

DIRECTED RISK RESEARCH PROPOSAL

Risk Theme	Credit Risk
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Client Info: *(only applicable if proposal is in response to a client problem statement)*

Problem Title	Risk aggregation methods comparison				
Client Name	Frederik van der Walt	Client Org.	BAG		
Designation	Senior Corporate Credit Modeller				
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University		Classification	
Problem Nr.	PS16014	Type	Technology-Pull
Proposal Nr.	RP16010	Date	September 2016

PROJECT TITLE: Investigate the effect of the PD and LGD correlation

PROJECT GOAL:

The goal of the project is to quantify the effect of the PD and LGD correlation on economic capital and expected loss.

PROJECT SCOPE

Empirical studies have demonstrated that loan default probabilities (PD) and loss given defaults (LGD) are positively correlated because of a common, business cycle, dependency. Regulatory capital requirements demand that banks use downturn LGD estimates because the correlation between PD and LGD is not captured. Economic capital models are not bound by this constraint.

PROJECT OBJECTIVES

The main objective of the study is to research the impact of systemic loss given default on economic capital as well as the general impact of the PD-LGD correlation on expected loss and economic capital.

RESEARCH OUTPUTS / DELIVERABLES

PUBLICATIONS:	Name(s) / Title(s)
Article (2)	2
STUDENTS:	Name(s) of Student(s)

OTHER:	

APPROACH TO BE FOLLOWED

In order to achieve the objectives of this project, the following approach is suggested:

- 1. Literature study
- 2. Analysis on PD-LGD correlation impact on expected loss and economic capital.
- 3. Documentation

STRATEGIC VALUE TO DIRECTED RISK RESEARCH

The research will increase the insight of the effect of the PD-LGD correlation on both the expected loss and the economic capital.