

SAS Forum Schweiz 2014

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## **Creation of a unified data basis for consistent planning in risk and finance**

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Dr. Ernst Eichenseher  
Baden, 6 May 2014

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# Agenda

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1

**UniCredit and HVB Group**

2

Regulatory Framework

3

ICAAP and Integrated Planning Processes

4

Infrastructure and an Outlook on BCBS 239

5

Summary

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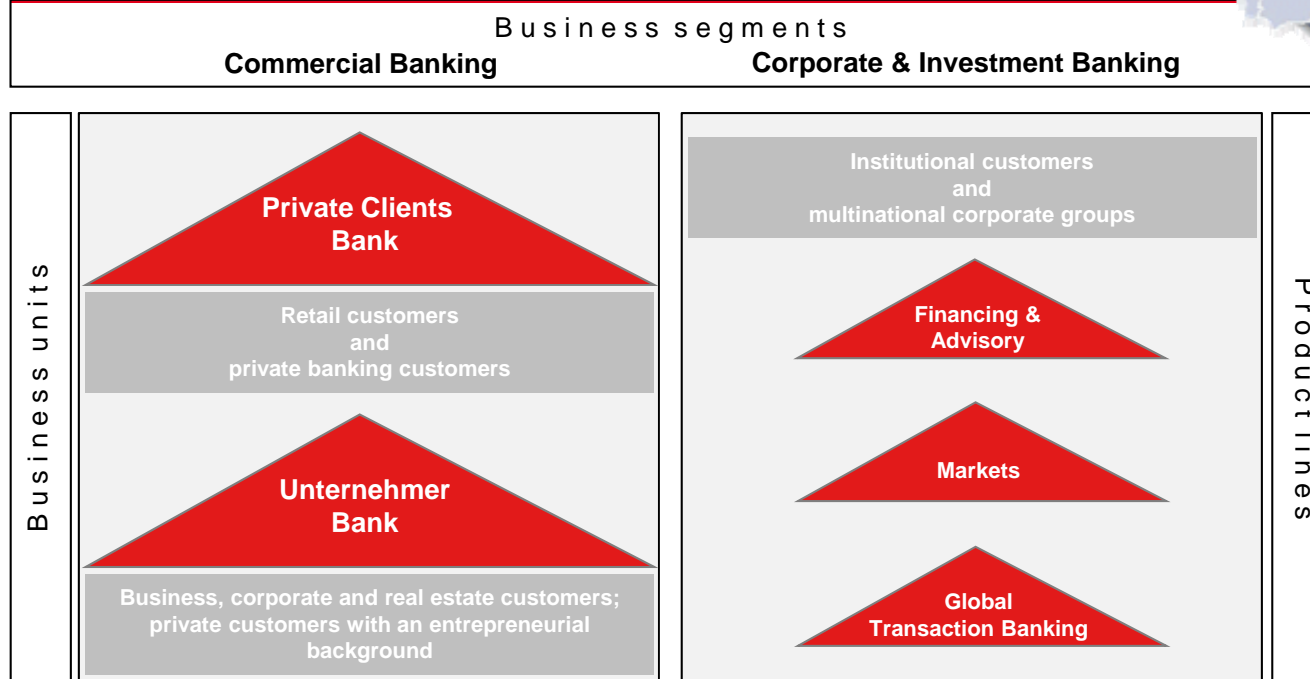
# HVB Group - UniCredit's competence centre in Germany

## HVB Group in Germany

- 848 branches
- about 19,000 employees



## Commercial, Corporate & Investment Banking



# Corporate & Investment Banking

## UniCredit

Core Client Offer		
Corporate Banking and Transaction Services	Structured Finance, Capital Markets and Investment Products	Access to Western, Central and Eastern Europe
Unternehmenskredite	Capital Structure Advisory	Deutschland
Cash Management & eBanking	Corporate Structured Finance	Italien
Liquiditätsmanagement	Loan Syndication	Österreich
Trade & Export Finance and Services, Supply Chain Finance	Acquisition Finance, Leveraged Finance, Principal Investments	Polen
Korrespondenzbankengeschäft	Real Estate Structured Finance	Mittel- und Osteuropa (CEE)
Global Securities Services (GSS) <sup>1</sup>	Structured Trade Finance, Commodity Trade Finance	Frankreich
	Projekt- und Commodity Finanzierung	Vereinigtes Königreich
	Debt and Equity Capital Markets <sup>1</sup>	Nord- und Südamerika <sup>2</sup>
	Beratung zu Untern.übernahmen (M&A)	Asien <sup>2</sup>
	Corporate Treasury Sales/FX, Rates	
	Institutional Distribution	
	Private Investor Products & Institutional Equity Derivatives	
	Structured and Securitized Products	

<sup>1</sup> Nur in CEE

<sup>2</sup> Wir begleiten unsere Kunden aus West-, Mittel- und Osteuropa weltweit und ermöglichen ihnen den Zugang zu anderen internationalen Märkten; wir begleiten Firmenkunden aus der ganzen Welt und beraten sie bei der Erschließung lokaler Märkte in West-, Mittel- und Osteuropa.

