



# The BVR-IPS: Bank Protection in the Cooperative Financial Services Network

Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. - BVR -  
National Association of German Cooperative Banks

Bonn, 24<sup>th</sup> of October 2022

Jeder Mensch hat etwas, das ihn antreibt.

Wir machen den Weg frei.

# AGENDA

The German Cooperative Financial Services Network

Deeper dive into the BVR-IPS

BVR-IPS in general

BVR-IPS – Risk management

BVR-IPS – Support mechanism

# AGENDA

## **The German Cooperative Financial Services Network**

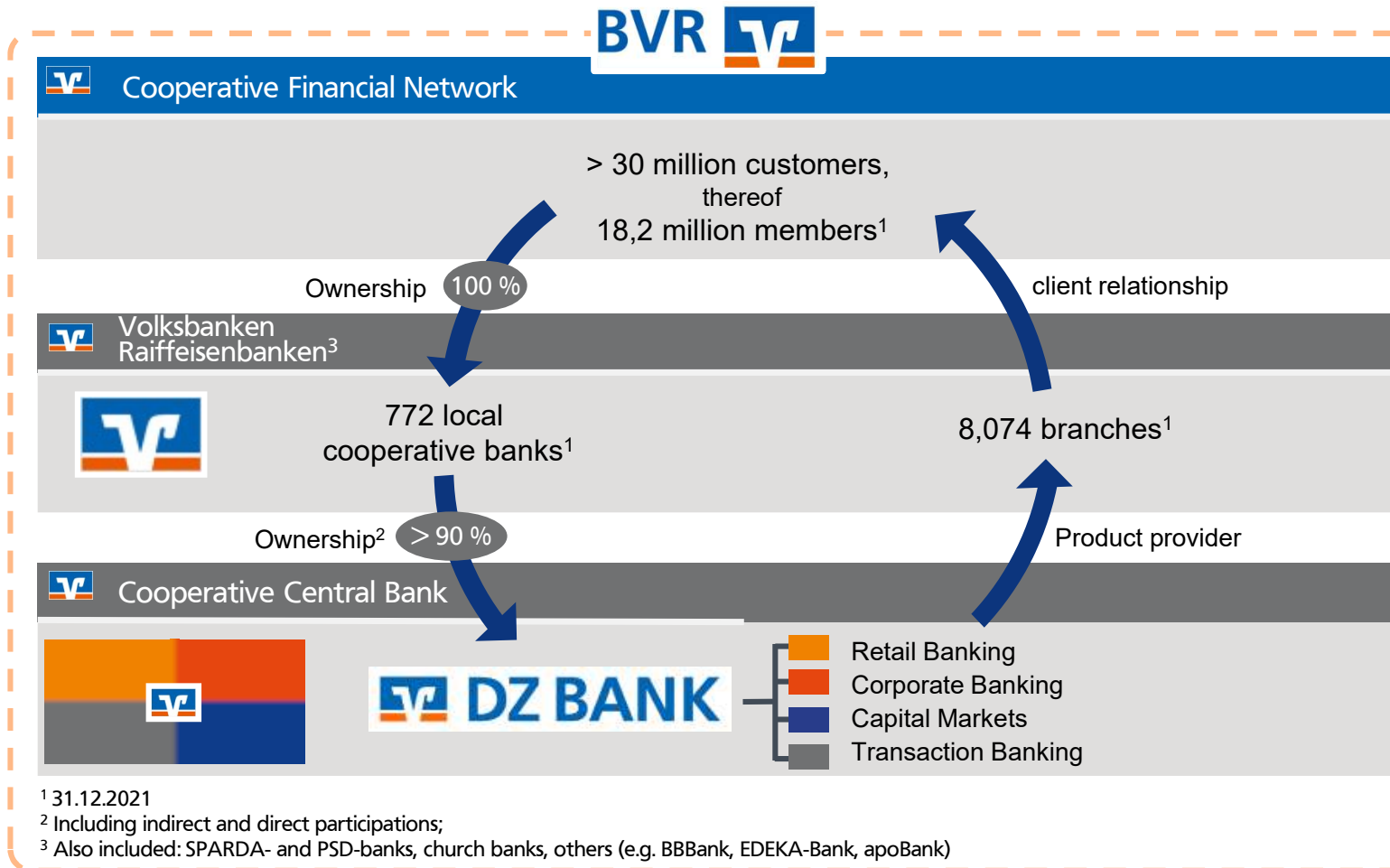
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## Interaction within the German Cooperative Financial Network (structure of our network)

