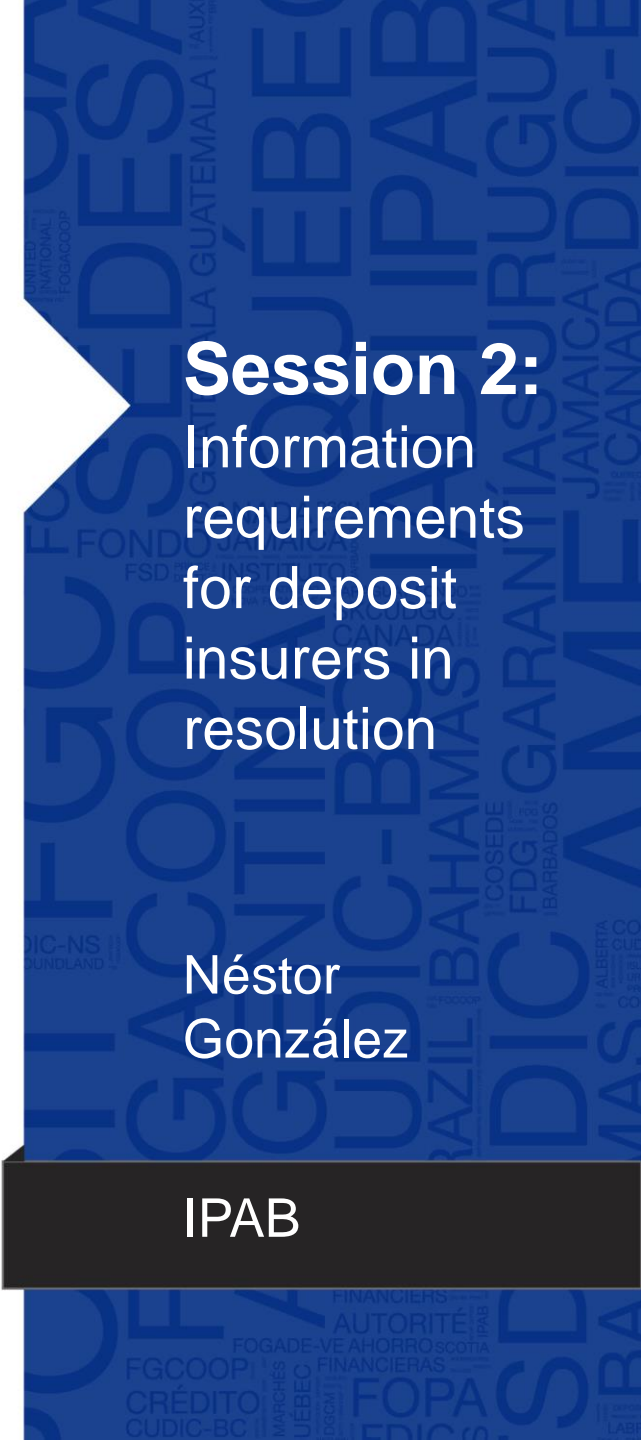




Foro de Seguro de Depósitos de las Américas
Americas Deposit Insurance Forum

Session 2:
Information requirements
for deposit
insurers in
resolution

Néstor
González



Information systems and data requirements



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Role and involvement of the resolution authority

The resolution authority has to be involved on the **continuous assessment** of all banks and not only of those under preventive actions. It has to be particularly concerned on the **future scenarios** of every bank.