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# Regulatory requirements for risk and strategy processes (ICAAP) in Europe

## „Perceived freedom“ of the banks' ICAAP in the SREP

Regulators de facto impose strict requirements for the banks' ICAAP

ICAAP is the model of the bank – regulators use own models for the SREP



Germany



Belgium



Luxembourg



Italy



Spain



France



Switzerland



Great Britain

## Importance of economic capital for SREP in major banks

Subordinate importance

Core element



Great Britain



France



Luxembourg



Spain



Switzerland



Italy

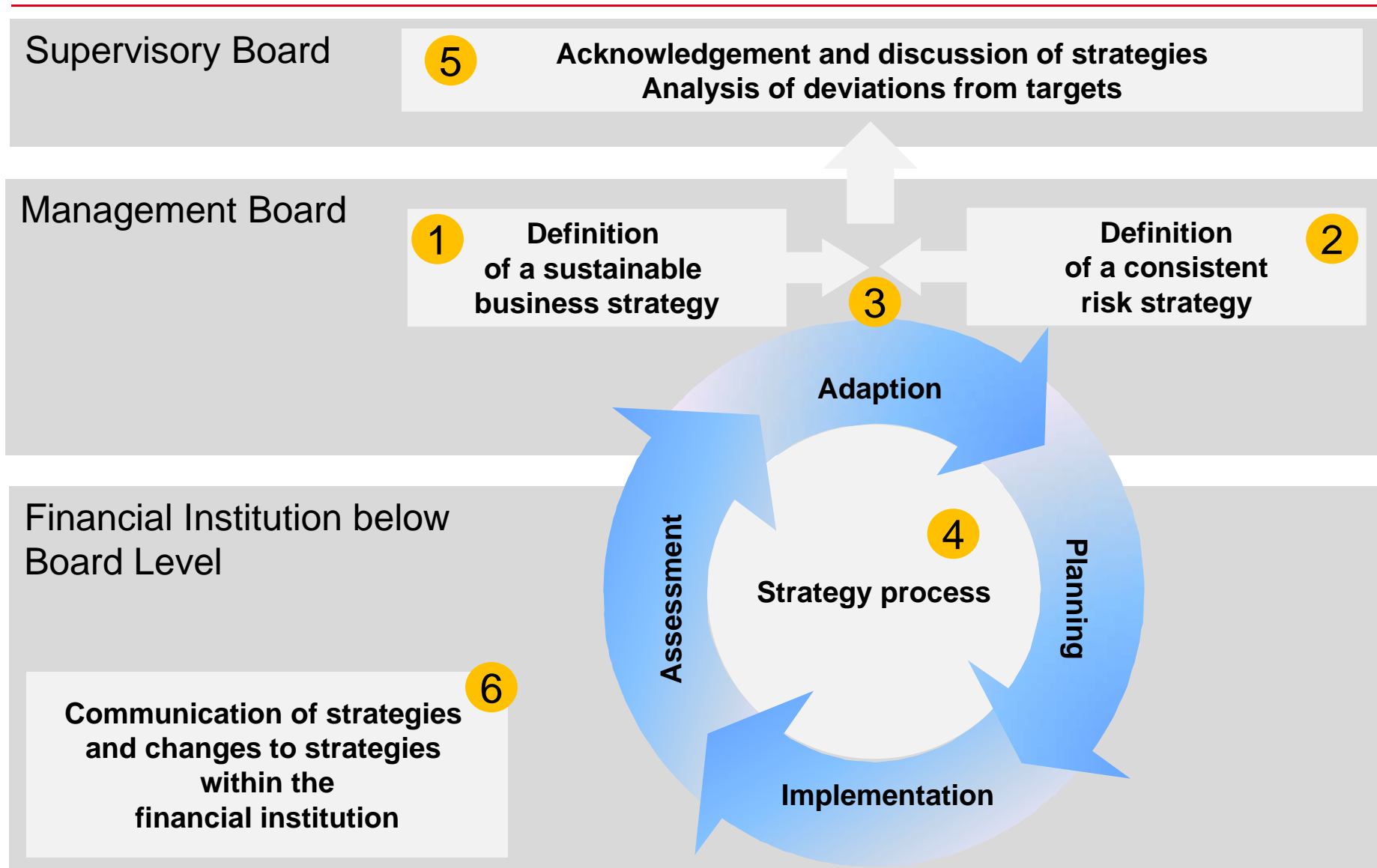


Belgium



Germany

# ICAAP and integrated strategy and planning processes according to German MaRisk



# ICAAP and the liability of the Board: Potential consequences in the German Banking Act



## § 54a

### Strafvorschriften

(1) Mit Freiheitsstrafe bis zu fünf Jahren oder mit Geldstrafe wird bestraft, wer entgegen § 25c Absatz 4a oder § 25c Absatz 4b Satz 2 nicht dafür Sorge trägt, dass ein Institut oder eine dort genannte Gruppe über eine dort genannte Strategie, einen dort genannten Prozess, ein dort genanntes Verfahren, eine dort genannte Funktion oder ein dort genanntes Konzept verfügt, und hierdurch eine Bestandsgefährdung des Instituts, des übergeordneten Unternehmens oder eines gruppenangehörigen Instituts herbeiführt.

(2) Wer in den Fällen des Absatzes 1 die Gefahr fahrlässig herbeiführt, wird mit Freiheitsstrafe bis zu zwei Jahren oder mit Geldstrafe bestraft.

