

# OPERATIONAL RISK MANAGEMENT IN TURKISH BANKING INDUSTRY

MEHMET TAHİR ÖZSOY  
SENIOR BANK EXAMINER  
BANKING REGULATION AND SUPERVISION AGENCY

OpRisk Turkey, 2012

## Regulations

- 08.02.2001 - Regulation on the Internal Systems of Banks
- 01.11.2006 – Regulation on the Internal Systems of Banks
- 01.11.2006 – Regulation on Measurement and Evaluation of Capital Adequacy of Banks (Basel 1,5 - OpRisk amendment in June 2007)
- 28.06.2012 – Regulation on the Internal Systems of Banks (ICAAP)
- 28.06.2012 – Regulation on Measurement and Evaluation of Capital Adequacy of Banks (Basel II regulations)

OpRisk Turkey, 2012

# Regulations

- Other Regulations
  - Regulation on Bank's Procurement of Support Services and Authorization of Such Service Providers
  - Regulation on Authorization and Activities of Institutions which will Provide Valuation Services to Banks
  - Regulation on Bank Information Systems and Banking Processes Audit to be Performed by External Audit Institutions

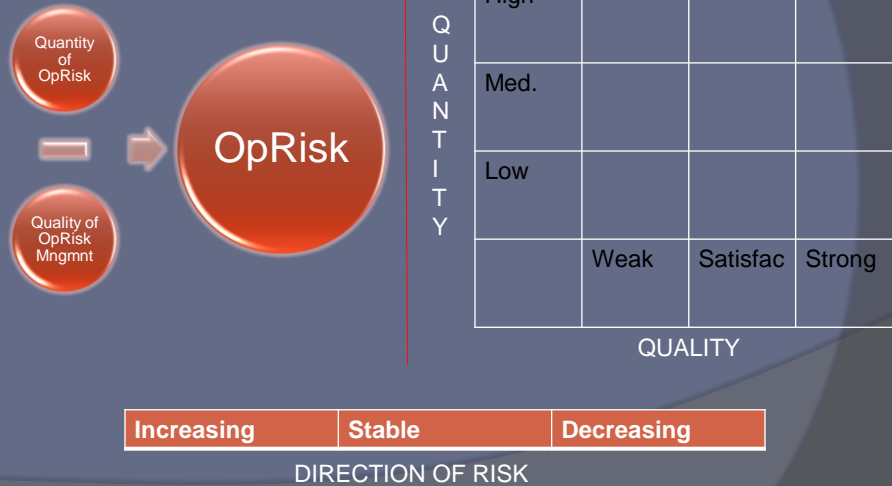
OpRisk Turkey, 2012

# BDDK Basel 2 implementation

- ...
- 30.06.2007 - Basel 1,5
- 01.03.2008 Risk Management Department
- 25.06.2008 - Basel 2 roadmap suspended
- 01.07.2011 - Basel 2 parallel run until 01.07.2012
- 01.07.2012 - Basel 2

OpRisk Turkey, 2012

# OpRisk Assessment of BDDK



## BDDK approach

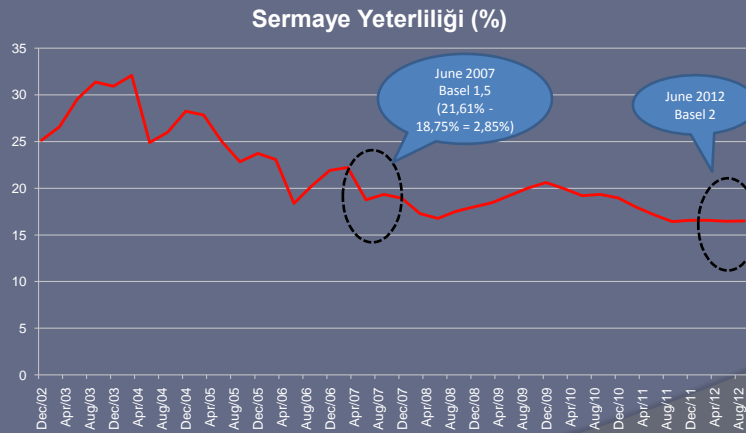
- Colloboration with the industry
- Encourage communication
- Basel 2 progress reports
- Consultation with the banking industry as well as the real sector
- Internal and advanced approaches
- Proactive (liquidity and interest rate risks, target CAR level of 12%)