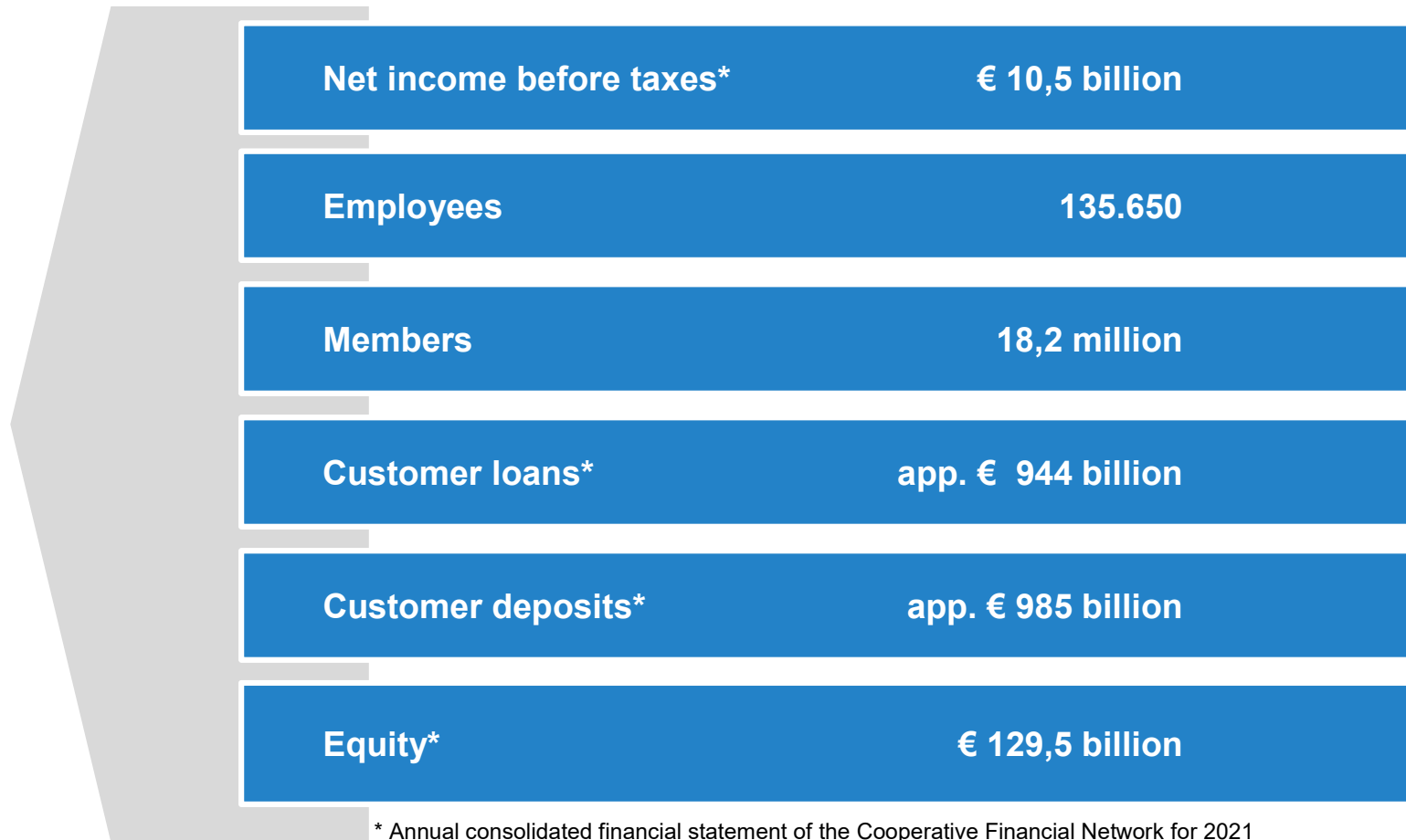


## Development of the local Cooperative Banks (predominantly\* Volksbanken Raiffeisenbanken)

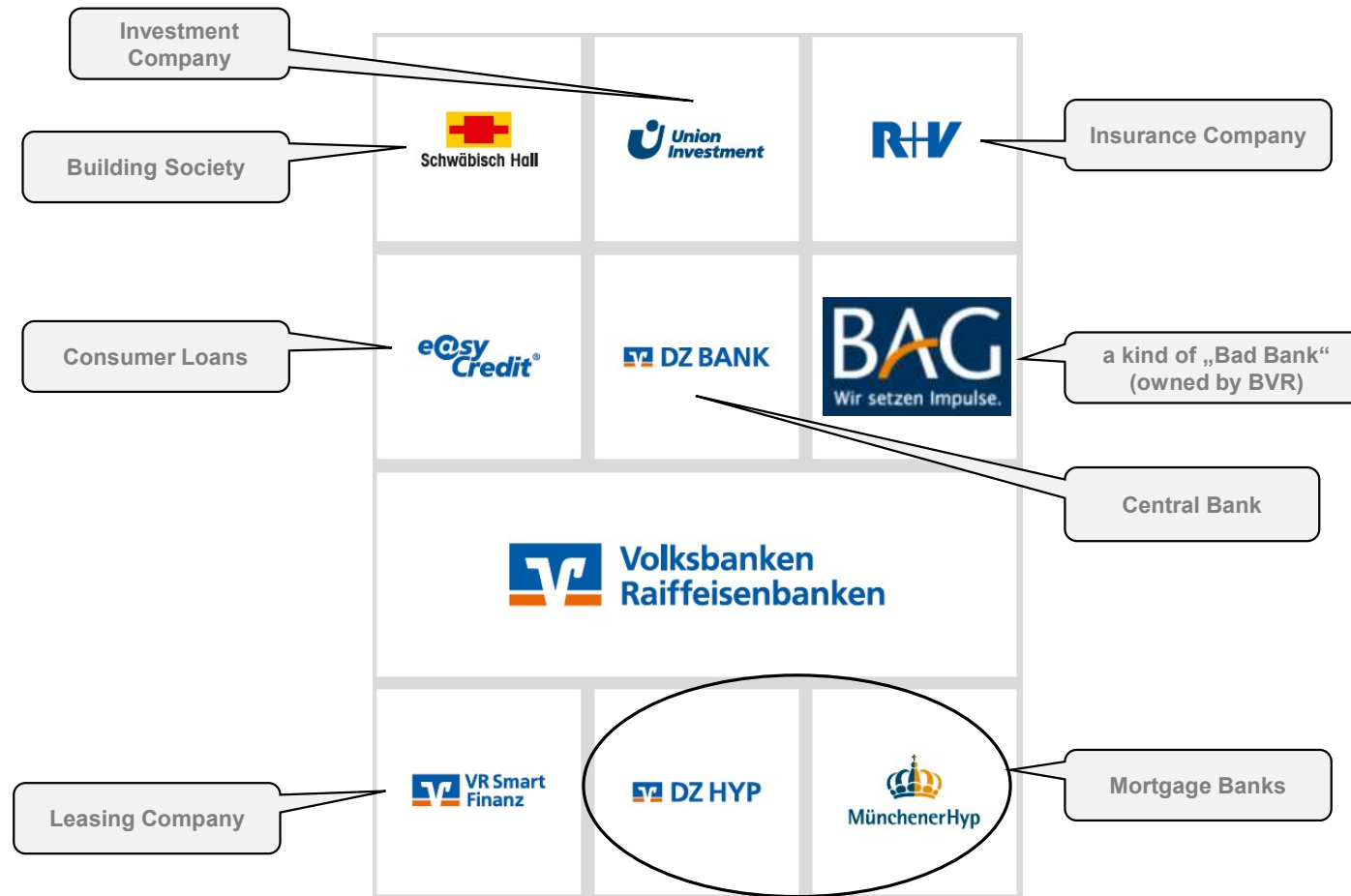
Local cooperative banks					
		772 local cooperative banks		8,074 branches	
Year	Number of Banks*	Number of bank outlets	Aggregate balance sheet total (in € bn)	Average balance sheet totals (in € m)	Members (in m)
1990	3,344	18,764	298	89	11,7
2000	1,794	17,490	535	298	15,0
2010	1,138	13,474	707	621	16,7
2021	772	8,074	1,145	1,483	18,2

\* Also included: SPARDA- and PSD-banks, church banks, others (e.g. BBBank, EDEKA-Bank, apoBank)

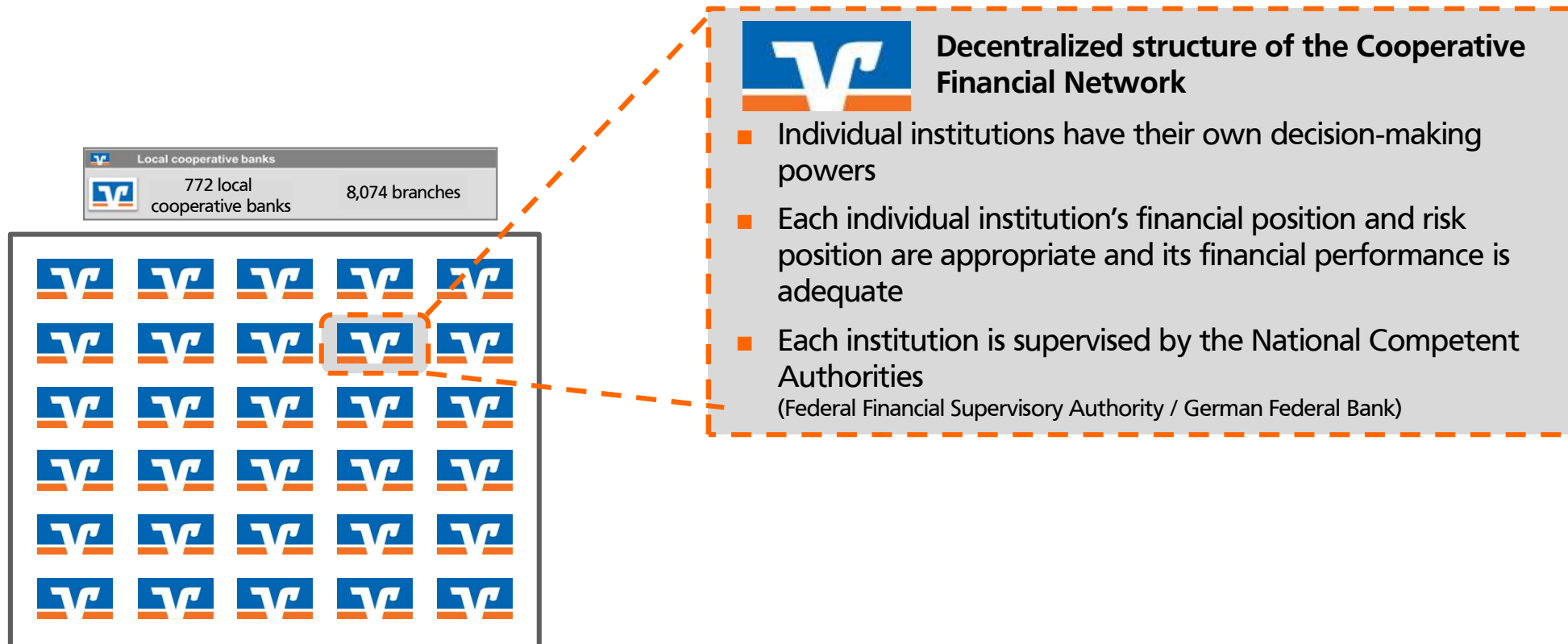
## The Cooperative Financial Network at a glance – key figures\*