(3) Die Tat ist nur strafbar, wenn die Bundesanstalt dem Täter durch Anordnung nach § 25c Absatz 4c die Beseitigung des Verstoßes gegen § 25c Absatz 4a oder § 25c Absatz 4b Satz 2 aufgegeben hat, der Täter dieser vollziehbaren Anordnung zuwiderhandelt und hierdurch die Bestandsgefährdung herbeigeführt hat.



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## What we promise to our customers can also be used as a guideline for (re-)designing the ICAAP?

### ■ "Real Life-Banking" als Corporate Identity:

*Die UniCredit ist eine **führende europäische Bank, die einfach im Umgang ist** und deren Mitarbeiter auf die Herausforderungen und Chancen, denen die Kunden **im täglichen Leben begegnen, konkrete Antworten und echten Mehrwert bieten.***

Das Leben ist voller Höhen und Tiefen. Wir sind für Sie da.

Willkommen bei der  
 **HypoVereinsbank**  
Member of  **UniCredit**

- ➔ HVB's Icaap framework is based on the Group Icaap framework and only deviates if really necessary, e.g. due to local regulatory requirements.
- ➔ Integration of CRO, CFO, CEO and business units is essential for designing the Icaap processes.
- ➔ The ICAAP should support management and merely increase internal complexity: those processes and methods are implemented that deliver a value added.
- ➔ Basis of the Icaap are consistently and stringently defined processes and methods as well as user oriented management reporting.
- ➔ A strong risk culture and sustainable risk education are the basis for an efficient Icaap and efficient risk management processes.

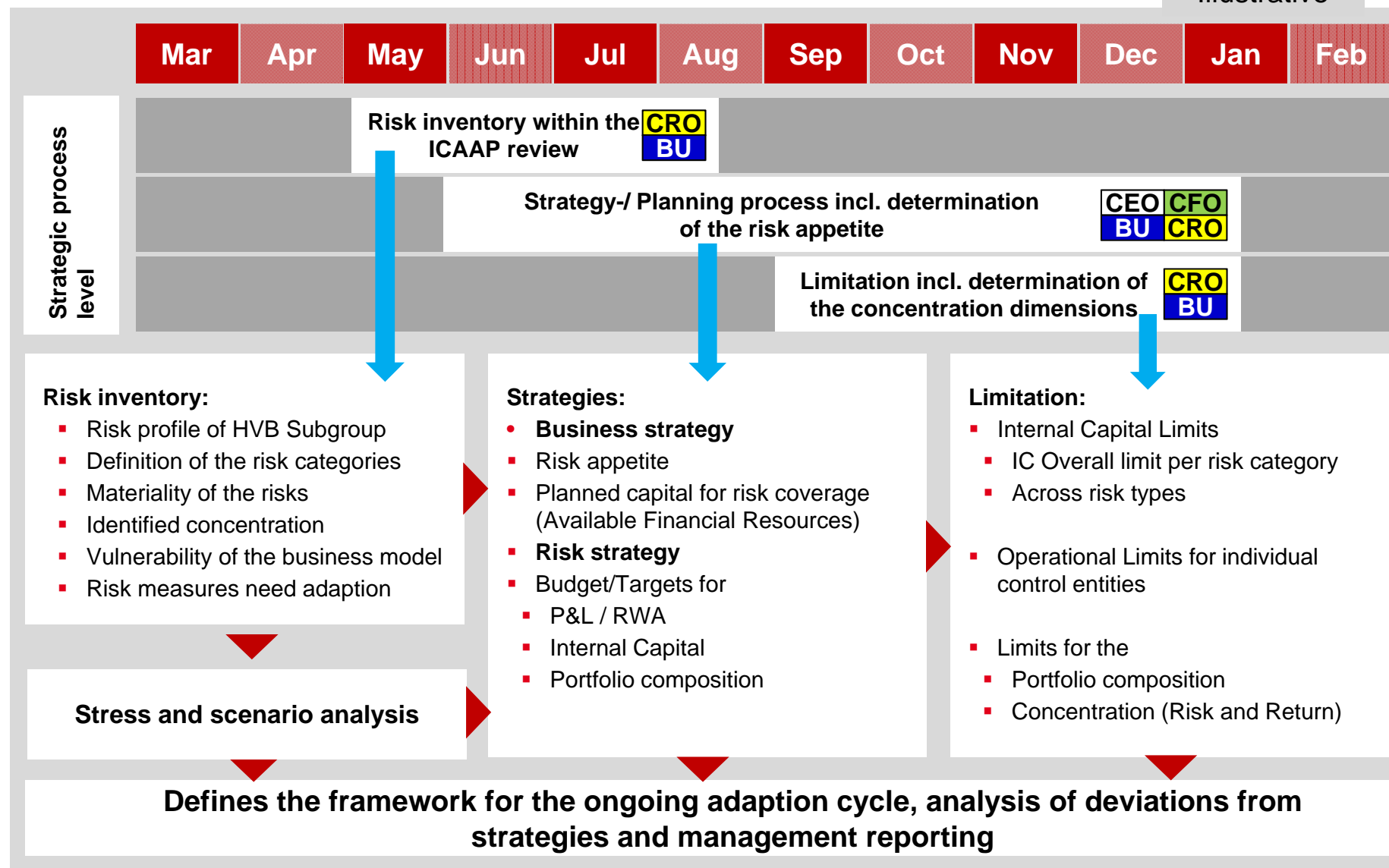
# Bank's Top KPI set defined by the Management Board is the starting point for integrated strategy/planning processes