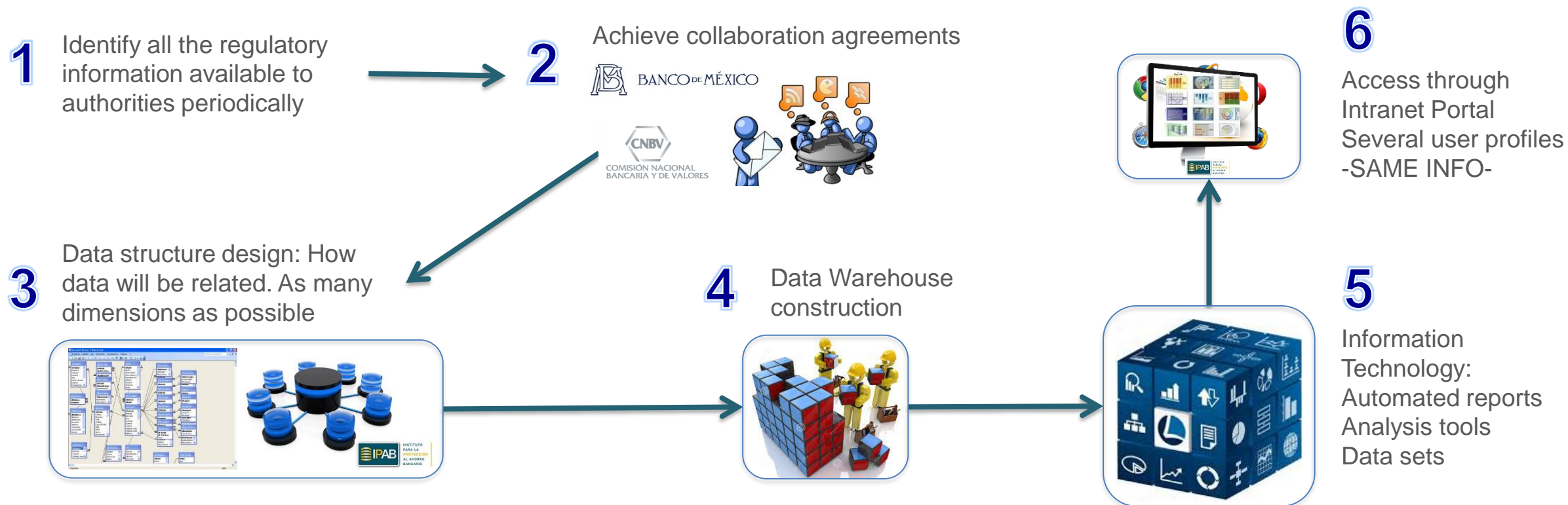
Stress testing results are fundamental for the right prioritization of resolution planning. In Mexico, it is the supervisor who is responsible for stress testing and assessing ICAAP. That is why for IPAB, the resolution authority, it is very important to maintain a close collaboration with the supervisor, based on formal collaboration agreements.

Thanks to these agreements, IPAB has access to the **same periodical information** submitted by banks to the supervisor and the central bank, in order to be able to make its own analysis, with a deposit insurance/resolution perspective.



Information Model for Off-Site Monitoring

In 2011 IPAB started a strategic project, aiming for its own information model for off-site monitoring, from the deposit insurer perspective:



Data Cube

The information model is based on a series of multidimensional structures called data cubes. In the cube we relate metrics (what I want to measure) with different dimensions (how I want to measure it).



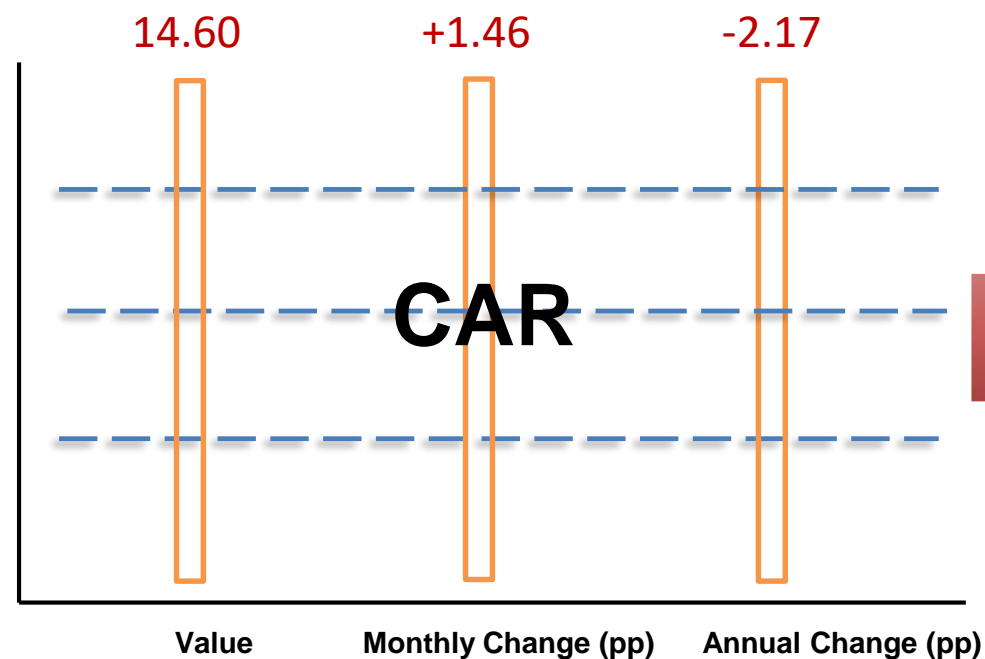
Cube



Dimensions

How do I want to measure it?

