Risk Assessment for Banking Systems

Discussion at the "Banking, Financial Stability and Business Cycle" conference

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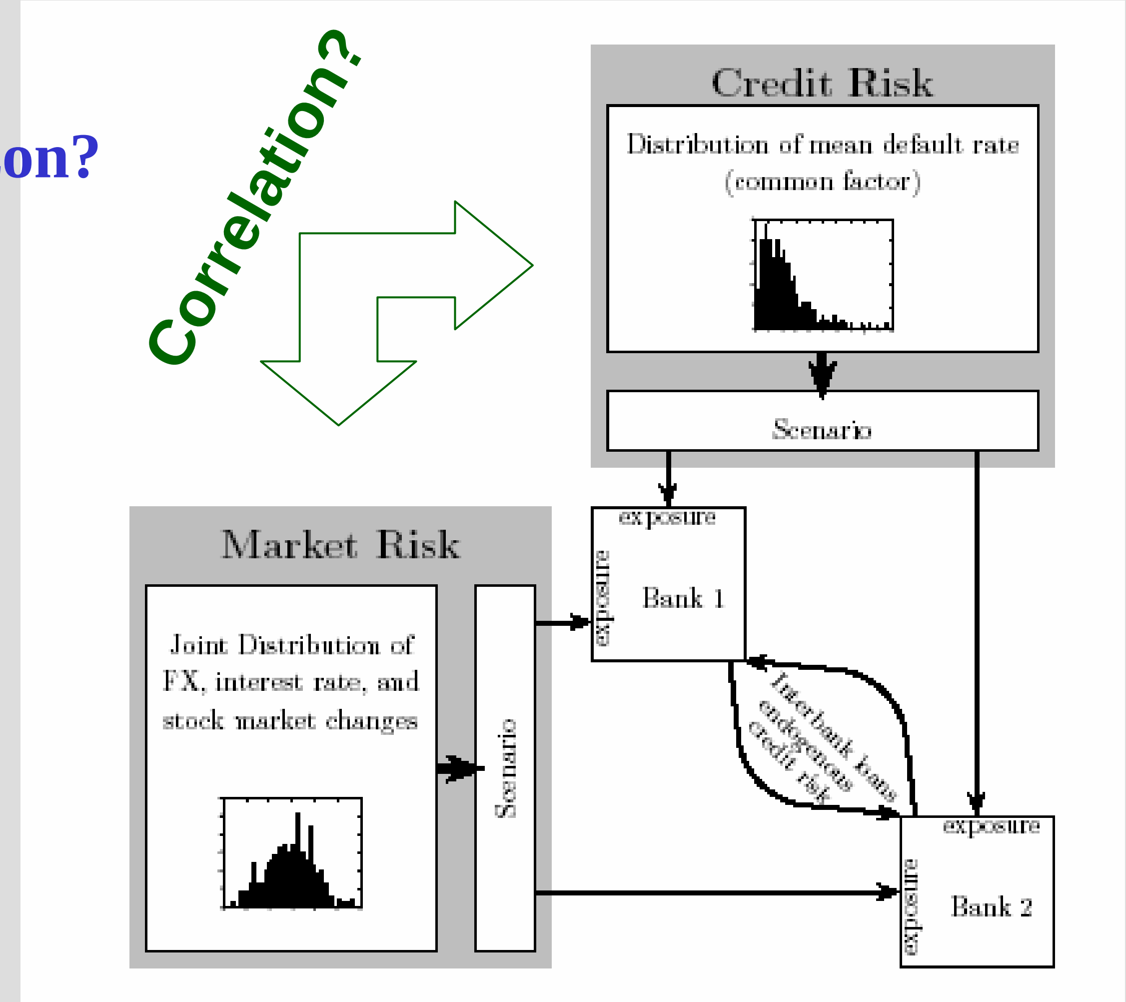
Morten Linnemann Bech