Illustrative

Dimension	TOP KPI SET DEFINES BASIS FOR BUSINESS AND RISK STRATEGIES			
	Profitability	Growth	Constraints	Sustainability
	Use of existing and further enhancement of a set of profitability and risk/return KPIs	Implementation of a set of relevant growth KPIs with strong link to the bank strategy	Implementation of a consistent set of relevant conditions and boundaries in which the bank and the business lines are allowed to act	Implementation of sustainability indicators with focus on client /client group management – diversification
TOP-KPIs	RARORAC or RACE	Revenue Growth	Total RWA	Total Rev. by segment
	RoE	EVA Growth	Core Tier 1 Ratio	Loan/Deposit Ratio
	CIR	...	<b>Risk Taking Capacity</b>	Share of new business
	Profit before Tax		3 M Liquidity Gap	...
	...		Structured Liq. Ratio	
			Liquidity Coverage Ratio	
			...	

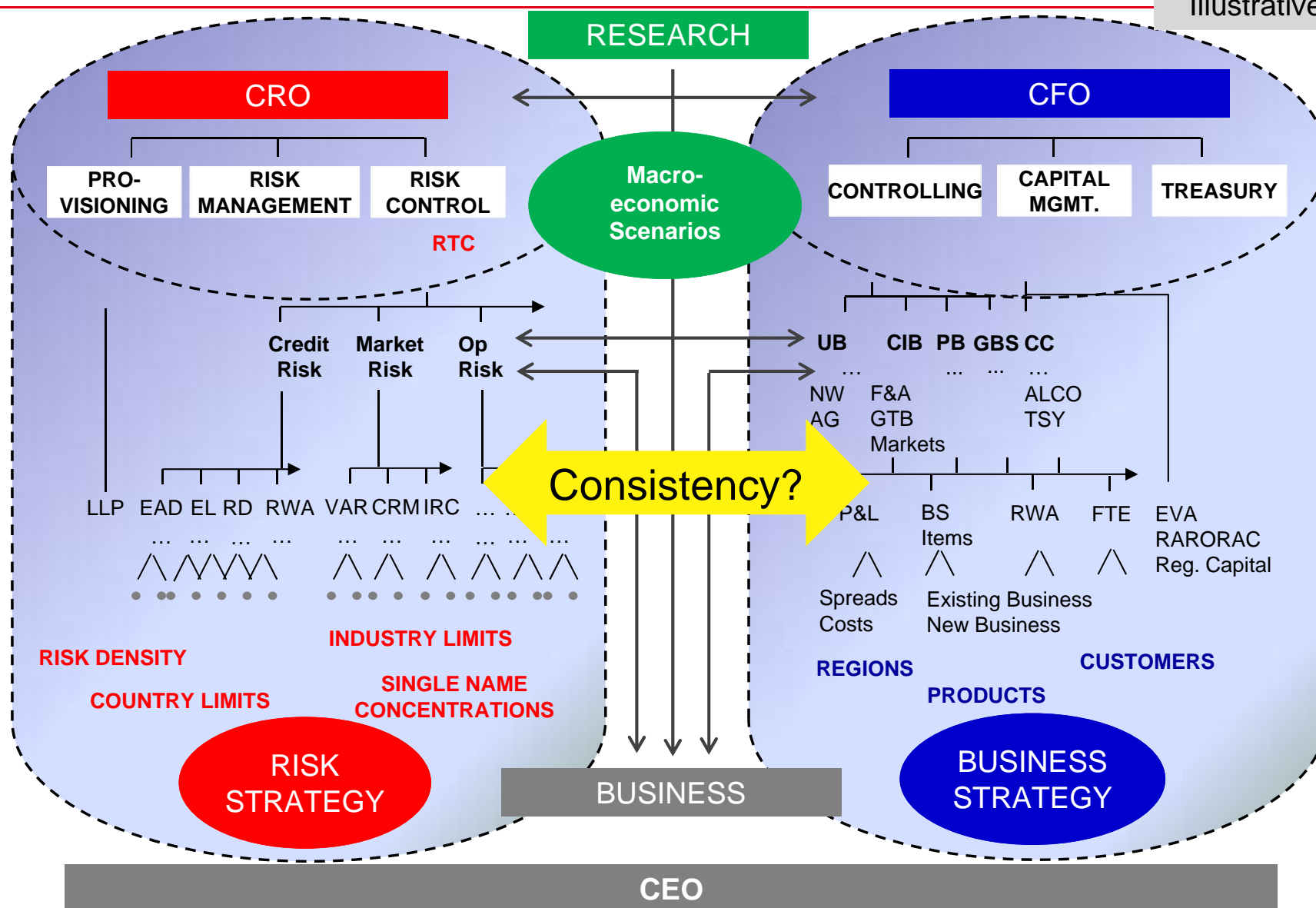
# Strategy and planning processes build the very core of an adequate ICAAP

