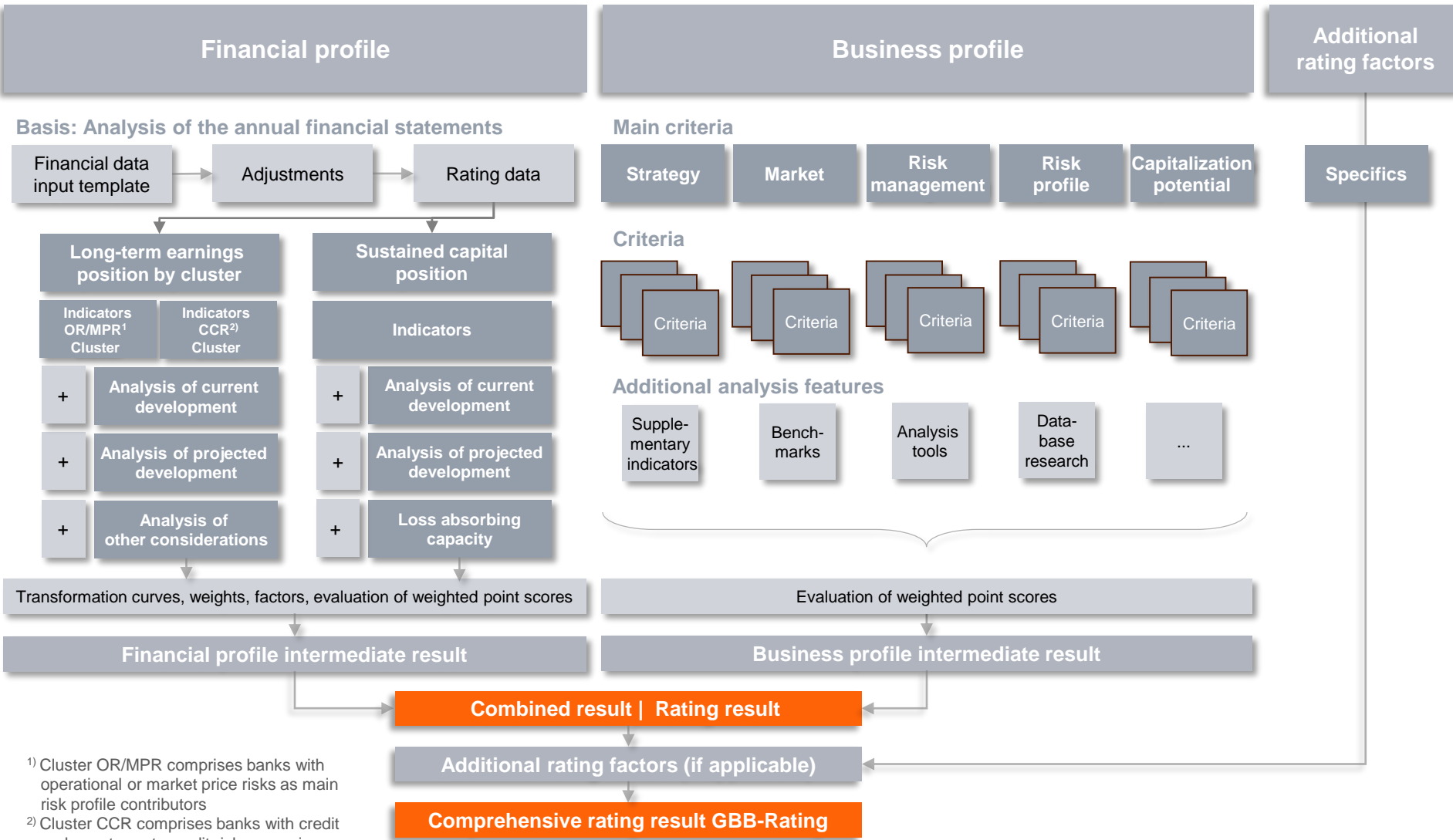


Einlagensicherungsfonds

Deposit Protection Scheme

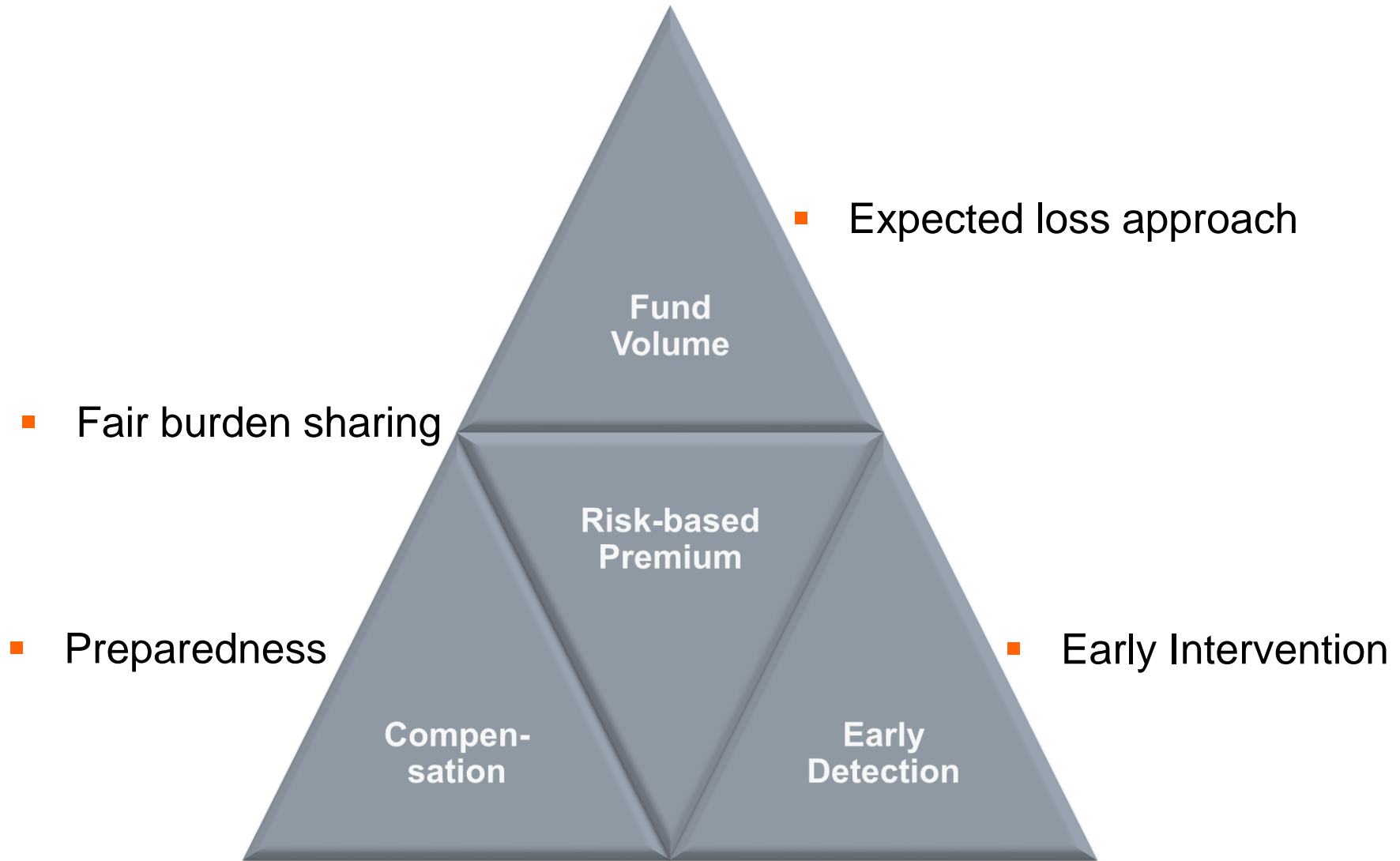
Voluntary system





1) Cluster OR/MPR comprises banks with operational or market price risks as main risk profile contributors
 2) Cluster CCR comprises banks with credit and counterparty credit risks as main risk profile contributors

- Methodology: Combined statistic based system – expert knowledge based system, annual back-testing, validation if necessary, probability of default approach
- Flexibility: Assessment of different business models
- Capability: Broad mandate of Auditing Association of German Banks
- Effort: Complex system - banks are complex
- Scope: Between -2 % (discount) and +350 % (surcharge), 14 premium classes