Bank
Year
Month



What do I want to measure?

Metrics



Automated Reports

Implementation results

The project was supposed to take two years for full implementation. It was finished in 18 months.

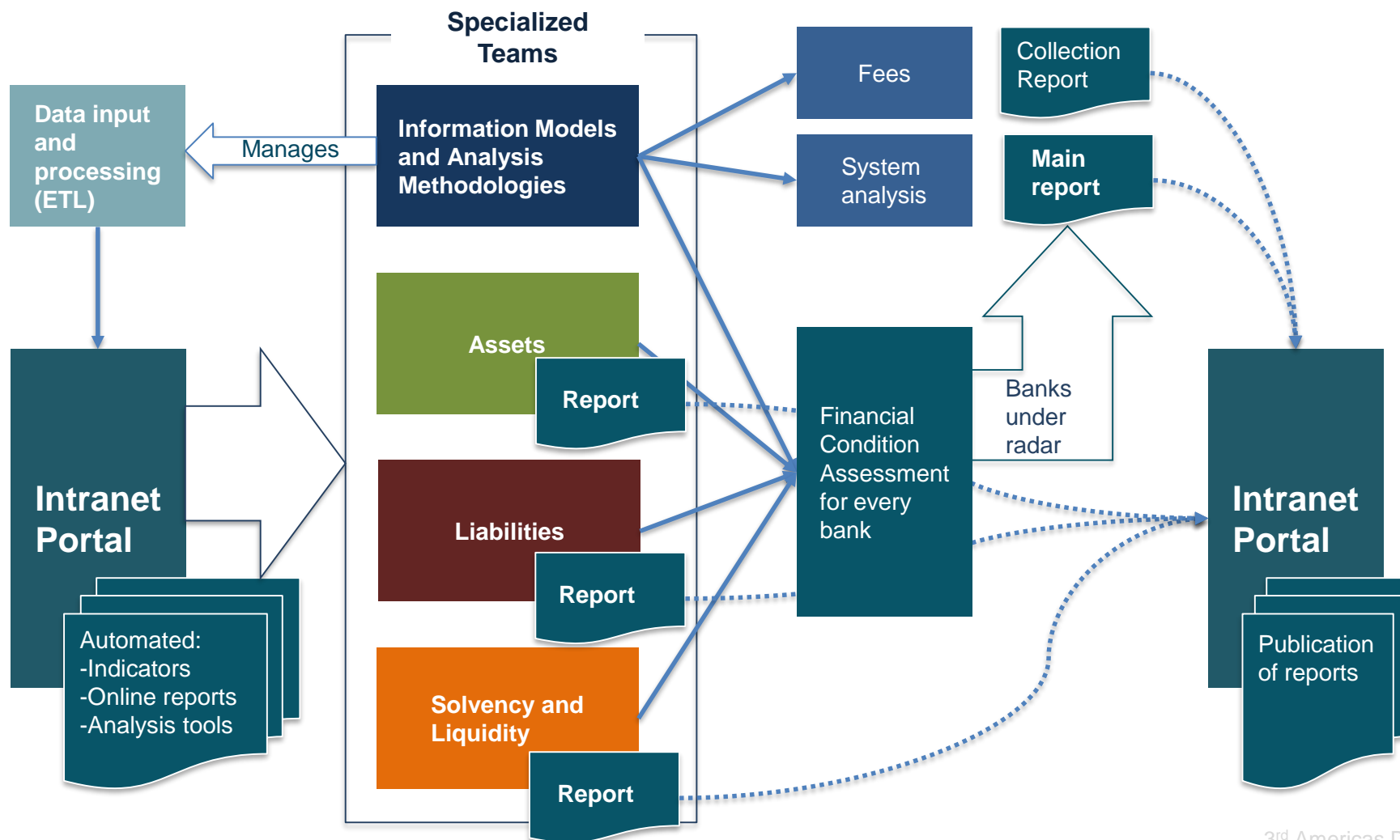
Before the new information model, it took IPAB over two weeks just to gather all the information needed to begin its analysis of financial condition for all banks, hence, analyses were carried out on a quarterly basis only. Also, if a correction was made to the input data, it meant a setback of several days.