Illustrative



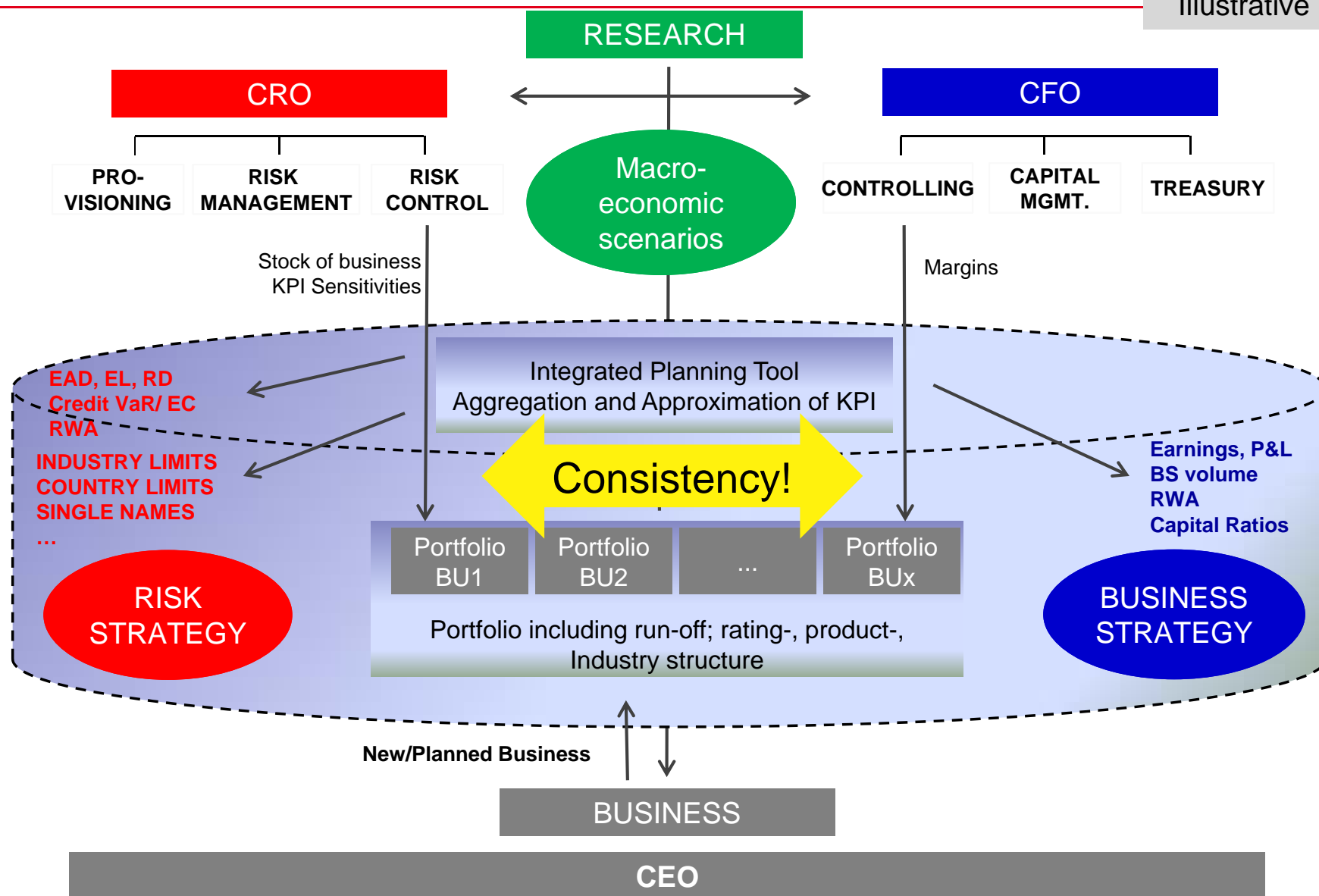
# Strategy and planning process in a functional organization