## Essential part of the Cooperative Financial Network: „Verbundunternehmen“ (Cooperative Service Organisations)




## The Cooperative Financial Network is a decentralized organization made up of legally independent institutions





## The BVR (National Association of German Cooperative Banks) is the operator of the protection scheme(s)



- **Apex organisation** of the Cooperative Banking Group
- **Representative** of the economic and **political interests** of its members at national and international level (lobbying)
- **Strategic centre of excellence:** Developer of nationwide strategies and concepts (e. g. business policy, and media/communications) and support of implementation within the cooperative banking industry (analysis of fields of action, coordination of know-how, organisation of decision making process, controlling implementation, adjusting strategies)
- **Promotion, support and advocacy** in terms of member interests relating to technical and specific economic policies and economic interests of the associated entities within the cooperative banking industry
- **AND:**  **Operator of the IPS(s)**

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We are more than „only a DGS“ ... we are Consumer Protectors since the 1930's

## „Track record“ BVR-IPS

- ✓ Successful since more than 85 years\*
  - ✓ NO compensation cases!
  - ✓ NO bank runs!
  - ✓ Highest trust of customers
  - ✓ NO advertisement campaign
  - ✓ IPS financed by member banks contributions
- ➔ NO TAXPAYER's MONEY!

*How do we  
manage  
this track  
record...?*



\* Formal „birthday“: 14<sup>th</sup> of May 1934

## Construction principle of our IPS (simplified scheme)

**Member Banks → pay risk-based contributions (since 2004!)**

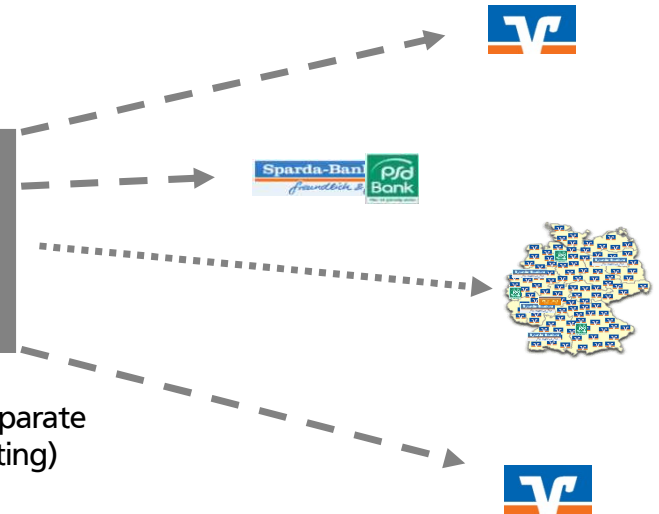
**Capital Stock**

**Measures  
(Prevention & Rehabilitation)**



**INSTITUTIONAL  
PROTECTION  
SCHEME (IPS)\***

**\* Special Asset of the BVR**  
(with independent, completely separate  
accounting, governance and auditing)



„Protection, but obligations“



„rights“



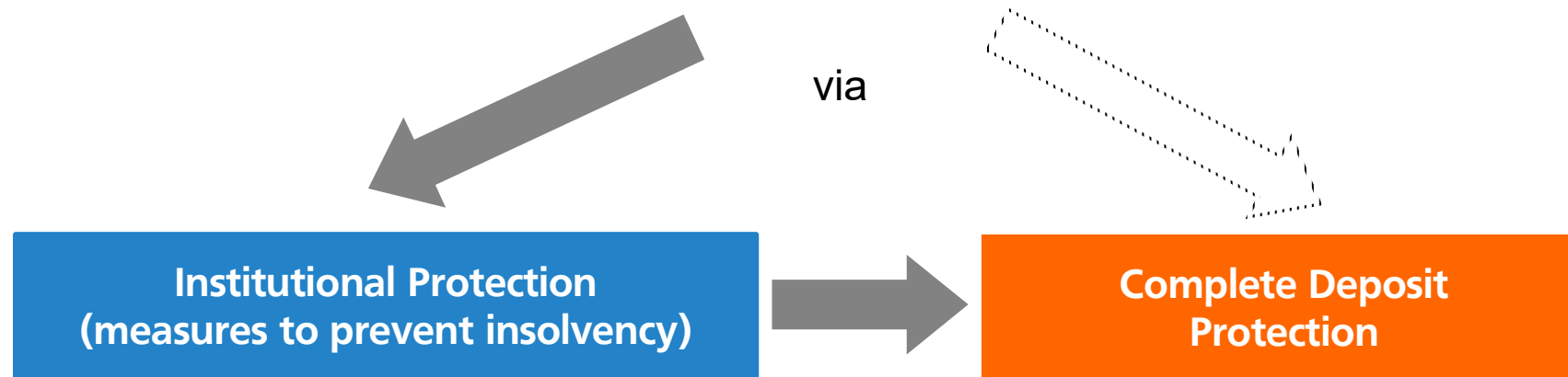
**The Institutional Protection Scheme (IPS)\* ensures the ability of its members to continue their business – not only the protection of deposits**

**By-laws of BVR, § 4 (2) and Statute of IPS, § 1 (1) define overriding aims**

1. Safeguarding the **credit standing / solvability** of all member banks and the financial stability of the Cooperative Banking Group
2. Safeguarding the **trust** of the clients and the money and capital markets

Statute of the Protection Scheme  
operated by  
the National Association  
of German Cooperative Banks (BVR)

BVR 



\* as per Art. 113 (7) CRR and Art. 1 (2) lit. c) DGSD

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**BVR-IPS – Risk management**