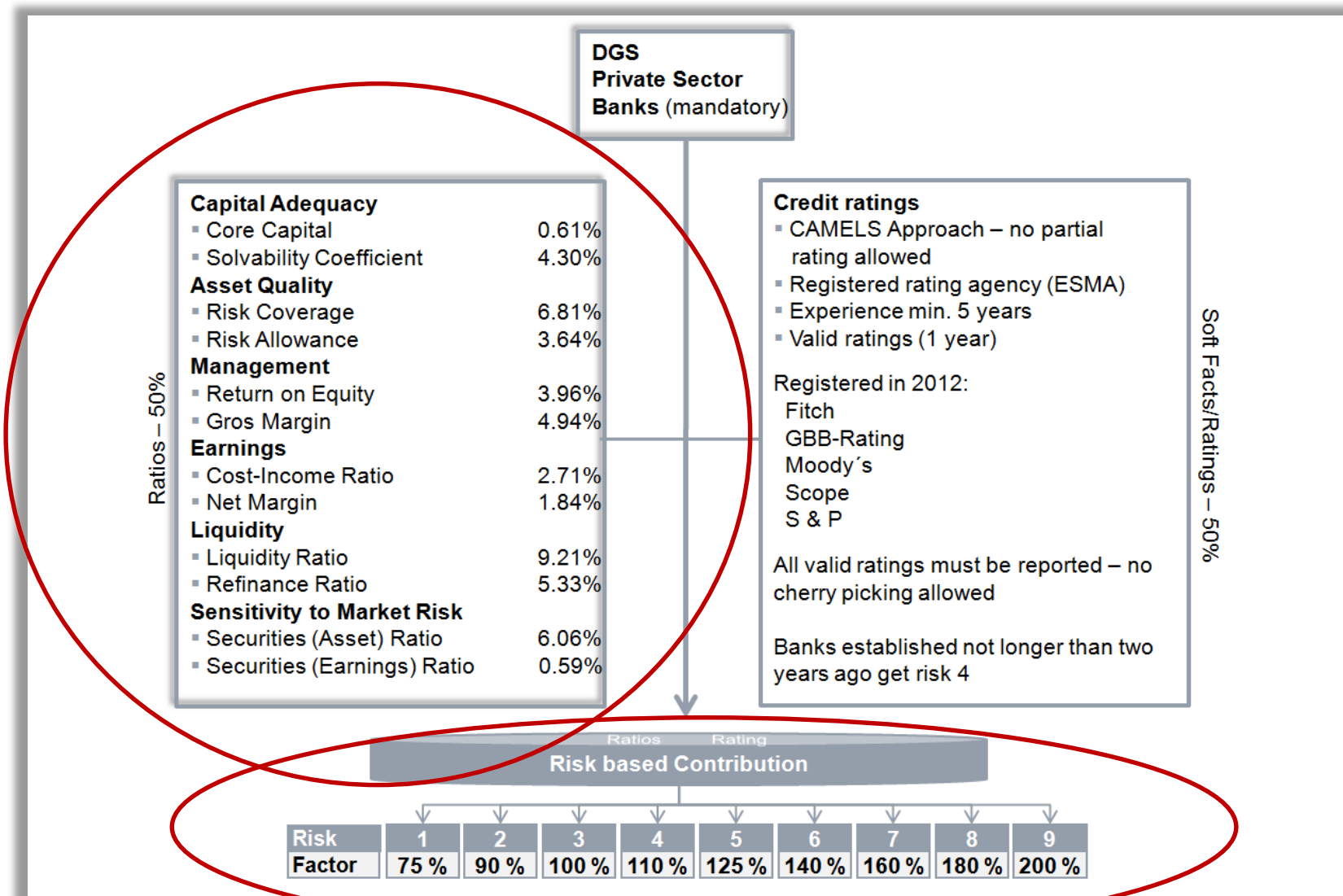


3



Entschädigungseinrichtung
deutscher Banken

Deposit Guarantee Scheme
- until 2015 -
Mandatory system



- Methodology: Statistic-based system, annual back-testing and validation if necessary
- Flexibility: Assessment of different business models due to integrated rating
- Capability: paybox
- Effort: Medium complexity, based on audited data from annual report
- Scope: Between 75 % and 200 %, 9 premium classes

4



Entschädigungseinrichtung
deutscher Banken

Deposit Guarantee Scheme
- since 2016 -
Mandatory system

EBA formula

$$C_i = CR \times ARW_i \times CD_i \times \mu$$

Where:

- C_i = Annual contribution for member institution i
- CR = Contribution rate (identical for all member institutions in a given year)
- ARW_i = Aggregate Risk Weight for member institution i
- CD_i = Covered deposits for member institution i
- μ = Adjustment coefficient (identical for all institutions in a given year)

German Transposition



Capital

- 1.1 Leverage Ratio 9 %
- 1.2 CET1 Ratio 9 %

Liquidity / Funding

- 2.1 Liquidity Coverage Ratio - LCR 18 %
- 2.2 Net Stable Funding Ratio - NSFR * 0 %
- * *contribution campaign 2019* 9 %