# Challenges

- Global Financial Crisis
  - Priority: Solvability, Liquidity and Profitability of the Industry
- Regulator-driven industry
- Emerging market
- Accounting and record-keeping problems with real sector (The New Commercial Code)

OpRisk Turkey, 2012

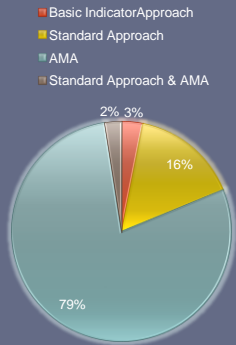
# Capital Adequacy Ratio



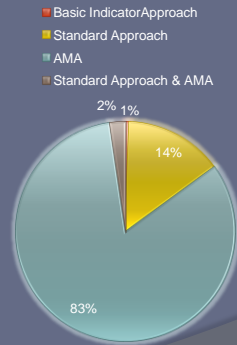
OpRisk Turkey, 2012

# Turkish Banking Industry (June 2012 vs June 2008)

**Banks' Target Approaches to Measure OpRisk (%) - June 2012**



**Banks' Target Approaches to Measure OpRisk (%) - June 2008**

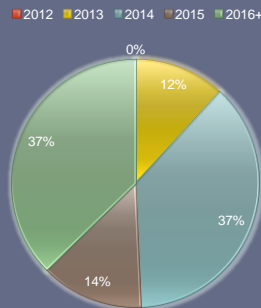


Source: Banking Regulation and Supervision Agency

OpRisk Turkey, 2012

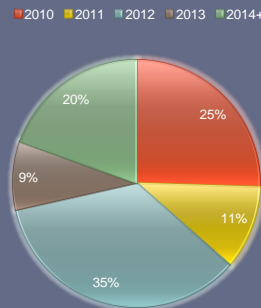
# Turkish Banking Industry (June 2012 vs June 2008)

**Expected Year to Use AMA (%) - June 2012**



**88% beyond 2014**  
**51% beyond 2015**

**Expected Year to Use AMA (%) - June 2008**



**20% beyond 2014**  
**71% before 2012**

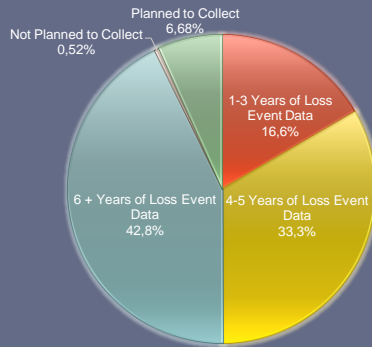
Source: Banking Regulation and Supervision Agency

OpRisk Turkey, 2012

# Turkish Banking Industry (June 2012)

## Loss Event Data Collection

- 1-3 Years of Loss Event Data
- 4-5 Years of Loss Event Data
- 6 + Years of Loss Event Data
- Not Planned to Collect
- Planned to Collect



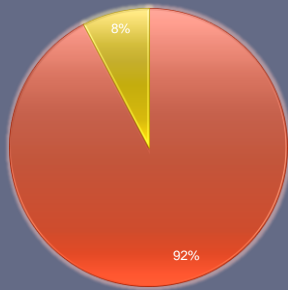
Source: Banking Regulation and Supervision Agency

OpRisk Turkey, 2012

# Turkish Banking Industry (June 2012)

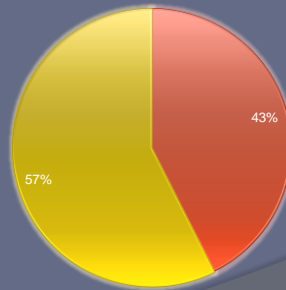
## Loss Data Classification Based on Business Lines - June 2012