BVR-IPS – Support mechanism

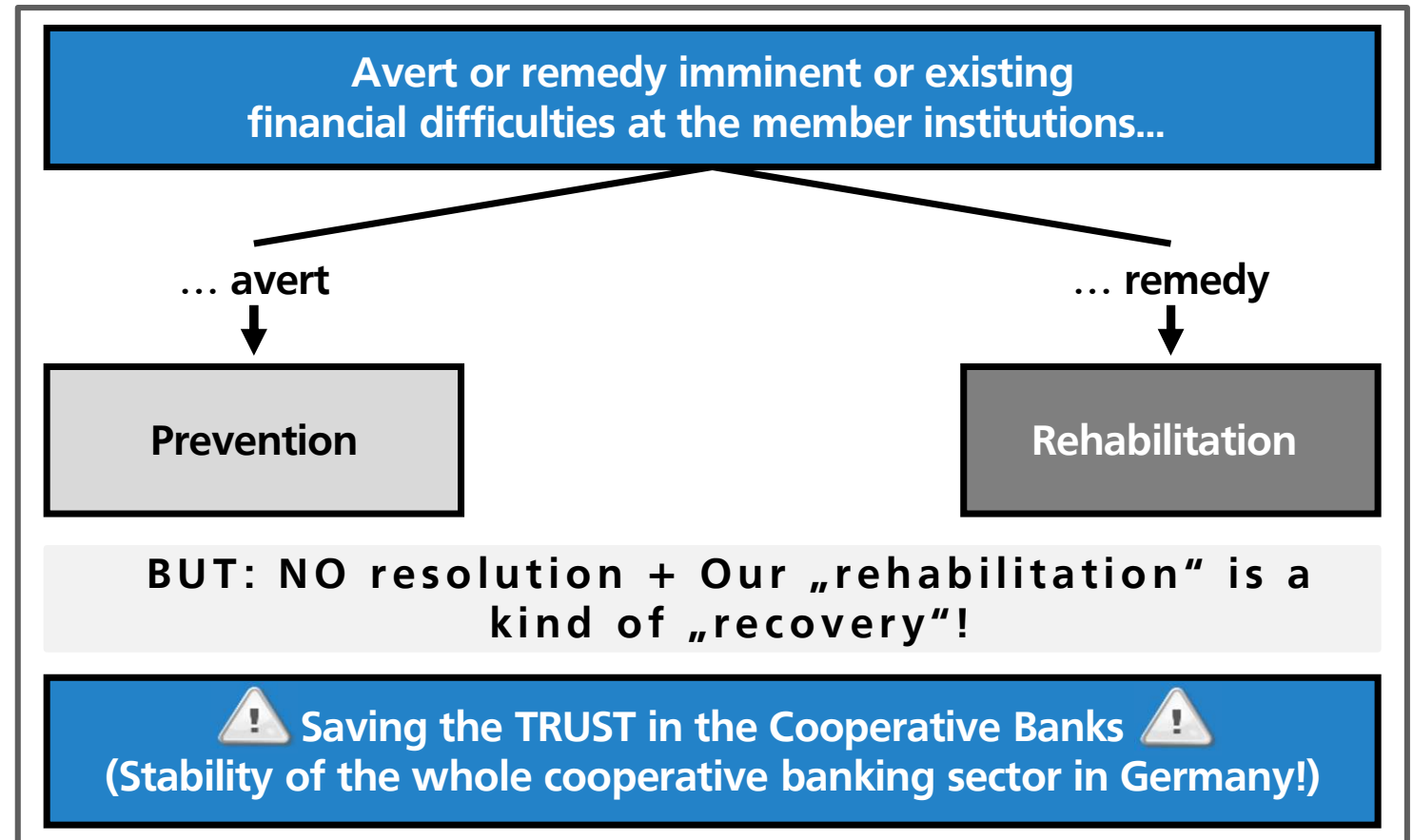
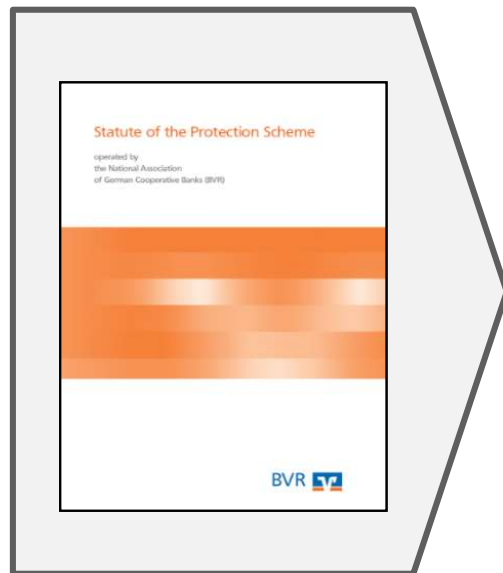
## Risk management of our IPS

### The approach

#### The fundamental methodological approach

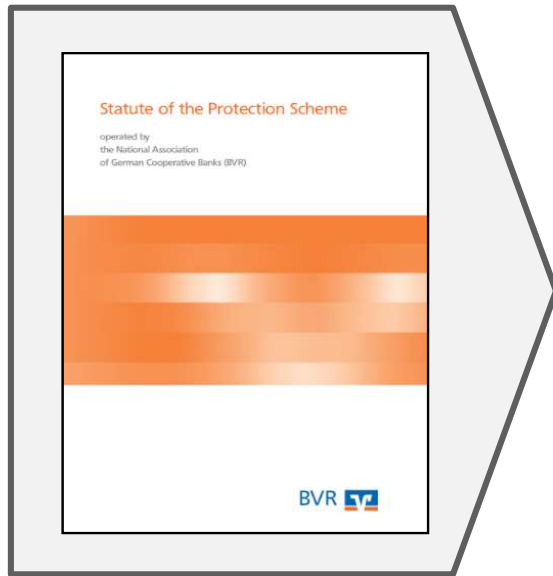
- The Cooperative Financial Network is a **decentralized** organization made up of **legally independent institutions** that are linked by their business operations and – through the Institutional Protection Scheme – by their liability.
- In contrast to banking groups with a parent company at the top of a hierarchical structure, the Cooperative Financial Network has a decentralized structure in which the individual institutions have their **own decision-making powers**.
- In this system, **risk management** focuses primarily on **analyzing** the **risk carriers** – i. e. the **institutions** – rather than on isolated analysis of the risk types.
- This fundamental methodological approach ensures - via establishing that each individual institution's financial position and risk position are appropriate and its financial performance is adequate - that our entire Cooperative Financial Network as a **unit** can be considered to stand on a **sound economic footing**.

**The purpose of the protection scheme is to avert or remedy imminent or existing financial difficulties at the member institutions (§ 1 SE-St)**





## Extensive rights of the BVR-IPS as a core element of the risk management



**BVR action to encourage a change in an institute's operating policy (§ 12 SE-St)**

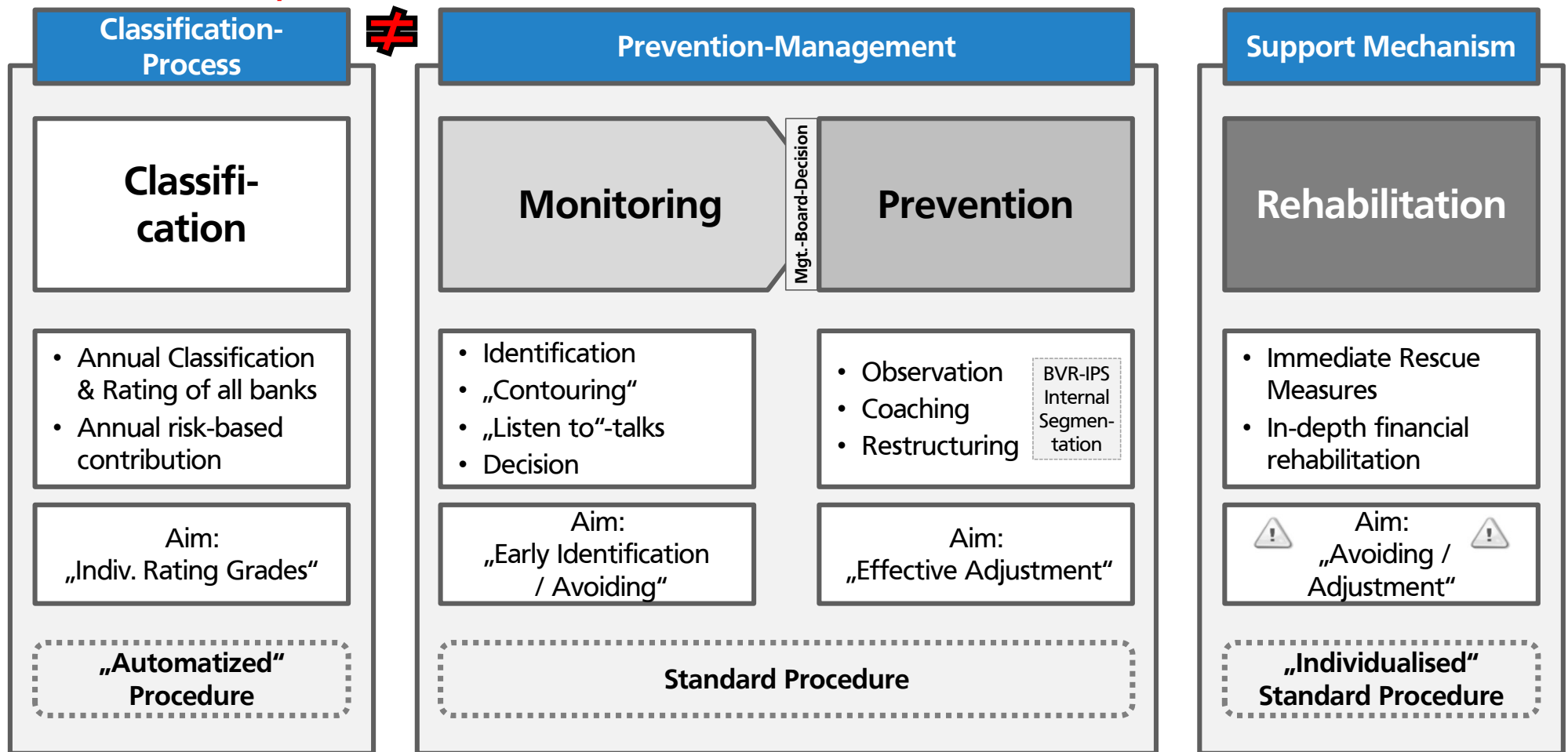
**BVR request for an institute to prepare a restructuring plan (§ 14 SE-St)**

