SESSION 2: UTILIZATION OF CREDIT REPORTING DATA FOR THE FINANCIAL AND BANKING SECTOR AND BANKING SUPERVISION

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The German Central Credit Register – use of credit data for banking supervision and other Central Bank purposes

General information on Central Credit Registers (1)

What is a Central Credit Register?

A Central Credit Register (CCR) is an information system to provide

➢ Central banks
➢ Banking supervisory authorities
➢ Commercial banks

       with information regarding the indebtedness of

➢ Credit institutions
➢ Companies
➢ Individuals
➢ Public sector

General information on Central Credit Registers (2)

How does it work?

➢ All loans (which exceed a certain absolute amount) are reported to a central register.

➢ The credit register collects and aggregates the data on the indebtedness of individual borrowers as reported by several different institutions.

➢ In turn, the credit register regularly notifies the institutions of the total indebtedness of these borrowers.

➢ In countries which have a public credit register, the register is usually located at the Central Bank.

Contents of CCRs in general

Spectrum of data registered in CCRs - based on national reporting requirements

GRANULARITY ➡ **FLEXIBILITY** ➡ **TRANSPARENCY**

Borrower-by-borrower / Loan-by-loan

Solo approach / Consolidated approach

Quantitative data / Qualitative data

Examples:

➢ Data on lenders:

size, type of institution, banking group

➢ Data on borrowers:

size, country of residence, economic activity, group of connected clients

➢ Credit amounts:

loans, (debt) securities, guarantees, credit lines, financial derivatives, credit derivatives

➢ Credit attributes:

maturity, currency, collateral, PD, LGD, EL, RWA, provisions, non-performing loans

Reporting Framework in Germany

- Legal basis: German Banking Act

- Reporting basis: entity-by-entity (no consolidated reporting)
  borrower-by-borrower (not loan-by-loan)

- Threshold: 1 million € (on the basis of a borrower unit, 3 months observation period)

- Reporting frequency: quarterly

- Regular Feedback Loops to reporting institutions on the total indebtedness of their borrowers

- Right of the borrower to access data and ask for correction

Main features of the German CCR at the Deutsche Bundesbank

➢ **Broad scope of reporting institutions**

- eg. domestic credit institutions, foreign subsidiaries and branches of resident credit institutions ("home approach"), resident subsidiaries and branches of foreign credit institutions ("host approach"), insurance companies, factoring companies

➢ **Broad scope of borrowers**

- NFCs, financial sector, public sector, private persons;

- resident and non-resident, single borrowers and „borrower units" (groups of borrowers)

➢ **Broad concept of exposures**

- Asset items, off-balance sheet items, financial derivatives

III. The German CCR – main reporting items

➢ **Total indebtedness**

- **On-balance sheet transactions** (includes: loans, debt securities and other fixed-income securities, other assets, insofar as they are subject to a counterparty risk; *starting 2019: shares and other non-fixed-income securities, participating interests, shares in affiliated undertakings*

- **Off-balance sheet transactions** (includes i.a. sureties and guarantees in respect of asset items, sales of asset items with recourse, purchase and refinancing commitments, credit derivatives, other off-balance-sheet transactions, insofar they are subject to a counterparty risk *starting 2019: undrawn credit commitments*

- **Financial Derivatives**

➢ (Residential) mortgage loans
➢ Guarantees
➢ Credit derivatives
➢ Collateral
➢ Risk Weighted Assets
➢ Individual provisions

➢ Approach used
➢ Internal risk classification
➢ PD
➢ *starting 2019 LGD, EL, EaD*

Borrower units according to section 19 Banking Act

Entities with a direct or indirect dominant influence

=> Group of borrowers („Borrower Unit")

➢ **Control**
- Belonging to the same group
- Connected by agreements (requirements of profit transfers)
- Majority-owned

➢ **Personal liability**
- Partnerships and their general partners

no possibility to disprove!