Illustrative



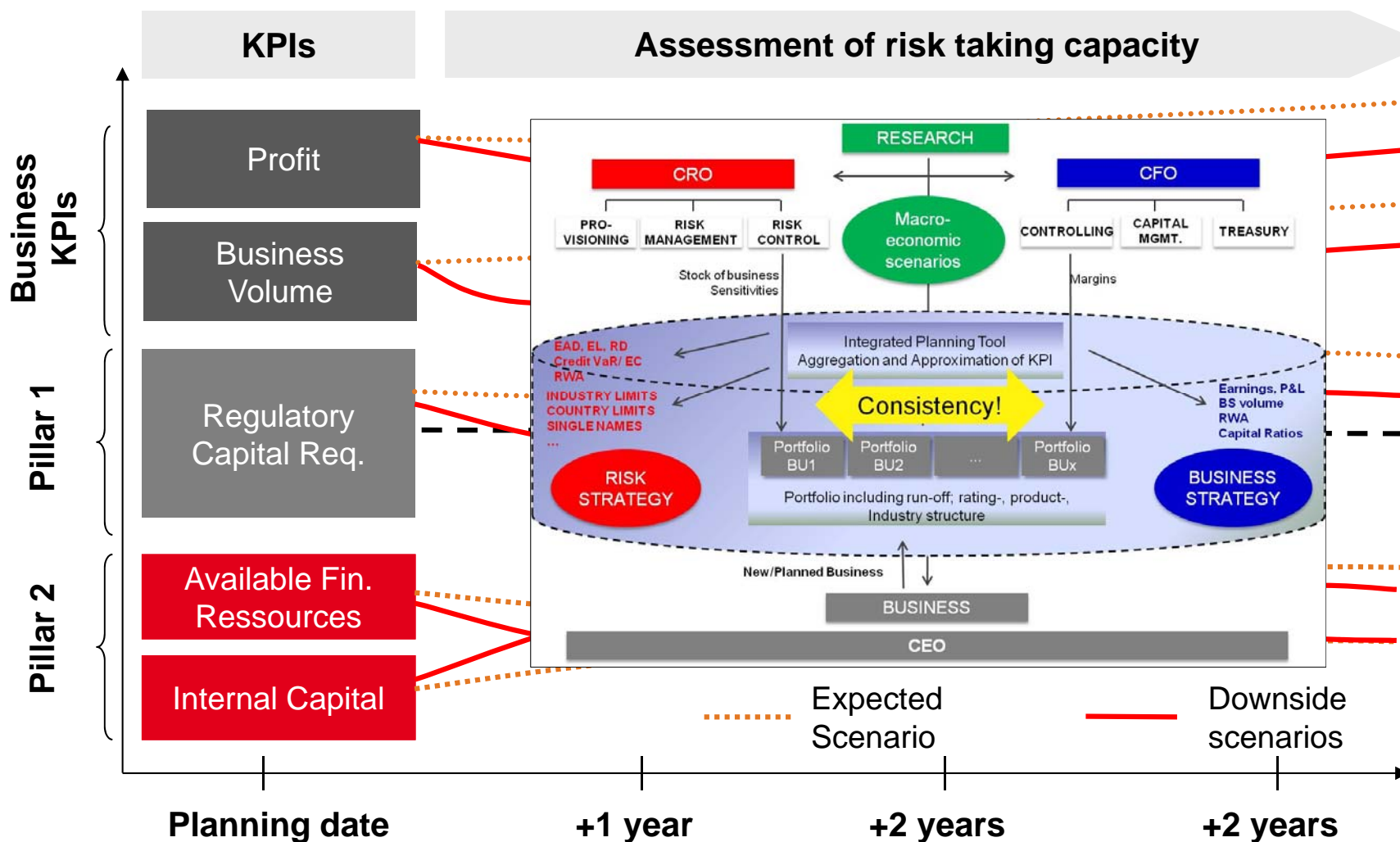
# Integrated strategy and planning process cross silos

Illustrative



# Extension to multi-year capital adequacy assessment for expected and downside scenarios

Illustrative



## Recap: What we promise to our customers can also be used as a guideline for (re-)designing the ICAAP!

### ■ "Real Life-Banking" als Corporate Identity:

*Die UniCredit ist eine **führende europäische Bank, die einfach im Umgang ist** und deren Mitarbeiter auf die Herausforderungen und Chancen, denen die Kunden **im täglichen Leben begegnen, konkrete Antworten und echten Mehrwert bieten.***

Das Leben ist voller Höhen und Tiefen. Wir sind für Sie da.

Willkommen bei der  
 **HypoVereinsbank**  
 Member of  **UniCredit**

- ➔ Support for planning processes on local and Group level providing adequate challenging of ambitions and targets.
- ➔ Direct networking of planning participants through common planning basis for the generation of the various planning views.
- ➔ Significant reduction of complexity in the planning process through common planning basis and automated deduction of KPIs.
- ➔ Stringency and consistency of the planning process is assured through a common technical platform.
- ➔ Enforcement of a direct discussion process between the involved parties to reach an integrated planning result, directly fostering risk culture.



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# BCBS 239 - Principles for effective risk data aggregation and risk reporting



BANK FOR INTERNATIONAL SETTLEMENTS

Overarching Governance and Infrastructure	<p>I. <b>Governance</b> – Strong governance arrangements for risk data aggregation and risk reporting; strong Board and Senior Management involvement.</p> <p>II. <b>Data architecture and IT infrastructure</b> – Ability to fully support risk data aggregation and risk reporting in normal and stress/crisis times.</p>
Risk data aggregation capabilities	<p>III. <b>Accuracy and integrity</b> – Ability to generate accurate and reliable risk data on a largely automated basis.</p> <p>IV. <b>Completeness</b> - Capture and aggregate all material risk data. Permit grouping by business line, legal entity, asset type, industry, region and other criteria.</p> <p>V. <b>Timeliness</b> – Ability to generate aggregate and up-to-date risk data in a timely manner while also meeting accuracy, integrity, completeness and adaptability principles.</p> <p>VI. <b>Adaptability</b> – Risk data aggregation to meet a broad range of demand, ad hoc risk management reporting requests also in stress/crisis times.</p>
Risk reporting practices	<p>VII. <b>Accuracy</b> – Risk management reports should accurately and precisely convey aggregated risk data. Reports should be reconciled and validated.</p> <p>VIII. <b>Comprehensiveness</b> – Risk management reports should cover all material risk areas; depth and scope reflecting size, complexity and risk profile.</p> <p>IX. <b>Clarity and usefulness</b> – Communicate information in a clear and concise manner, easy to understand yet comprehensive, tailored to recipients.</p> <p>X. <b>Frequency</b> – The board and senior management should set the frequency of risk reporting; frequency should be increased during times of stress/crisis.</p> <p>XI. <b>Distribution</b> – Risk management reports should be distributed to the relevant parties.</p>
Supervisory review, tools and cooperation	<p>XII. <b>Review</b> – Supervisors should periodically review and evaluate a bank's compliance.</p> <p>XIII. <b>Remedial actions and supervisory measures</b> – Supervisors should require effective and timely remedial action to address deficiencies.</p> <p>XIV. <b>Home/host cooperation</b> – Supervisors should cooperate with relevant supervisors in other jurisdictions regarding implementation and remedial actions.</p>