Now, the analyses are carried out on a monthly basis, but most importantly, analysts may now devote all of their time analyzing information, instead of arranging data. For example, if an analyst wants to find out the main cause for the increase on risk weighted assets of bank X at a certain point in time, it only takes seconds to do it.

When this new information system started, it handled 100 million data every month. Nowadays it handles over 300 million data.

Aside from time efficiency, the information system minimizes operational risk and ensures the homogeneity of methodologies used for the construction of financial indicators, which is a key factor specially for complex indicators such as the probability of default of a bank.

Monthly process for off-site monitoring at IPAB



Available information for periodical analysis

In Mexico practically all main assets and liabilities are reported by banks to either CNBV or Banxico, once a month, at transaction level.

In the case of Banxico, information of operations among financial entities and market related, including all derivatives, is received on a daily basis.

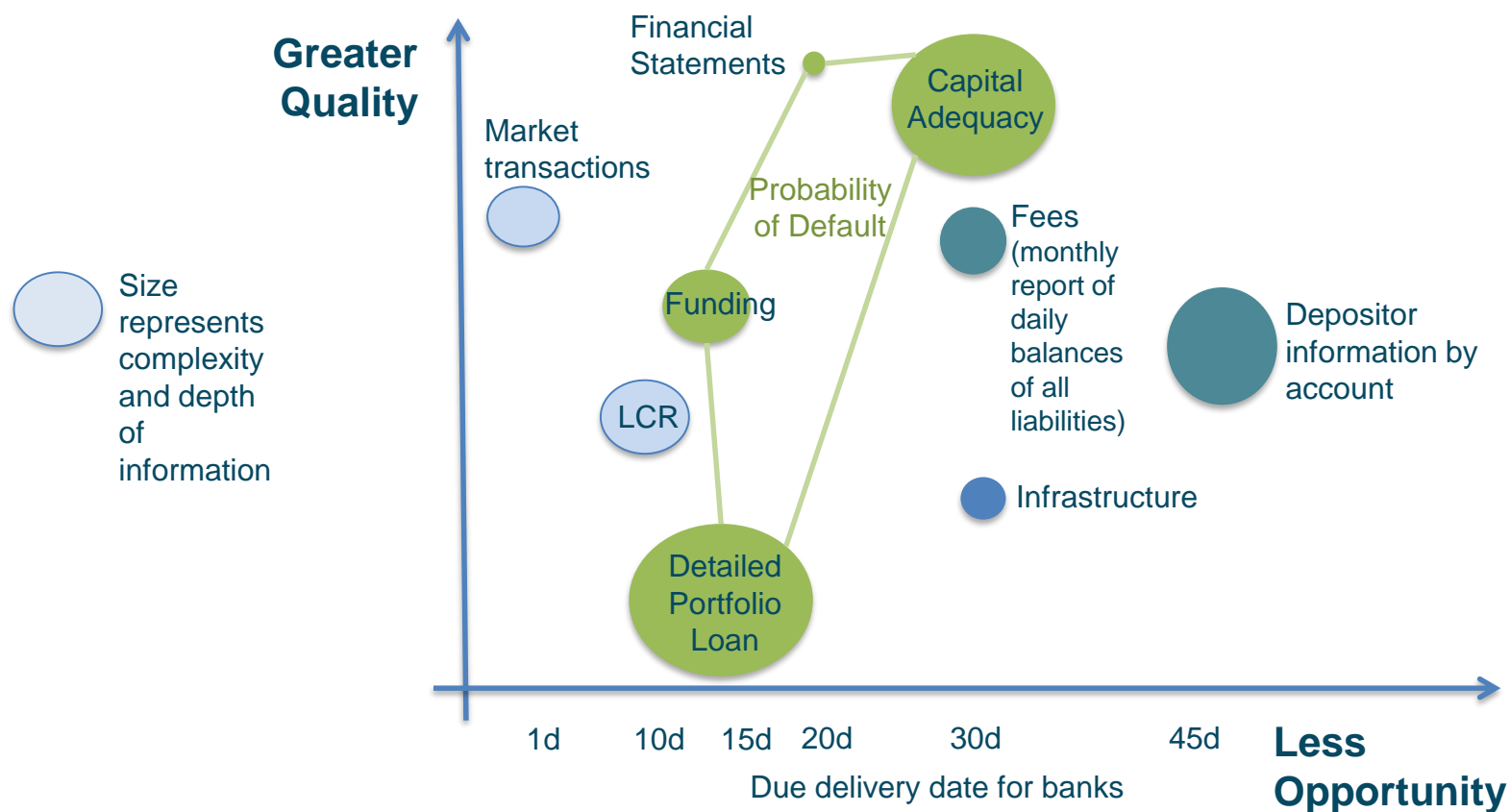
Once a month also, in addition to all financial statements, banks deliver information of their infrastructure (branches, ATMs, etc.).

