

2009 - 2010

Benchmark Study



# Credit Risk Modelling in Europe

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## Credit Risk Modelling in Europe

### Relevance

Credit risk management is now prominent on all agendas. As the importance of external ratings for internal risk management purposes decreases, the necessity of internal rating models and portfolio management increases. Therefore, a ratings philosophy is key for a better understanding, interpretation and management of the risk metrics of a bank's credit portfolios. This will also contribute to better control and improvement of regulatory and economic capital ratios.

A solid credit ratings framework is crucial for a bank to manage its credit risks properly. One of a bank's main risks is counterparty default. An efficient and transparent ratings framework can also contribute to the business profitability. Furthermore, a properly functioning and validated ratings framework is vital to be compliant with regulatory requirements.

### Added value

The Zanders European Credit Risk Modelling Benchmark study offers banks the unique opportunity to compare the status and quality of their own credit ratings and portfolio management framework to other European banks and industry peers.

Therefore, participating banks will receive, up-front, a questionnaire. Zanders will then visit each participating bank, for one or two days, during which the questionnaire will be filled in and discussed in detail.

Subsequently, Zanders will provide each participating bank with detailed and tailor-made reports. The first report will describe the quality of the bank's existing framework and will include practical advice and suggestions for improvements. Hereafter, quantitative reports will regularly follow where the bank's results will be compared to the other banks from the latest research sample. All components, such as data quality, model validation results and quality of model governance frameworks, to name only a few, will be ranked (also through quintiles) and scored alongside those of other banks. The results will also be graphically presented. All participating banks remain anonymous. The information provided will be treated confidentially.

### The survey

The survey focuses on five sections. The first section, **Architecture**, concentrates on the overall design and coverage of the credit ratings framework for both retail and non-retail counterparties. It focuses on the following subjects:

- Ratings philosophy: Point-in-Time versus Through-the-Cycle models and their impact on regulatory capital, economic capital and pricing of credit products
- Methodologies: use of expert-based models versus statistical models
- Rating policies: for example, override policies, use of country caps, if applicable, and for which portfolios, country scoring and industry scoring. How to deal with financial projections
- Rating models policies: how many models and for which asset classes? Developments and areas of improvement
- Model documentation: how complete, transparent, accurate and consistent is the bank's documentation? Is there a central documentation repository? Version management techniques. Risks of knowledge drain

The second section, **Systems**, is defined as the technical infrastructure or platform on which the rating models physically operate, including the transfer of their underlying data. It focuses on the following subjects:

- Data availability and quality. What steps will be taken to improve data quality? Usage of external data and data pooling
- Existing and planned IT ratings platforms: vendor systems versus own system plus areas of improvement

The third section, **Validation**, concentrates on the existing performance of rating models and the validation process. It focuses on the following subjects:

- Ratings validation: overall portfolio performance. Internal versus external validations and independence
- Rating models validation: performance of individual models. Comparison of validation results, for instance discriminatory power, calibration quality and benchmarking. Areas of improvement according to (internal and external) validators
- Rating process validation: design and implementation of model maintenance and governance frameworks, scope and coverage and the role of audit

The fourth section focuses on **Portfolio Management**:

- Status of portfolio management frameworks, reporting, formats

- Status and development of Economic Capital within the institution
- Use of pricing tools
- Methodologies, concentration limits, forecasts, stress testing
- Organization: Portfolio Management Committees, frequency, governance, scope
- Strategies and impact on risk management and business
- Expected developments

The fifth section concentrates on **Generic issues** such as:

- Existing and planned FTEs and budgets
- Efficiency credit risk management
- Impact on risk management and business
- Expected trends

## Geography

The study concentrates on all large and medium-sized banks in Europe. Therefore, Chief Risk Officers and Heads of Risk Management of these banks will be invited to participate.

## Costs

The cost of the individual and tailor-made European Credit Modelling Benchmark reports is EUR 9,750.=, excluding VAT. This is a fixed fee for the research and the reporting.

## Confidentiality statement

During and after the agreement between the Client and Zanders, both parties will observe strict confidentiality with regard to the (confidential) information of the other party and will endeavour to have its employees involved observe that same confidentiality, in so far as they are not required by law or regulation to disclose information to third parties.

## Zanders

Founded in 1994, Zanders is recognized as a European leader in treasury management, risk management and corporate finance consulting. From our offices in Bussum (in the Netherlands), Brussels and London, we service large financial institutions, corporates and organizations in the public sector. Our 120 professionals, with a background in mathematics, econometrics and business administration, create added value for our clients by using their specialized knowledge and experience. Our clients are primarily located in Europe, however, in the past 15 years we have gained in-depth global experience in following our clients with their projects.

Our strengths are specialization and independence. Our philosophy is that deliverables will be tailor-made to the client's needs. Being independent means that we work solely on behalf of, and in the best interests of, our clients. This avoids any conflict of interests. Specialization forces us to stay at the forefront of all developments in our areas of expertise and to remain innovative. The financial world is changing rapidly, with new techniques and regulations being introduced at an ever-increasing pace.

Zanders is run by seven partners who are jointly responsible for the quality and continued development of Zanders' professional services. For more information, please visit our website at [www.zanders.eu](http://www.zanders.eu).

## Financial Institutions

Zanders' Financial Institutions department services all types of large financial institutions. Our clients include banks, insurance companies, asset managers and pension funds. We mainly provide consultancy services on quantitative risk management, credit risk modelling, market risk modelling and model validations, which consist of identifying, measuring and mitigating risks. Within this field Zanders specializes in identifying and quantifying financial risks and defining the corresponding risk governance. Next to that, we have expertise in selecting and implementing risk management systems. Our core competences comprise the quantification of market, liquidity and credit risk.

## Contacts

In case of queries you can contact:

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## Application form

### BENCHMARK STUDY CREDIT RISK MODELLING IN EUROPE

Company : .....

Name and Initials : Mr. / Ms .....

Position : .....

E-mail : .....

Address : .....

Zip code / City : .....

Telephone : .....

Price : EUR 9,750.= (excluding VAT)

## Registration

Please fax this application form to: **+31 (0)35 - 692 89 99**

Or e-mail to: **info@zanders.eu**

Or send this application form to: **Zanders  
P.O. Box 221  
1400 AE Bussum  
The Netherlands**

Date : .....

Signature : .....

The qualitative report will be available within six weeks after the interview has taken place. The quantitative reports will be available on a regular basis till the end of the survey. Reservations will be made in case of insufficient comparison material. For services of Zanders B.V. our general terms and conditions apply.



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