**Imposition of personnel and/or material requirements on institutes by the BVR (§ 16 SE-St)**

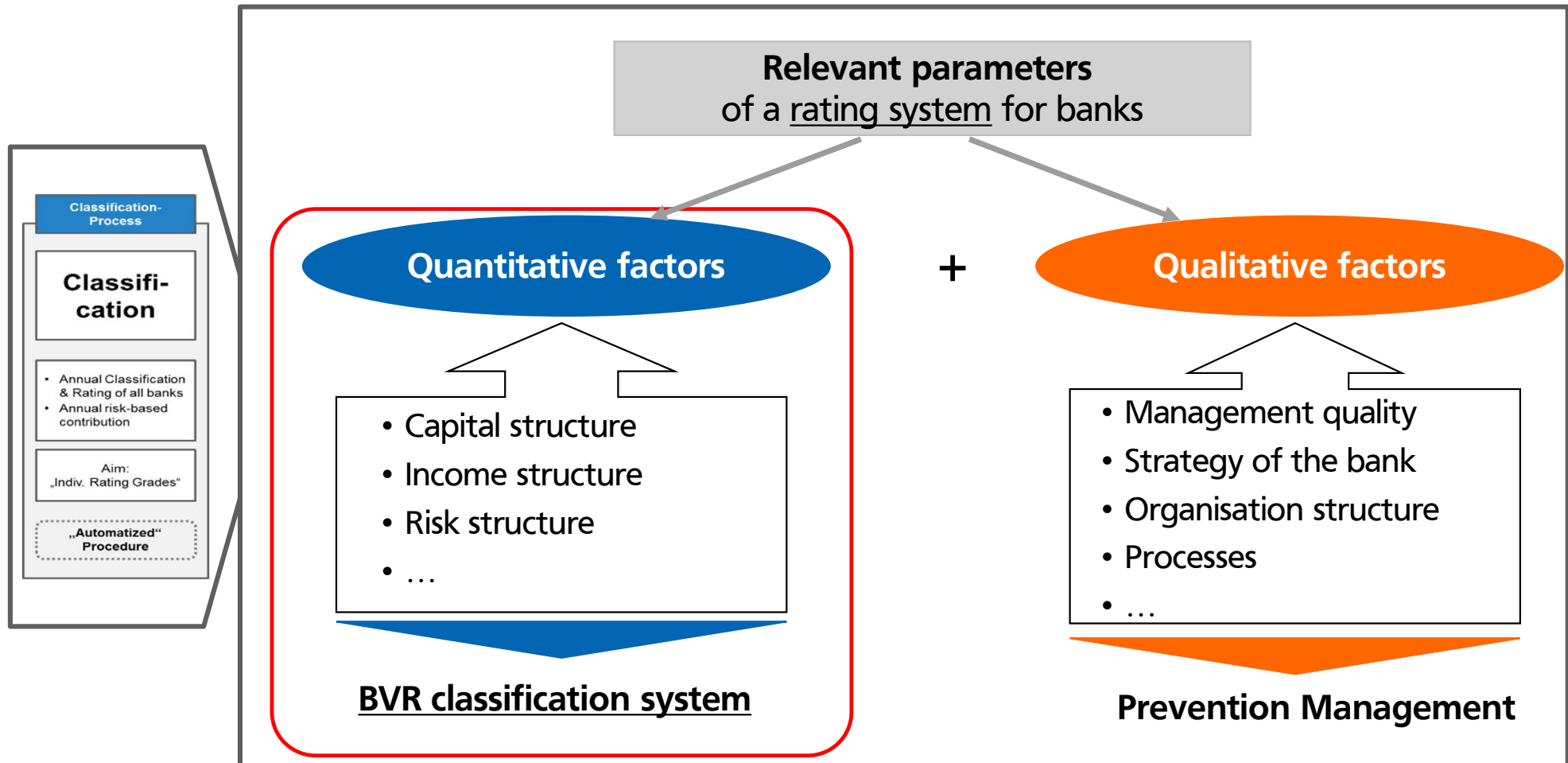
**Ultima Ratio: Exclusion from the Protection Scheme (§ 33 SE-St)**

## Risk management of our IPS: The process at a glance

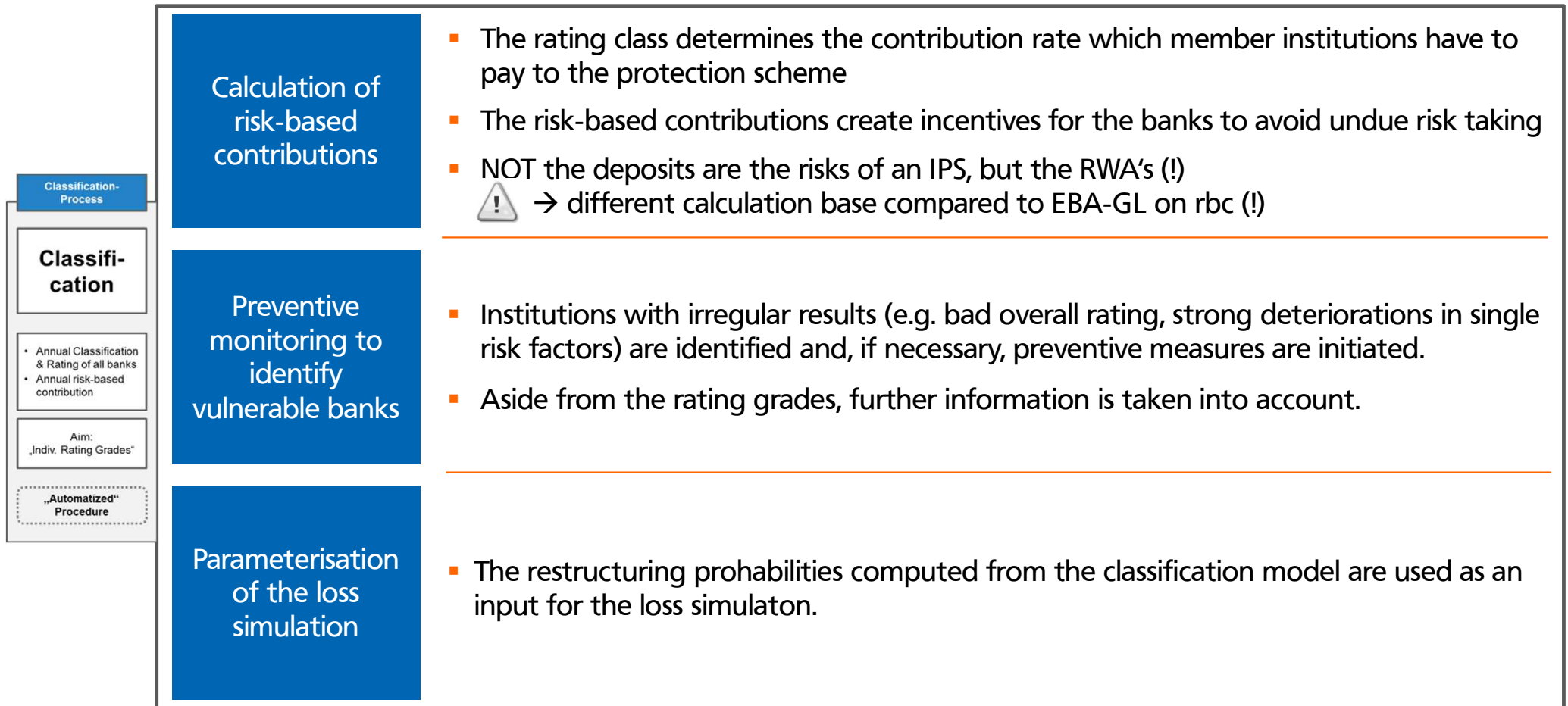
### Separation of functions



## Classification: Possible parameters of a rating system



## The classification model is used for 3 key applications – a triple benefit approach



## The BVR classification system comprises eight ratios – using a system like „Camels“ (espec. Capital,- Income- and Risk-structure)