The main information used by IPAB is:

- Financial Statements
- Loan by loan detail
- Funding at account level
- Full data base for calculations of capital and liquidity requirements

Available information for periodical analysis

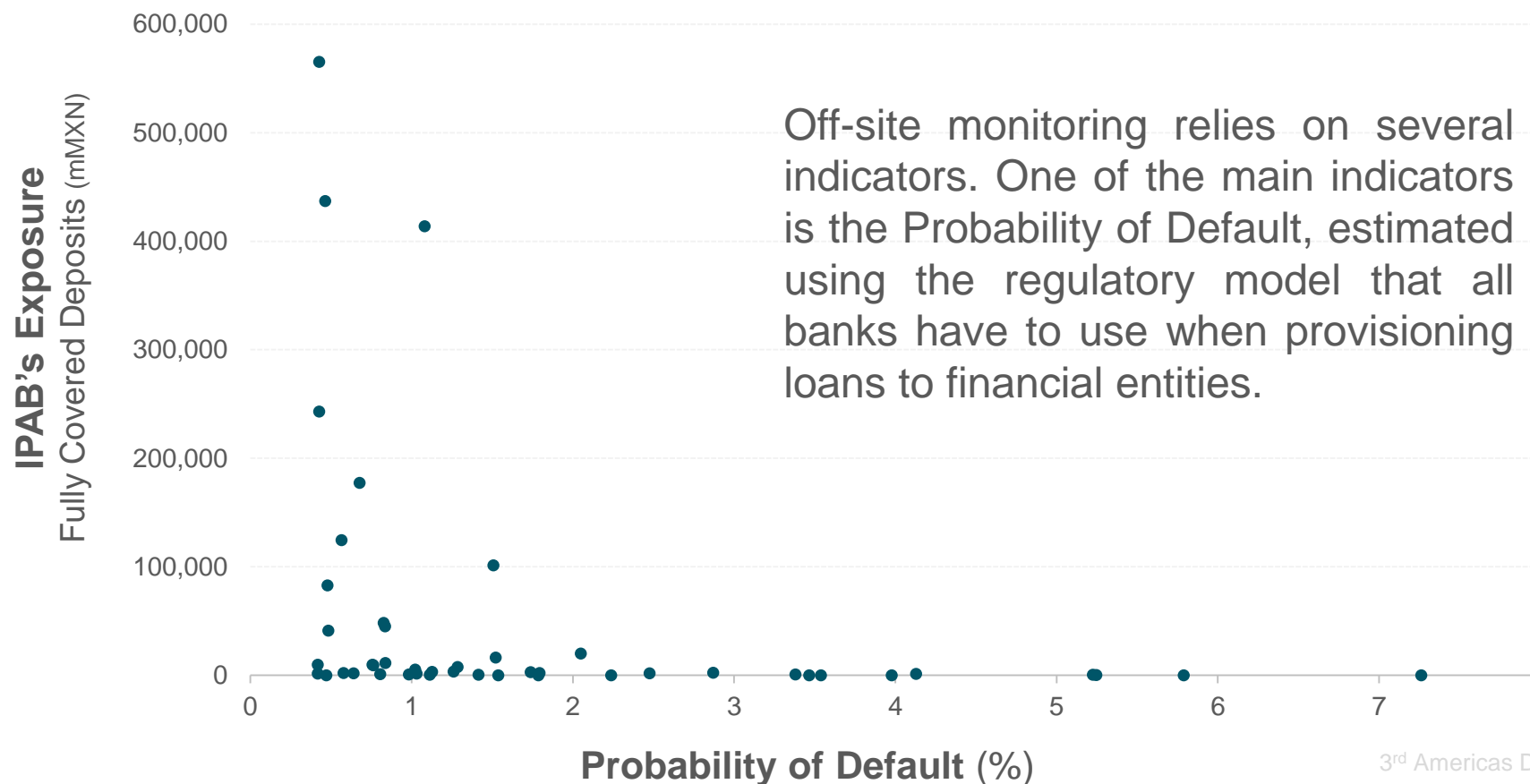
Information varies widely in terms of depth, opportunity and quality. The analyst has to be well aware of this before turning on (off) any alarms.