# BCBS 239 - Bundesbank interpretation of the target picture 2016

## Anforderungen Zielbild 2016

- I **G- und D-SIBs**
  - I Gesamtbankrisikobericht **monatlich** [heute: monatlich/quartalsweise]
  - I Zeitverzug für Gesamtbankrisikobericht max. **t+10** (10 Tage zwischen Stichtag und Vorlage beim Vorstand) [heute: t+7 bis t+56]
  - I Produktion von **Risikoberichten** „auf Knopfdruck“ – Risikozahlen/Datenreihen werden vorgehalten und nicht vom Berichtersteller berechnet, Kommentare werden im Datawarehouse hinterlegt und sind keine Insel im Report [heute: jeder Berichtersteller rechnet und kommentiert für sich – Unterschiede in den Risikozahlen und den Kommentaren sind die Regel]
  - I **Automatisierung** der Zwischenverarbeitung – Excel zur Veranschaulichung, aber nicht zur Berechnung von Risikozahlen [heute: Excel/Access als das zentrale Aggregations- und Weiterverarbeitungstool]
  - I Risikocontroller verbringen den Hauptteil der Arbeit mit **Analyse** [heute: Hauptteil der Arbeit Datenerhebung und Datenqualitätssicherung]
  
- I **Kleine und mittlere Institute**
  - I Proportionale Übersetzung der Anforderungen

# ECB Asset Quality Review

## AQR phase II help desk: Frequently Asked Questions

Key:

Newly added FAQ

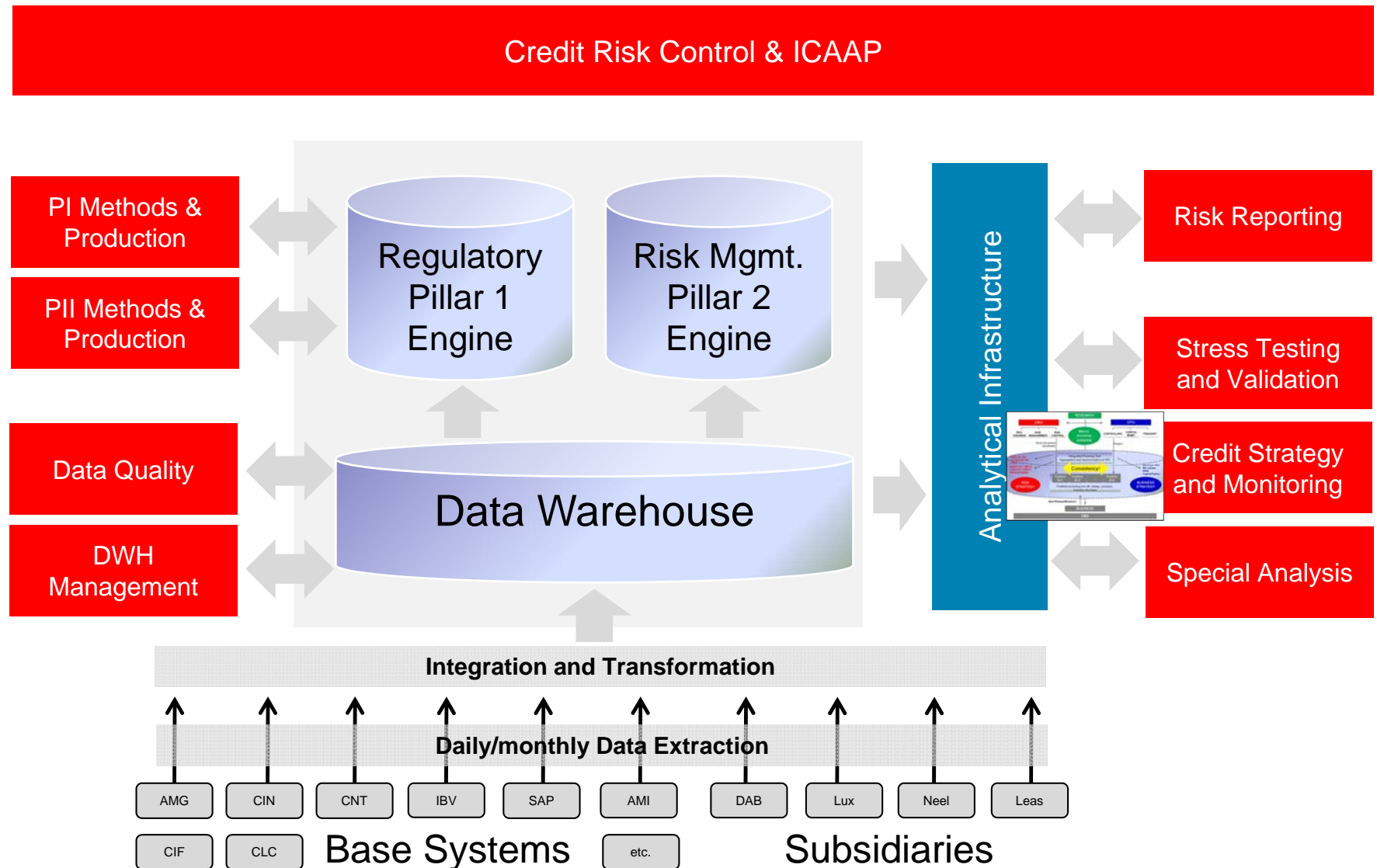
ECB-CONFIDENTIAL

This document can be distributed to the banks in the scope of the comprehensive assessment.