Federal Reserve Bank of New York

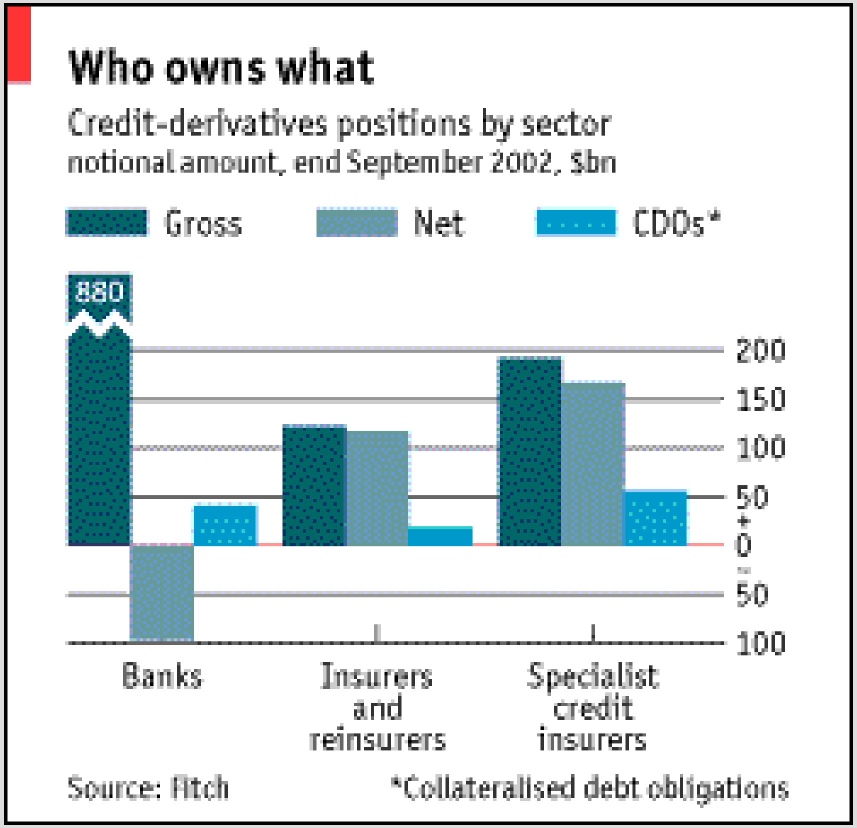
The views expressed in this presentation do not necessarily reflect those of the Federal Reserve Bank of New York or the Federal Reserve System

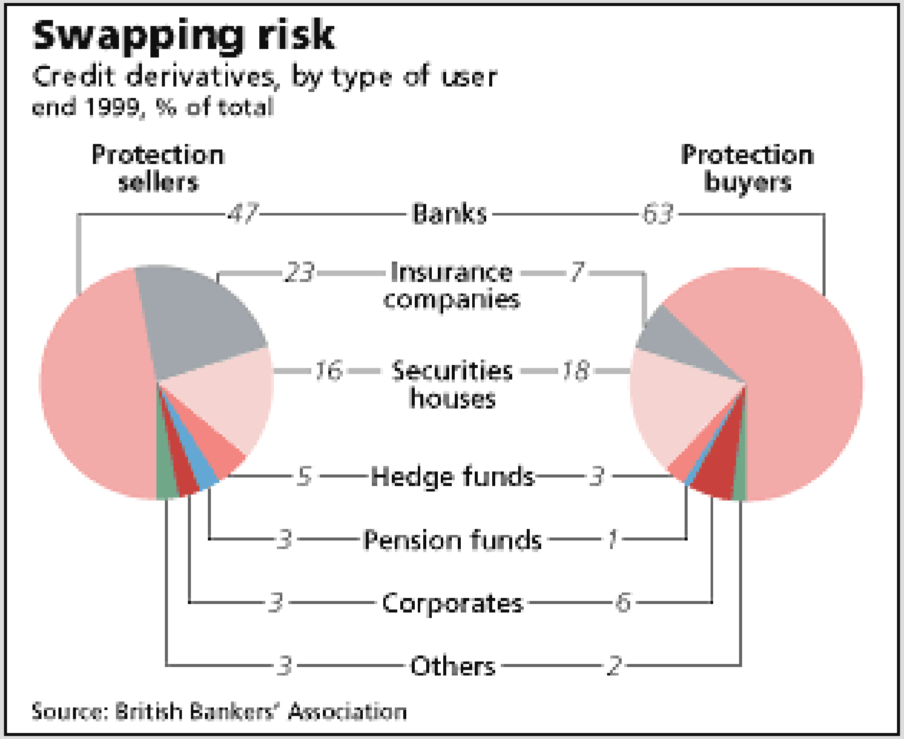
Correlation bwt. Risk Factors

Time Horizon?



Credit Derivatives?





The Previous Literature - Idiosyncratic Shocks

#	Author	Title	Data	Conclusion
1	Humphrey (1986)	Payment Finality and Risk of Settlement Failure	Payment system	Significant Settlement failures
2	Angelini et al (1996)	Systemic Risk in the Netting System	Payment system	Low due to different market structure
3	Bech et al (2002)	Systemic Risk in the Danish Interbank Netting System	Payment system	The systemic risk is low
4	Furfine (2003)	Interbank Exposures: Quantifying the Risk of Contagion	Federal Funds	Risk of Contagion is Economically small
5	Sheldon & Maurer (1998)	Interbank Lending and Systemic Risk	Interbank lending entropy	Limited risk
6	Upper & Worms (2002)	Estimating Bilateral Exposures in the German Interbank Market: Is there a Danger of Contagion	Interbank lending entropy	15% of the banking system in terms of asset
7	DeGryse & Nguyen (2004)	Interbank exposures: An Empirical Examination of Systemic Risk is the Belgian Banking System	Interbank lending	Low domestic risk of contagion. International risk

Multiple Failures