Probability of Default

Fully covered deposits and probability of default by institution

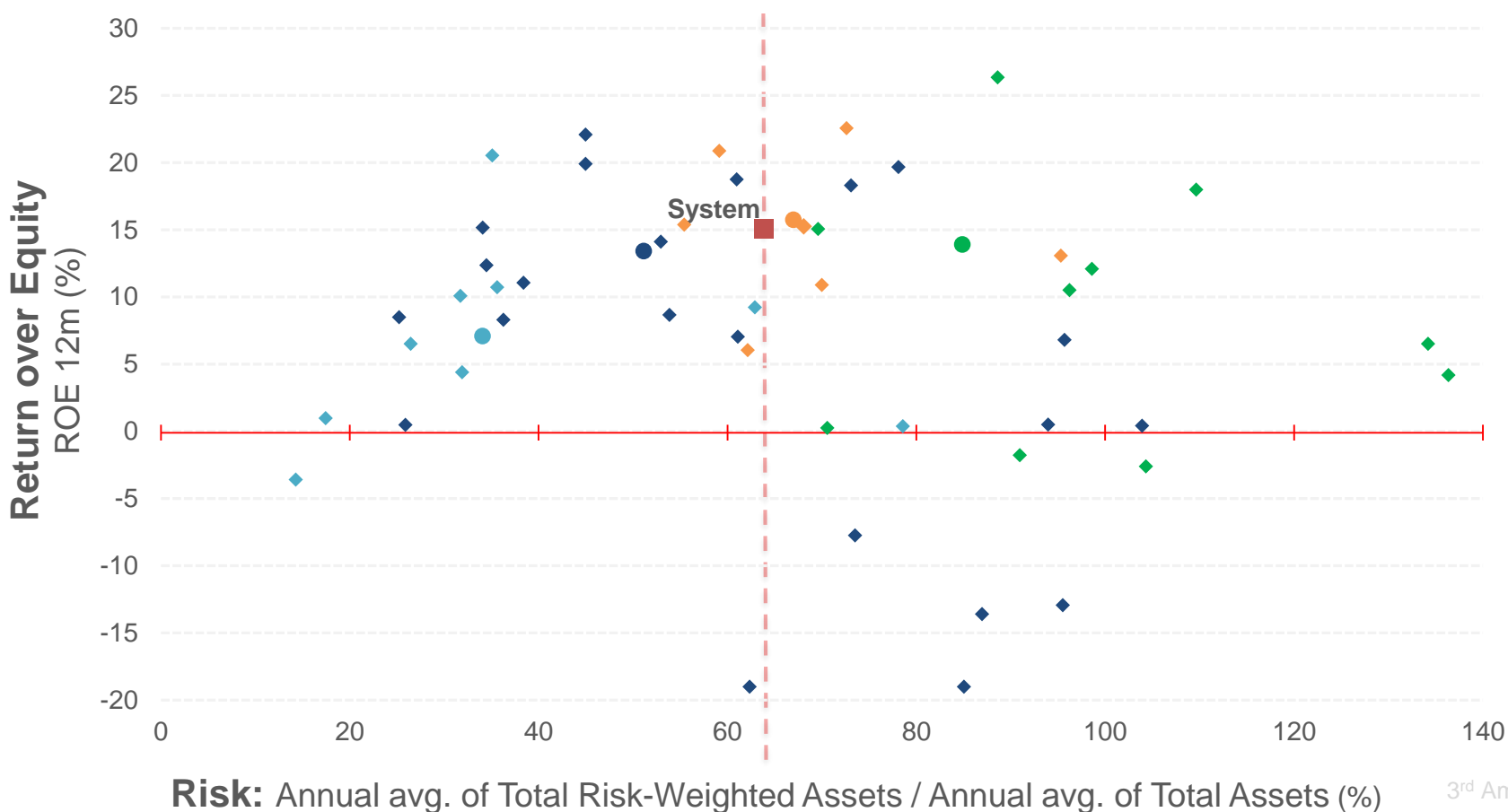
February 2018. Institutions that represent the largest exposures are the ones with the lower risk