To calculate a bank's rating grade, the classification model uses eight risk factors which cover capital, income and risk profile

Classification- Process
<b>Classifi- cation</b>
<ul style="list-style-type: none"> <li>Annual Classification &amp; Rating of all banks</li> <li>Annual risk-based contribution</li> </ul>
Aim: „Indiv. Rating Grades“
„Automatized“ Procedure

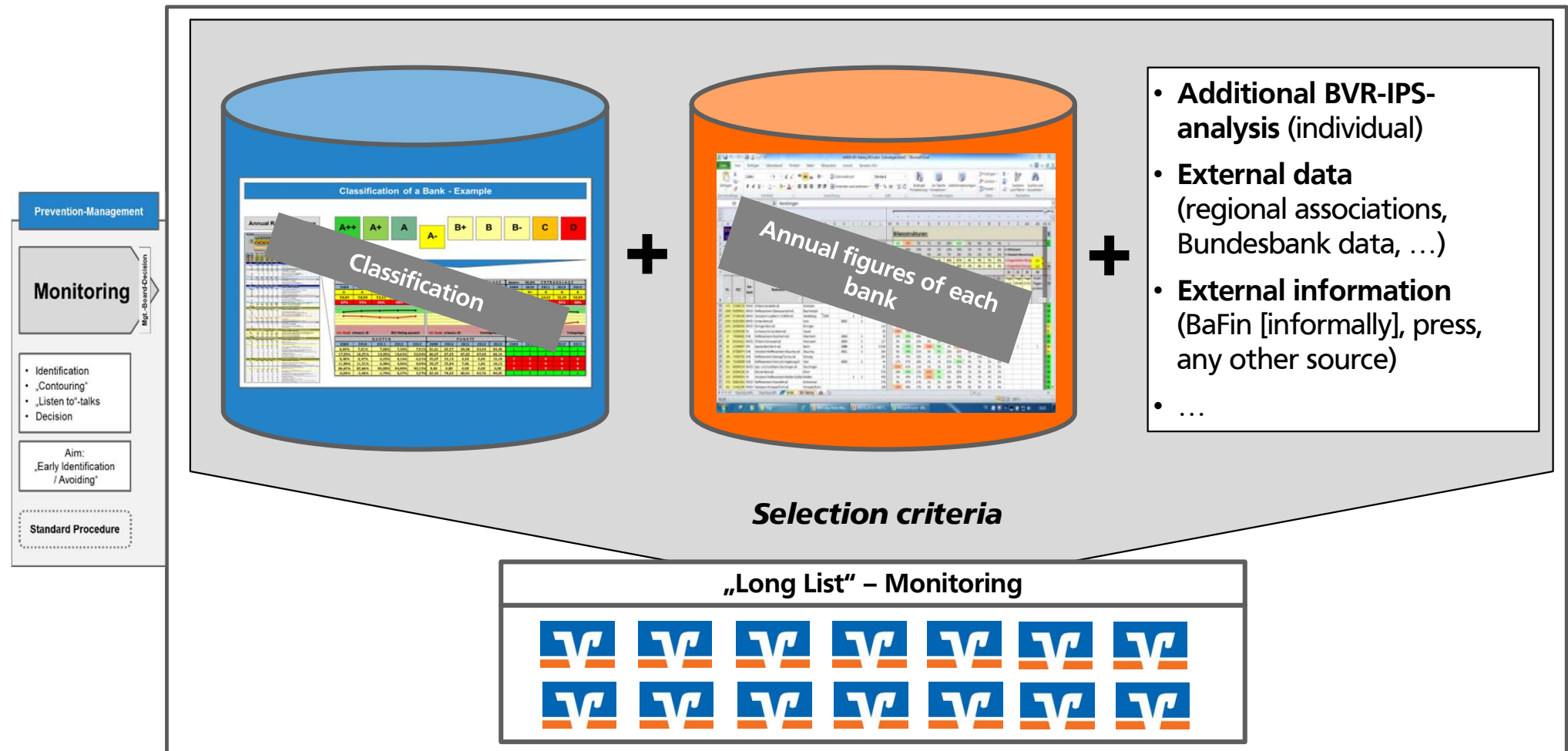
	Risk factor	Definition	Weight
<b>Capital</b>	Capital ratio	$\frac{\text{Retained capital}}{\text{Total assets}}$	20%
	Tier 1 capital ratio	$\frac{\text{Tier 1 Capital} + \text{value adjustments after tax}^1}{\text{Modified own funds requirement according to SolvV}^2 \times 12,5}$	15%
<b>Income</b>	Operating income ratio	$\frac{\text{Operating income pre tax} - \text{unrealised trading losses}}{\text{Average business volume}}$	15%
	Risk-adjusted return ratio	$\frac{\text{Operating income pre tax} - \text{unrealised trading losses}}{\text{Modified equity capital requirements according to SolvV}^2 \times 12,5}$	5%
	Cost income ratio	$\frac{\text{Personnel and admin expenses}}{\text{Gross profit}}$	10%
	Risk charge ratio	$\frac{\text{Loan loss provisions}}{\text{Gross profits}}$	20%
<b>Risk profile</b>	Unsecured credit ratio #1	$\frac{\text{Unsecured credit exposure in high-risk}^3 \text{ loans}}{\text{Retained capital}}$	7,5%
	Unsecured credit ratio #2	$\frac{\text{Unsecured credit exposure in high-risk}^3 \text{ loans}}{\text{Earnings before risk adjustments}}$	7,5%