Asset Quality

- 3.1 NPL Ratio 13 %

Business Model and Management

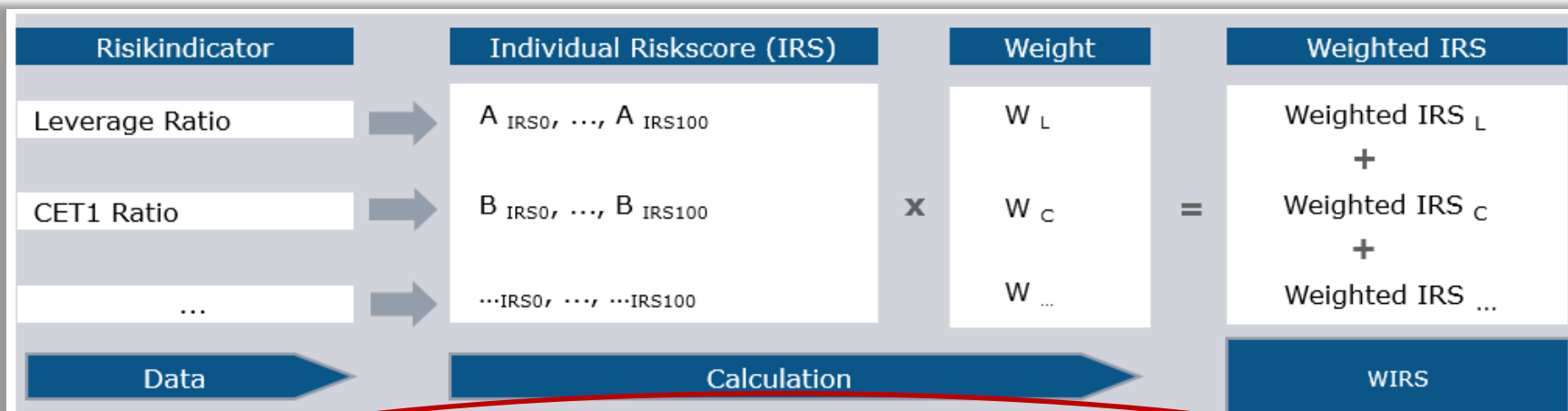
- 4.1 Risk Density 6,5 %
- 4.2 Return on Assets 6,5 %
- 4.3 Rating 25 %

Option for Building Societies:*

- * 4.3 Rating 18,5 %
- * 4.4 Specific Ratio 6,5 %

Potential Losses for the EdB

- 5.1 unencumbered assets / covered deposits 13 %



Soundness	0	1	2	3	4	5	6	7	8	9
ARW _i	50 %	75 %	90 %	100 %	110 %	125 %	140 %	160 %	180 %	200 %

- Methodology: Expert knowledge based system, annual back-testing, validation potential limited due to fixed framework
- Capability: paybox
- Effort: Simple system, based on data from COREP, FINREP and SCV file
- Scope: Between 50 % and +200 %, 10 premium classes

THANK
YOU



5

GBB-Rating

Gesellschaft für
Bonitätsbeurteilung mbH

GBB-Rating
Profile

Bernd Bretschneider | CV



- Bernd Bretschneider is managing director and working with GBB-Rating since 1996. GBB-Rating is the Rating Agency of the Deposit Guarantee Scheme of the private banks segment in Germany.
- Bernd studied business administration at the Universities of Nuremberg (Germany), Cologne (Germany) and Bradford (UK).
- Before he entered GBB-Rating he completed a two year term apprenticeship with a Bank in Frankfurt/M. (Germany) and afterwards worked in the SME business with a Bank in Berlin (Germany) for four years .
- Beside his job as managing director, he is co-head of EFDI Research Working Group on `Risk-based Contribution` and wrote a paper on risk-based premiums for World Bank together with his EFDI working group co-head.

GBB-Rating | Company



established

1996



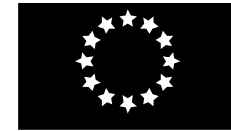
office

Cologne



managing directors

**Bernd Bretschneider,
Dr. Dirk Thiel**



competent authority

**European Securities
and Markets Authority,
ESMA**



independent non-executive board members (INEDs)

**Prof. Dr. P. Ruhwedel,
Prof. Dr. C. J. Börner,
W. Weissenberger, CPA**



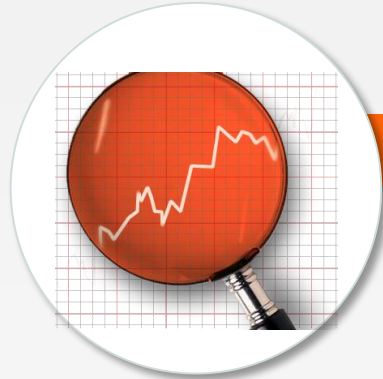
staff

ca. **30** analysts



internet

www.gbb-rating.eu



Bank assessment

Technical support



Quantitative methods

Support of DGSeS





GBB-Rating
Gesellschaft für Bonitätsbeurteilung mbH

Kattenbug 1
D-50667 Cologne/Germany

Fon +49 221 912897 0

E-Mail info@gbb-rating.eu

Bernd Bretschneider
managing director

Fon +49 221 912897 210

E-Mail b.bretschneider@gbb-rating.eu