Risk/Return Tradeoff

The risk/return trade-off is also monitored. Problematic cases tend to evolve against the typical trade-off.

February 2018. Every dot represents a bank's risk/return ratio



IPAB's information requirements

From all the universe of information described before, two periodical data sets are required to banks based on IPAB's responsibilities:

- Insured deposits
- Information to determine monthly fees

Prior to 2014 Financial Reform, IPAB could only require and assess information relating to insured deposits, so it was not responsible for calculating fees and require payment from banks.

Now, IPAB has the authority to require practically any type of information to banks as long as it is related to the fulfilment of its duties: whether that is insuring deposits, calculating fees or writing resolution plans.

IPAB decided not to require directly this periodical information, in order to avoid the burden of a new communication system between IPAB and banks, and instead signed a new information exchange agreement with CNBV, defining the terms and conditions for this new type of collaboration where CNBV provides a collection service and IPAB has specific responsibility for the use and assessment of these reports.

IPAB's information requirements: Insured Deposits

By law, all Banks must be able to comprehensively identify and classify all their depositors and their information (account balance, address, activity, relation with the bank, etc) in order to ensure that in the event of a bank failure, IPAB will be able to immediately access such information and begin payment of insured deposits up to the coverage limit, also ensuring that all guarantee exclusions were considered (financial entities, related parties, tradable products, etc.)

The layout of this information is quite extensive and banks do not need to deliver it on a periodical basis. They only need to prove to IPAB that they can generate the complete layout at any given day (not only at the end of the month). On site inspection is carried out to verify this.

The main findings always have to do with a bank's ability to assign a unique id to its customers no matter how many accounts and products each client may have.

This set of information does not allow a statistical monitoring over time, since it is only accessed on site and at a specific date.

IPAB's information requirements: Insured Deposits

For statistical monitoring, IPAB has access since June 2006 to an estimate of insured deposits for every bank, which is carried out by the central bank, based on a monthly report delivered by banks, with information on deposits, grouped by type of product (to approximate guarantee status) and balance size in pesos (to approximate coverage limit).

This estimate is timely available but it has two main limitations:

1. It does not consolidate the different accounts of a same depositor within an institution. In other words every account is considered as a different depositor. This leads to an over estimation of the size of covered deposits.
2. It does not identify the guarantee exclusions that are based on the type of person and its relation with the bank. This leads to an over estimation of the size of insured deposits.