<sup>1</sup> „Versteuerte Wertberichtigungen“

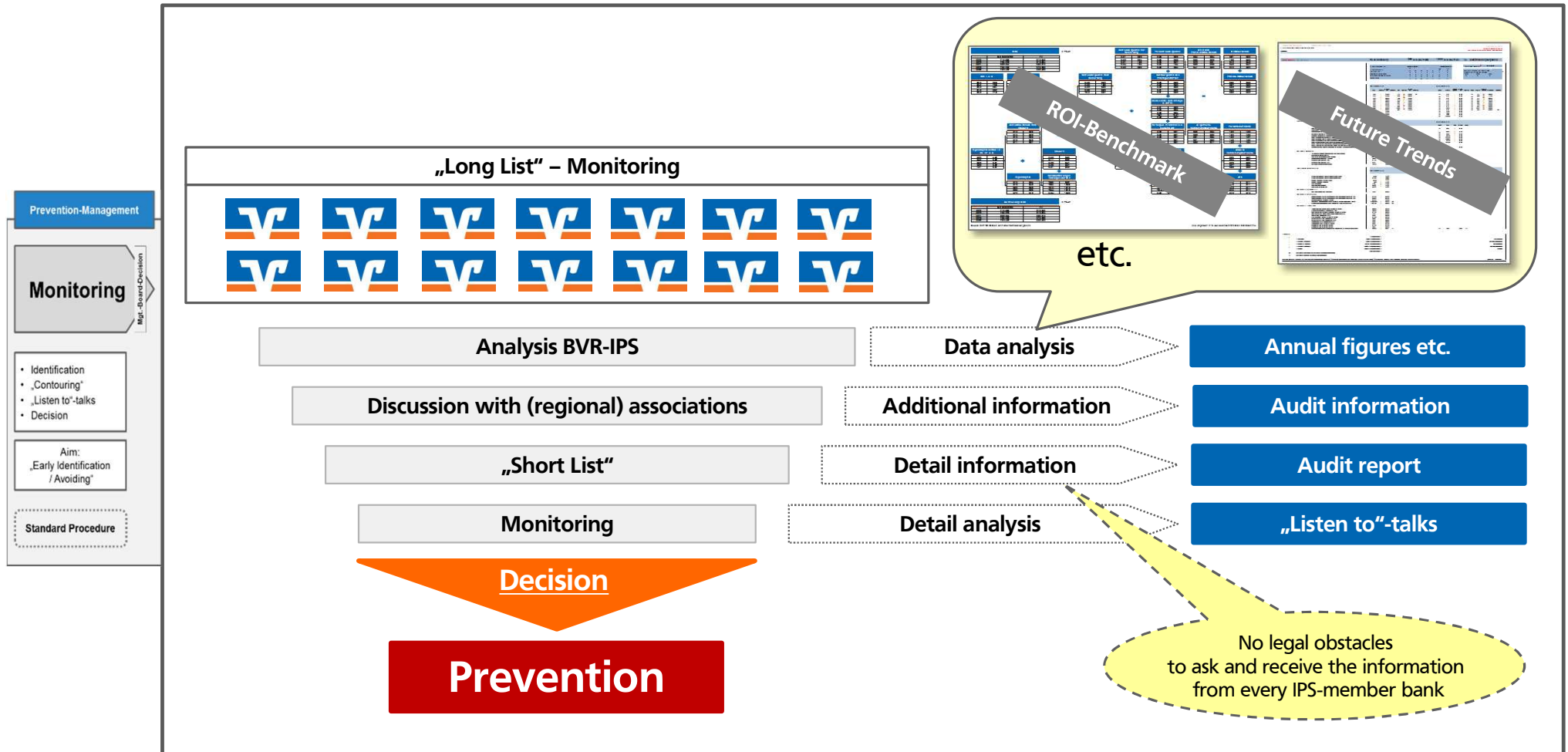
<sup>2</sup> SolvV = „Solvabilitätsverordnung“ (German solvency regulation)

<sup>3</sup> „High-risk loans“ correspond to exposures with „amber“ ratings in the BVR terminology („Gelbbereich“)

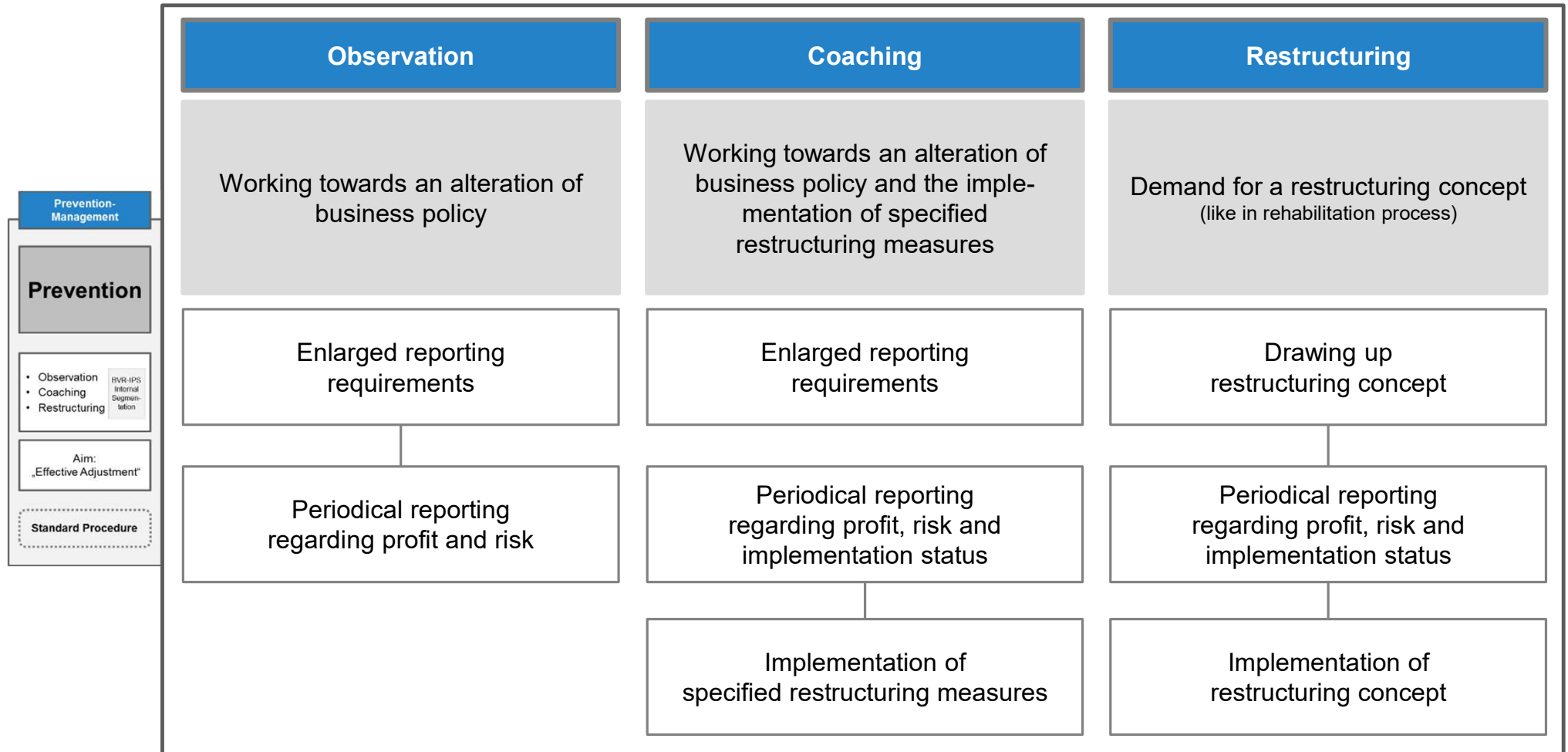
**Due to the classification results, the annual figures of each bank and further information the banks get selected for a possible monitoring**



In the next step, the monitoring „Long-list“ can be analysed in detail by the BVR-IPS

