

# 3rd EFDI Balkan Region Meeting

Risk monitoring and determining deposit  
insurance premium rate

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ALBANIAN  
DEPOSIT INSURANCE  
AGENCY

## **The identification of the distribution of risks in the banking system**

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**The performance of second tier banks based on capital soundness, credit portfolio, liquidity and the capacity to generate revenues.**

# ADIA'S Risk Analysis Sector

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***Risk Analysis Sector*** is responsible for:

- ✓ Identifying the risks exposure,
- ✓ Monitoring the impact of unfortunate events
- ✓ Addressing the risk management process to the respective sector at the Agency
  
- ❖ A simple methodology is created in order to identify the weakest bank/banks in the system and reflect it to ADIA's investment strategy.
  
- ❖ A connection between the risks in the banking system and defining the level of liquidity tranche
  
- ❖ This model is limited and we are working to improve it in the future with the collaboration of the Central Bank

# Statistical method for score calculation



## Model's Input:

Indicators that are reported quarterly to the Agency by the Central Bank are divided in four main categories :

- Capital soundness
- Credit portfolio's performance
- Capacity to generate revenues
- Liquidity

## Methodology:

- For each risk category is generated a score gained from the aggregation of indicators of that category
- The 4 indicators found are unified in a final score for each bank

## Output:

- Compare banks performance
- Observation in real time of banks strategies

# Bank ranking based on specific scores



This ranking is built up for 4 main risk categories

Dec-15		
	BANKS	CAPITAL SCORE
1	Bank A	86
2	Bank P	37
3	Bank C	31
4	Bank D	27
5	Bank K	25
6	Bank L	23.2
7	Bank AA	23.1
8	Bank AB	23
9	Bank AP	22
10	Bank PP	21
11	Bank PD	20
12	Bank PA	17
13	Bank CC	16
14	Bank CD	4.3
15	Bank DA	4
16	Bank DD	1.7

For each risk category are identified the banks with the best performance in the system

For each risk category are identified the bank with the worst performance in the system

# Final score calculation / identification



Dec-15		
Banks	Capital Score	
1	..	...
2	...	...
3	...	...
4	...	...
5	...	...
6	...	...
7	<b>BANK A</b>	<b>23.1</b>
8	...	...
9	...	...
10	...	...
11	...	...
12	...	...
13	...	...
14	...	...
15	...	...
16	...	...

Dec-15		
Banks	Liquidity Score	
1	..	...
2	...	...
3	<b>BANK A</b>	<b>40</b>
4	...	...
5	...	...
6	...	...
7	...	...
8	...	...
9	...	...
10	...	...
11	...	...
12	...	...
13	...	...
14	...	...
15	...	...
16	...	...

Dec-15		
Banks	Credit score	
1	..	...
2	...	...
3	...	...
4	...	...
5	...	...
6	...	...
7	...	...
8	...	...
9	...	...
10	...	...
11	...	...
12	...	...
13	<b>BANK A</b>	<b>12.1</b>
14	...	...
15	...	...
16	...	...

Dec-15		
Banks	Profitability Score	
1	..	...
2	...	...
3	...	...
4	...	...
5	...	...
6	...	...
7	...	...
8	...	...
9	...	...
10	...	...
11	<b>BANK A</b>	<b>20.1</b>
12	...	...
13	...	...
14	...	...
15	...	...
16	...	...

Dec-15		
BANKS	FINAL SCORE	
1	..	...
2	...	...
3	...	...
4	...	...
5	...	...
6	...	...
7	...	...
8	...	...
9	...	...
10	<b>BANK A</b>	<b>20.1</b>
11	...	...
12	...	...
13	...	...
14	...	...
15	...	...
16	...	...



After the analysis of each risk category, it is possible to merge the specific scores and gain the final score of each bank.

# ADIA's Analysis



The analysis and the methodology help us :

- To compare among banks performances for each risk category and for the overall management.
- Also can compare and analysis the performance of each bank *in time.*

*(in specific we identify the fluctuations of the score in time)*

Follow – up ranking variation in real time, in order to identify the soundness and weakness of each bank and risk distribution in banking system

# ADIA's analysis



The final output of the model which consists in identifying the weakest bank in system, will be the reference base for further indeed variations and adequacy of investment policy through time.

## We propose to divide ADIA's fund in two tranches:

- a) liquidity tranche – invested in liquid instruments, which, on quarterly basis, vary in base of the amount of deposits of the weakest bank in the system that the agency has to compensate, and in order to minimize the liquidity risk.
  
- a) Investment tranche – is the remaining fund that the agency would invest in order to maximize its return.



# ADIA's Challenge



Actually ADIA's Fund **cover 100%** the amount of insured deposits of the weakest banks in the system.

Actually, ADIA invest almost **30%** of its fund (liquidity tranche) in liquidity instruments, while the amount of insured deposits of the weakest bank in system is almost **35%** of total ADIA's Fund.

$$\frac{\text{DIA's amount of deposits to compensate}}{\text{DIA's Funds}} = 35\%$$

**ADIA's challenge** in the future is to create a database and gather the historical results in order to have a maggior knowledge of banks strategies through the years.

# Methodology limits



*ADIA's challenge is to improve this methodology in the future.*

Actual limits of the methodology are:

- The calculation of final score is based only on quantitative data obtained from financial balance sheets of each bank and do not consider qualitative data.
- Is not set a score limit (as a benchmark) in order to identify three levels of risk : high risk banks, low and average risk banks.
- For the calculation of final score are used same average weights for all risk categories, which have no discriminatory power and do not reveal the importance and variations of each risk in the banking system

***\*Important:*** The actual methodology identifies the weakest bank/s without considering their probability of default.

# Characteristics of Deposit insurance scheme



Some characteristics of the deposit insurance scheme are :

- ✓ Pay - box mandate
- ✓ All the banks and the SCA licensed by the Central Bank of Albania are obliged to insure the deposits and regularly pay the insurance premiums.
- ✓ Agency covers the individual deposits in the banks up to **2,500,000 ALL**, and the individual deposits in the SCA up to **2,000,000 ALL**.
- ✓ The insurance premium paid by banks and SCA **is flat**.
- ✓ The premium is **payed each quarter** and it is calculated on the arithmetic average of the amount of insured deposits registered on the last day of each month of the preceding quarter.
- ✓ The percentage of the quarterly premium is:
  - 0.125% for the banks
  - 0.075% for SCA

# Thank You!

For further information please  
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