Use of data stored in CCRs (1)

Central Banks / Banking Supervisory Authorities

- ➢ Banking Supervision

- ➢ Financial Stability

- ➢ Monetary Policy (**I**n-house **C**redit **A**ssessment **S**ystem)

- ➢ Research

- ➢ Statistics

Reporting institutions

- ➢ Lending decisions

- ➢ Credit monitoring and risk management

⟶ **CCR as a "Multi Purpose Tool"**

Use of data stored in CCRs (2)

Micro- and macro-prudential analyses (risk assessment on a solo or consolidated basis)

CCR data can be used to analyze the following types of risks:

➢ Counterparty risk

➢ Concentration risk

➢ Contagion (spillover) risk / interconnectedness

➢ Credit risk transfer

➢ Funding risk

by portfolio analyses:

➢ Individual borrowers and borrower units

➢ Countries, sectors, currencies, maturities, instruments, collateralization

➢ Types of credit (e.g. mortgage loans)

➢ Non-performing loans

Use of data stored in CCRs (3)

Micro- and macro-prudential analyses (risk assessment on a solo or consolidated basis; cont.)

➢ Stresstesting

➢ Benchmarking / Peer Group Review

➢ Impact studies

➢ Enhanced statistics for economic and financial stability analyses

    ⟶   **CCR as an "Early Warning System"**

Use of data stored in CCRs (4)

Internal evaluations of data (regular)

➢ Loans by category of borrower
   (corporations and individuals, financial institutions, public sector)

➢ 100 biggest financial institutions / banking groups

➢ 100 biggest borrowers

➢ Debt trend over the past few years

➢ Loans broken down by the domicile of the borrower
   (country risk)

➢ Loans broken down by the economic activity of the borrower
   (economic sector risk)

➢ Non-performing loans of systemic-relevant banks

Use of data stored in CCRs (5)

Internal evaluations of data (ad hoc)

Loans granted to borrowers

- ➢ in a state of insolvency,

- ➢ with financial difficulties,

- ➢ belonging to specific economic sectors,

- ➢ domiciled in a specific country.

International cooperation of European Central Credit Registers (1)

Participating countries

- Austria
- Belgium
- Czech Republic
- France
- Germany
- Italy
- Portugal
- Romania
- Spain
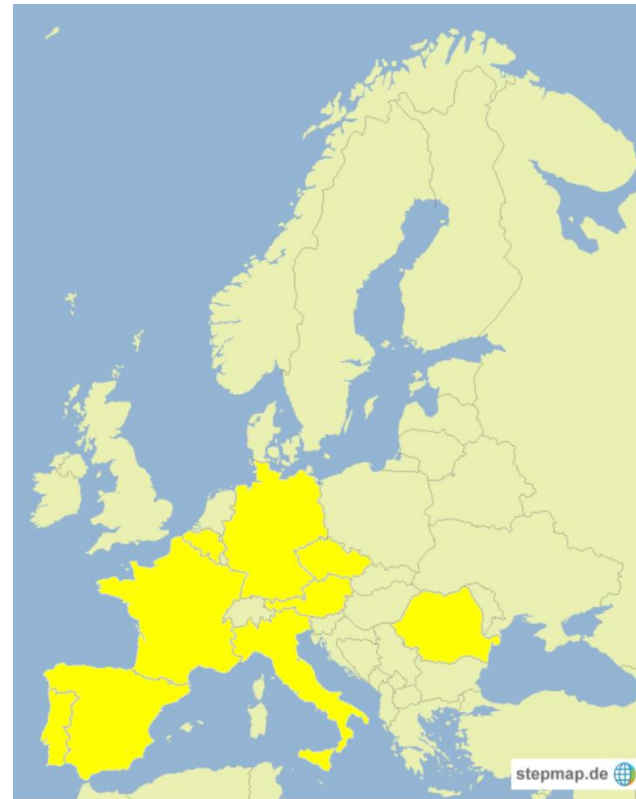
International cooperation of European CCRs (2)

Fundamental principles of the cross-border information exchange

➢ Memorandum of Understanding (MoU) on the exchange of information among national Central Credit Registers for the purpose of passing it on to reporting institutions (20 February 2003)

➢ Based on national reporting requirements

➢ Exchange of data on a reciprocal basis

➢ Regular exchange of information, Ad hoc exchange of information

➢ Confidentiality ensured by MoU

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But: lack of harmonised data

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International cooperation of European CCRs (3)

Harmonisation

⟶ **Standardisation**

⟶ **Industrialisation**

Thank you for your attention

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