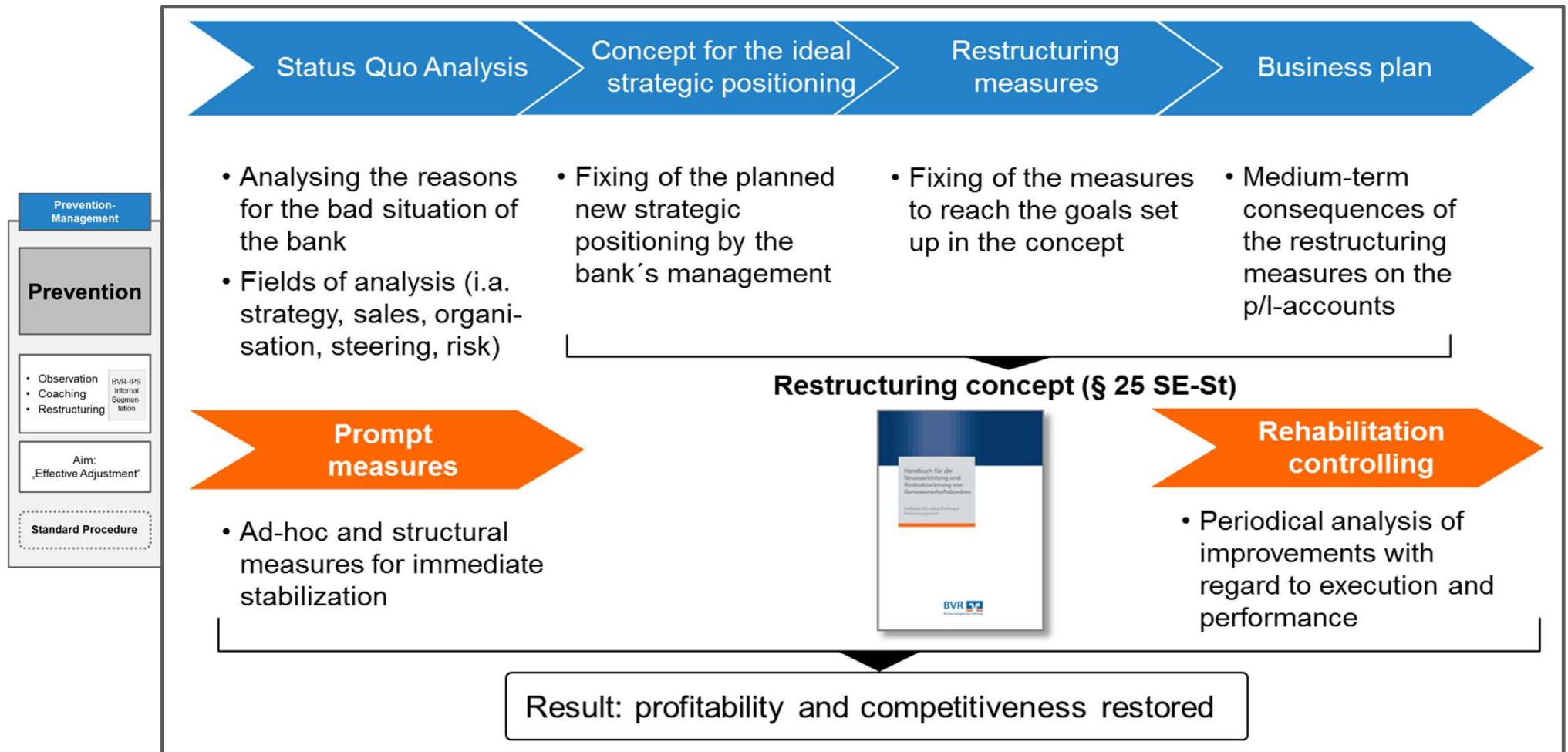


## Prevention process: Depending on the type of prevention different information and sanctioning levels apply





## The objective of the restructuring concept is to restore the bank's profitability and competitiveness



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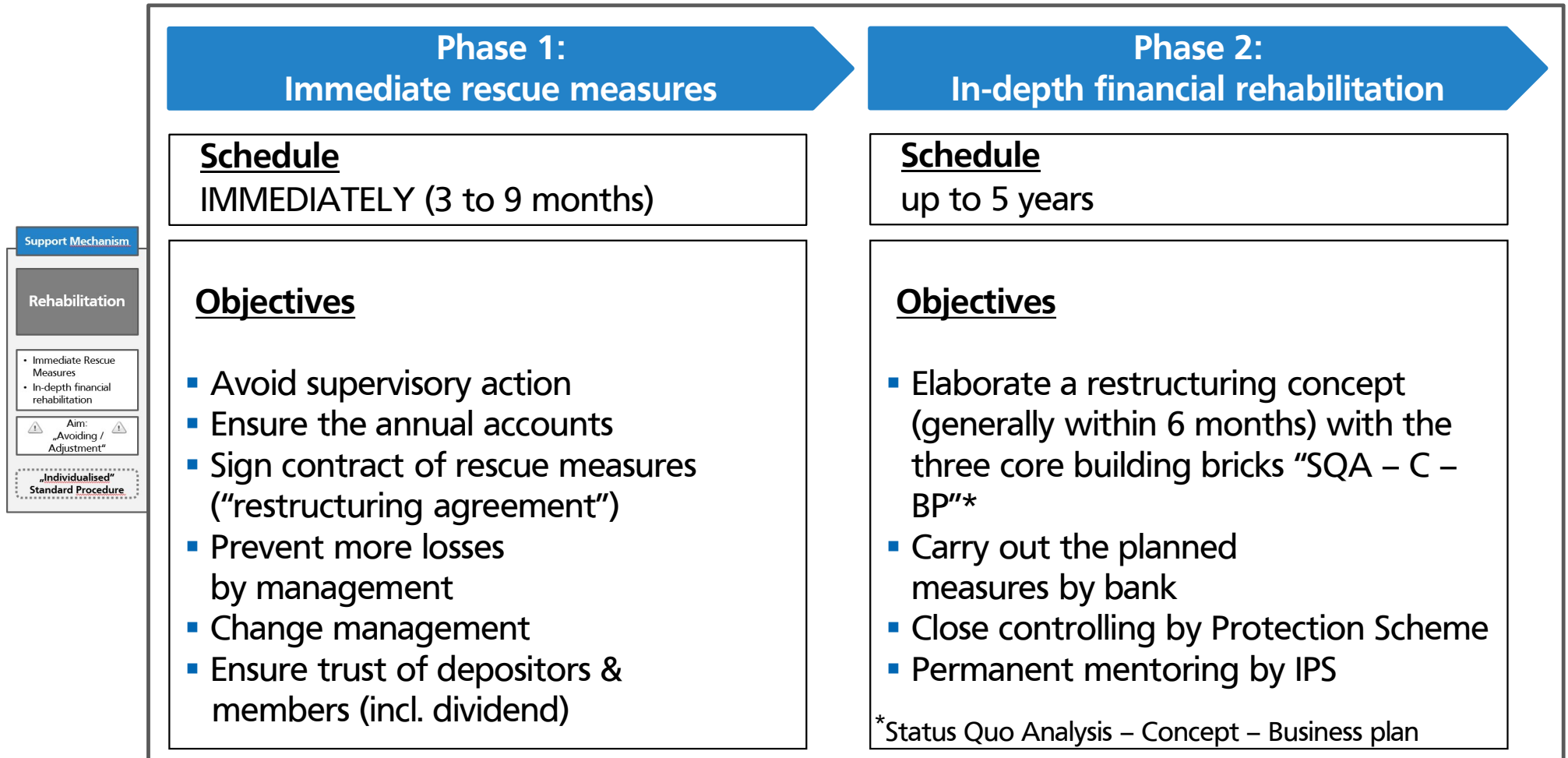
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**BVR-IPS – Support mechanism**

## The rehabilitation process is divided into two main phases



## IPS measures in the support mechanism of phase 1 (and sometimes phase 2)

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### Support measures provided by the IPS (§§ 17ff. SE-St)

- **“FIRST LINE of defense” (ahead of IPS-support):** Use of equity and hidden or any kind of other reserves (till the point where such a reversal of equities and reserves would place the institute in breach with relevant regulatory provisions)!
- Financial measures of the IPS, e.g. guarantees/sureties, grants, loans
- “Cut out” of bad-loan portfolios (→ “Bad Bank BAG Hamm”)
- “Phase out” of non-profitable business areas
- “Cost cutting” (e.g. Retail-outlets, Human Resources)
- Any other appropriate measure
- Fundamental restructuring plan
- Merger

**Thank you for your kind attention!**

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General Aspects of the Protection Schemes  
and IPS Recovery Planning  
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Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. BVR  
**NATIONAL ASSOCIATION OF GERMAN COOPERATIVE BANKS**

Sicherungseinrichtung  
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