IPAB's information requirements: Insured Deposits

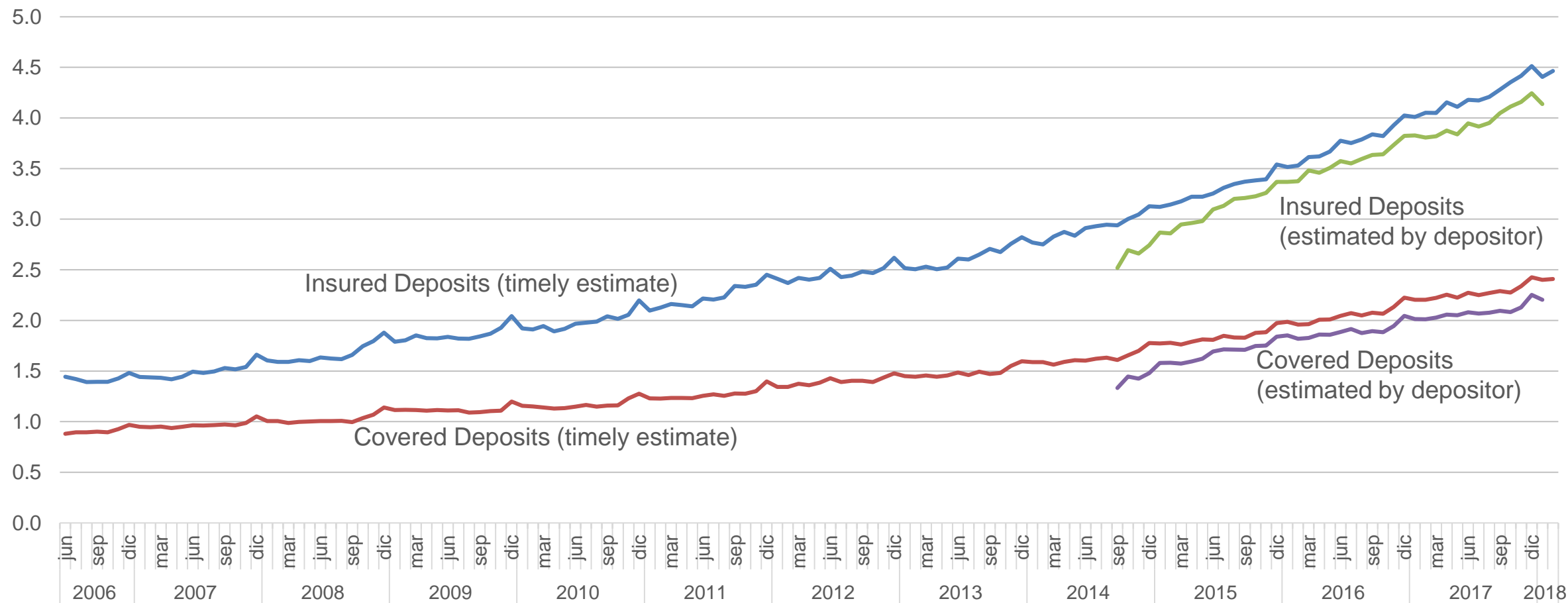
With the aim of a better estimate for statistical monitoring of insured deposits, and also with the objective of obtaining for the first time statistics on the number of depositors, IPAB designed in collaboration with CNBV a new regulatory report that requires data at account level.

Given the fact that banks already had invested in IT systems to meet the regulations for classifying insured depositors, the only challenge was that of capacity for handling millions of data. With the new information model, IPAB was already up to the task. The new report requires for every deposit account the following:

Data	Objective
Unique id	To identify the accounts of a same depositor and aggregate balances correctly towards the coverage limit.
Location	Post code, to add location as a dimension for analysis.
Type of relation	Type of relation between the depositor and the bank, in order to identify guarantee exclusions. The catalogue used also allows to identify if the depositor is a person or other type of entity, so we can get statistics on personal savings.
Type of product	To identify if the product is tradable (i.e. not guaranteed).
Currency	Identify if the account is denominated in pesos, foreign currency or UDIS.
Balance	Balance at the end of the month in pesos.

IPAB's information requirements: Insured Deposits

Evolution of insured deposits in billion pesos (bn MXN)



Questions for discussion

1. Do you agree that a deposit insurer / resolution authority has to be involved in the continuous assessment of all banks and not only those under preventive actions? Can you think of a case where the central bank, the prudential regulator and the resolution authority could have a very different view on the risk that a bank may pose to the system?
2. What are the main indicators of a bank's financial condition in your view? Is it really necessary for a resolution authority to carry out projections on different future scenarios for selected institutions?
3. Is it ok to rely on quantitative indicators only? What is the role of qualitative assessments? How can you trigger early preventive actions based on forward looking estimates, even when official quantitative indicators (CAR, LCR, etc) are on green territory?
4. In terms of early intervention, what is best?: A false positive (you act but there was no problem)? Or a false negative (you don't act and there is a bust)?
5. In the end, every quantitative indicator is based on a set of assumptions, making it more or less qualitative, don't you think?

Thank you! ¡Gracias!

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