Number	Date added	Chapter	Manual section or template name	Page number (e.g. 70) or template cell(s) (guidance XX or [sheet name]cells, e.g. [sheet1]C33:D43)	Scope of question	Question
2323	26.03.2014	Credit file review	4 Credit File Review	T4A	Clarification	Is the T4A template to be submitted for each portfolio?
2330	26.03.2014	Credit file review	T4A	Debtor. Sections	Clarification	The last T4A version present on the SharePoint show in overview tab, line 36 "It is not expected that this template will be completed for RPE debtors". Does this mean that the Significant Bank may exempted the completion of the completeness of T4A or only exempted of tab « C.DEF.Debtors » ?
2331	26.03.2014	Loan data tape creation and data integrity validation	2 Loan tape creation and Data Integrity Validation (DIV)	13.7. Repayment type and its filling part A. Facilities of questionnaire	Clarification	If available the user should select the repayment type that best fits the facility's profile in the credit paper. Note a cash sweep mechanism or similar is a variant of "lump sum reduction" i.e. repayments not a function of interest rate.
2332	26.03.2014	Credit file review	T4A		Clarification	Is it necessary to include all facilities of selected debtors in the template T4A, regardless of size?
2354	27.03.2014	Collateral and real estate valuation	template T4A CFR (2014-03-19) ([Overview]C36:C37)	Clarification		Is it correct that the collateral worksheet (B) has to be provided only for non performing exposures?
2355	27.03.2014	Credit file review	T4A, Credit file review	1.7.2. Total debt pari passu (including bank's position)	Clarification	If the claims of the Significant Bank are in a senior rank, would it be appropriate to provide the total number of senior ranking debt of the debtor according to the latest available Annual Report of the debtor as answer to this question? If not, please can you pls. indicate what would be considered as acceptable information source in this respect?
2356	27.03.2014	Credit file review	T4A, Credit file review	1.7.2. Total debt pari passu (including bank's position)	Clarification	Why is this question part of the Facility Tape and not part of the Debtor Tape?
2410	27.03.2014	Process, policies and accounting review	Template T1, Processes, policies and accounting review assessment template	C. NPE definition, Question C.1.2	Clarification	Understand that the NCA Bank Team in the EBA simplified approach for NPE does not seem to define a cure period, i.e. a minimum time period that must elapse before an exposure that does no longer fulfill the criteria laid down in the EBA simplified approach NPE definition may be categorised as performing again, how can one assess if the bank's internal definition for cure from NPE is at least as strict as the "cure period" in the EBA simplified approach? It is not expected that this template will be completed for Residential Real Estate debtors - in these cases the Significant Bank should pass the relevant credit files directly to the NCA Bank Team". This is a change which was added to the final version of the template. What is the rationale for this late change to the template?
2434	27.03.2014	Credit file review	Template T4A, Credit file review data preparation template		Template	In the T4A, Credit file review template are supposed two data fields identical: Facility 1.3.13, "Effective Interest Rate" and Debtor 1.2.5, "Effective Interest Rate". For the Facility sheet automatic filling via Loan tape is provided and for Debtor sheet manual filling. However, the explanations for both fields are NOT the same. Please clarify for us the facts to fill the data fields.
2469	28.03.2014	Credit file review	Template T4A, Credit file review data preparation template	Facility 1.3.13, "Effective Interest Rate" and Debtor 1.2.5, "Effective Interest Rate"	Clarification	
2540	31.03.2014	Level 3 fair value exposures review	8 Level 3 Fair Value exposures review	TB8 P/L analysis	Interpretation under local/specific case	An institution will insert a new P&L calculation process by 31th March 2014. The answers with regard to "P&L analysis" provided in Template T8B raised the following question: Which process (old or new one) should be considered?

# Technical and organizational infrastructure to address the requirements

Schematic



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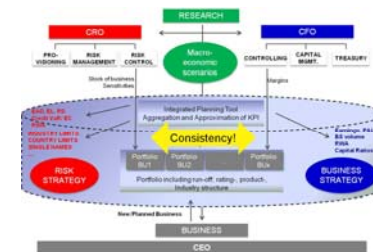


# Summary

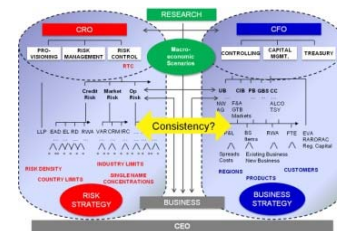
Regulatory requirements will not decrease – not meeting them is not an option. The importance of infrastructure is obvious.



Significant added value for the organization can be achieved within the given infrastructural setup.



But these "small steps" may not be sufficient to meet the requirements in the long term, really crossing the silos.



# Thank You For Your Attention!

**HypoVereinsbank** Member of  **UniCredit**

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