

BANK RISK MANAGEMENT

Term: March-April 2009

Type: Lecture (21hrs)

Instructor: Dr. Patrick Behr

Target group: MBA students

Course Overview

This course covers several important aspects of the measurement and management of risks of banks. It is divided into three parts:

1. Introduction into banks and banking
2. Risk measurement and management for banks
3. Risk based bank performance measurement

The first part gives an introduction into banks and banking. We will discuss why banks exist, what their main activities are, and why they are of particular importance for the financial system and the real economy of a country. We will also work out why the particular role of banks in a real economy gives rise to bank regulation, and briefly discuss how current bank regulation is structured.

The second part introduces the specific risks of banks, and how these risks can be measured and managed. We will in detail discuss interest rate risk, which is a major risk of banks. It will be shown why and how interest rate risk arises, and how banks can measure and manage it. This part also discusses liquidity risk. This was one of the most important issues in the ongoing financial crisis, which had its roots in the U.S. subprime loan market. We will, hence, intensely discuss the subprime crisis and potential consequences, especially with regard to the regulation of banking activities in the future.

The third part of the course discusses risk-based bank performance measurement. We will discuss performance measurement in banking based on risk-adjusted performance measures like the Risk Adjusted Return on Capital (RAROC) and the Return on Risk Adjusted Capital (RORAC).

Literature

The contents of the course are mainly based on the following textbook:

Saunders, A./Cornett, M. (2008): “Financial Institutions Management – A Risk Management Approach”, 6th international edition, 2008.

Teaching style

The different topics will be presented by the lecturer. Students are invited to actively participate through questions and discussions. The course will additionally feature student assignments which have to be presented in classroom. The assignments have to be prepared in groups. Extra literature and additional materials for the assignments will be provided by the lecturer. The topics for the presentations will be communicated before the start of the course and assigned in the first session. The content of the presentations have to be coordinated with the lecturer. Students are also required to individually prepare and submit a home assignment. The course will end with a written exam after the last lecture.

Syllabus – Bank Management

Grading

Student presentation (25%), home assignment (25%), final exam (50%)

Information about the lecturer

Dr. Behr received his diploma in business administration and his PhD in finance from the Goethe University in Frankfurt, Germany. During the preparation of his PhD, Dr. Behr was a visiting scholar at the University of Lugano, Switzerland, and the Pontifical Catholic University (PUC) in Rio de Janeiro, Brazil. Since November 2005 he is assistant professor of finance at the Goethe University Frankfurt. From March to April 2006 and from August to September 2008 Dr. Behr was a visiting professor at COPPEAD Graduate School of Business in Rio de Janeiro, from March to October 2007 he was a visiting scholar at the financial institutions centre of the Wharton School at the University of Pennsylvania in Philadelphia, and since 2006 he is a visiting lecturer at the University of Lugano. He has extensive teaching experience in the fields of financial intermediation, bank risk management, financial systems, and international banking.

Dr. Behr has published two books and several research articles on financial and information intermediation, for instance in the Journal of Small Business Management and the Journal of Banking & Finance. He has extensive consulting experience in the field of financial services. Among other appointments, he consulted for the OECD, the German Stock Exchange, and Eurohypo, Germany's largest mortgage bank.