

Corporate Rating at Volkswagen Bank Credit Rating can be a Competitive Advantage

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Core business areas at Volkswagen Financial Services AG are its fleet business with major clients and vehicle financing. In order to evaluate probability of default for its clients, dealers and fleet clients are assessed using Volkswagen's own internal rating procedure, which was implemented using an application from Innovations Software Technology. The balance sheet and corporate data required for creditworthiness evaluation are delivered to the rating platform via XI interfaces. Volkswagen Bank GmbH has applied for approval of its IRB approach.

The Volkswagen group has delivered more than 5.7 million vehicles over the past year, of which around 3.9 million were Volkswagen models and 1.3 million Audis. That means that vehicle financing represents an important instrument driving sales and market loyalty to the corporation.

Financial services are offered through VW subsidiary Volkswagen Financial Services AG, the largest automobile financial ser-

vices corporation in Europe, and by other subsidiaries, such as Volkswagen Bank GmbH and its branches, Volkswagen Leasing GmbH, Volkswagen Versicherungsdienst insurance provider, and other German and international subsidiaries.

Volkswagen Bank decided to replace its Basel II standard approach with the basic IRB approach, which means it will be able to put its vast specialized know-how to better use in this area. For the evaluation of creditworthiness in the corporate area, Volkswagen has replaced its old MS Access-based application with a Web-based Basel II rating platform. Christened CARAT (Corporate Assessment and Ratingmodel Application Administration Tool), this application has been deployed since November 2007.

Creditworthiness evaluation of the client is made through a complex rating procedure. It entails both annual report figures as well as qualitative factors, such as

future business prospects, assessment of management quality, and market and industry environments, as well as payment practices – all are drawn into the evaluation.

CARAT employs data from a variety of sources. This meant that the various suppliers of data had to be connected, and they included some who use SAP applications.

Joint use of data also required comparing data from different sources with each other for redundancy – data sets had to be assigned to each other, duplicates detected and corrected. The result is a permanent improvement in data quality that serves all users well.

The analysts at Volkswagen Financial Services AG do the research and evaluate corporate data and calculate a rating with the aid of CARAT. Every rating event is archived in the corporate Business Warehouse, including all input and output data.



MASTERDATA OVERVIEW (DEALER (UK))	
Partner Number	0000199920
Company Domicile	Joint Liability ID
	Company Name
<div style="display: flex; justify-content: space-around;"> General Balance Qualitative Analysis Result </div>	
VALID RATING DATA	
Valid Probability Of Failure [%]	? <input type="text" value="2.77"/>
Valid Until Date Of Rating	? <input type="text" value="08/01/2009"/>

An extract from the Web-based CARAT rating application

Every analyst has personal work lists he uses to manage his rating events. The status of a rating can vary. In the simplest case, the analyst changes the status of the rating after it is finished from “draft” to “confirmed,” which means that the newly calculated rating is valid as of that date. But complex work flows with graduated status transitions also are possible, such as the release of completed ratings by an authorized superior.

In addition to automatic archival and documentation within the system, a rating report also can be generated for a completed and released rating. This report will list the most important key figures, sub-scores and rating classes.

As a rule, a rating retains its validity for twelve months. When a default event occurs, such as the customer applies for insolvency, CARAT automatically recalculates and recategorizes a default class.

In corporate business, corporate structures have a direct impact on default risk – often subsidiaries are secured through the parent corporation. These corporate linkages also will influence ratings.

An individual rating is generated for

every borrower and lease client, regardless of inheritance or corporate structure. If the borrower is part of a larger corporate structure, the individual rating will then be adjusted depending upon the degree of linkage.

Business changes, such as adapting a rating model, are implemented with the Visual Rules’ BRMS (Business Rules Management System). The completely graphical approach of Visual Rules simplifies the handling of models to such an extent that the business unit at Volkswagen Bank with responsibility for developing and enhancing rating models, can maintain and continuously develop new risk models on its own.

Changes in factors that influence the model (such as expanding it to include additional rating factors) are automatically reflected in the application interface. The result? Maximum flexibility in both the model and the interface. The business unit retains full responsibility and generally needs no assistance from IT in normal operation.

Rainer Faller, Innovations project manager, explains the advantages this offers in terms of time. “The Visual Rules architecture offers the advantage that responsibility for the

entire life cycle of a rating model, from modeling and documentation, through testing up to production, is all in the hands of the business unit. That makes it quick as well as simple.”

In addition to this flexibility that allows for easy modification of new key figures or factors, the rating platform pursuant to Basel II also remains audit-proof. Not only are the ratings archived, but the transparent versioning of rating models allows you to trace how every credit rating was developed.

After their successful introduction at Volkswagen Bank GmbH Germany, the risk models at the branch in the United Kingdom were brought in as well. Connecting the branches in Italy, Spain, Belgium and France is planned for 2008. ■

Stefanie Kühn

A whole range of balance sheet data, soft facts and complex sub-scores all go into a rating (excerpt):

- Quality and meaningfulness of the available annual financial statement
- Earnings position since the last available annual financial statement
- Equity development
- Sales prospects
- Earnings prognosis and liquidity outlook
- Payment practices
- Management quality
- Corporate structures
- Automobile market situation in the specific market area
- Dealer-specific characteristics