- Classified
- Not Classified



## Loss Data Classification Based on Business Lines - June 2008

- Classified
- Not Classified

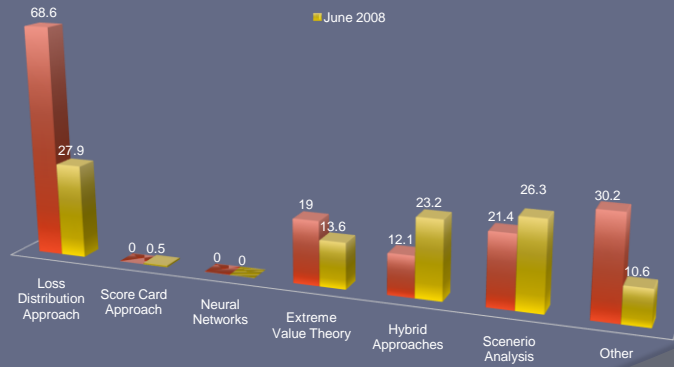


Source: Banking Regulation and Supervision Agency

OpRisk Turkey, 2012

# Turkish Banking Industry

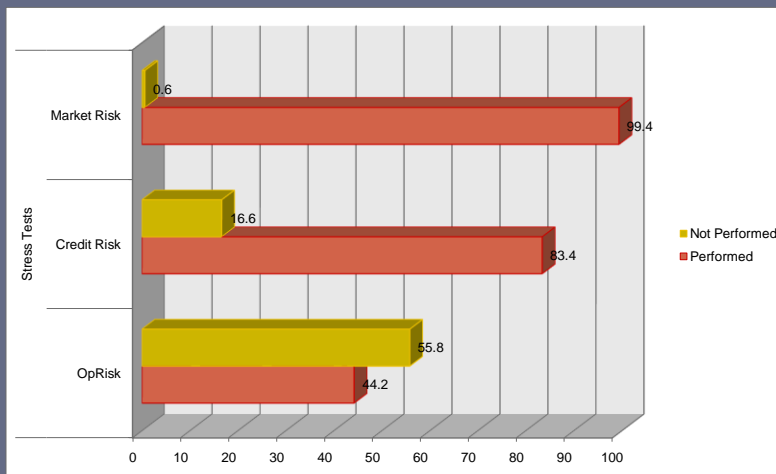
Advanced Measurement Approaches Planned to be Used in OpRisk Measurement (%)



Source: Banking Regulation and Supervision Agency

OpRisk Turkey, 2012

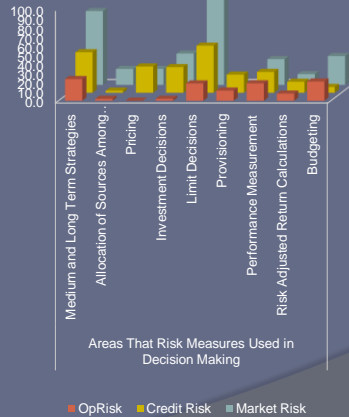
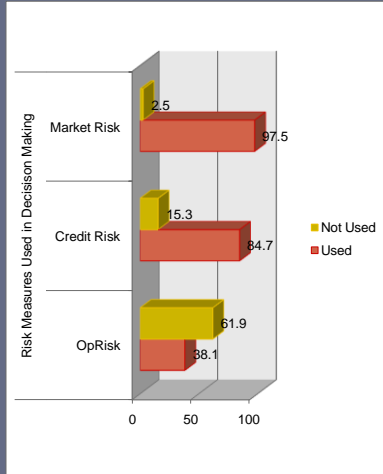
# Turkish Banking Industry (June 2012)



Source: Banking Regulation and Supervision Agency

OpRisk Turkey, 2012

# Turkish Banking Industry (June 2012)



Source: Banking Regulation and Supervision Agency

OpRisk Turkey, 2012

# Turkish Banking Industry (June 2012)

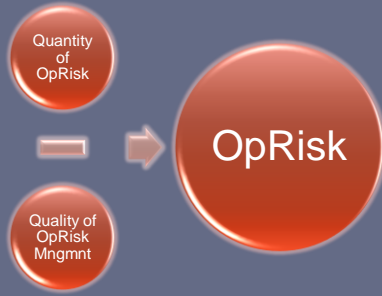
|  |  | OpRisk | Credit Risk | Market Risk |
|--|--|--------|-------------|-------------|
| Areas That Risk Measures Used in Decision Making | Medium and Long Term Strategies            | 23,6   | 44,3        | 80,5        |
|  | Allocation of Sources Among Business Lines | 2,0    | 2,2         | 17,4        |
|  | Pricing                                    | 0,0    | 28,7        | 17,6        |
|  | Investment Decisions                       | 2,1    | 28,1        | 34,2        |
|  | Limit Decisions                            | 18,8   | 51,3        | 93,4        |
|  | Provisioning                               | 11,0   | 19,9        | 0,0         |
|  | Performance Measurement                    | 19,0   | 22,8        | 28,1        |
|  | Risk Adjusted Return Calculations          | 7,7    | 12,0        | 11,8        |
|  | Budgeting                                  | 20,9   | 6,4         | 31,5        |

Source: Banking Regulation and Supervision Agency

OpRisk Turkey, 2012



# OpRisk Assessment of BDDK



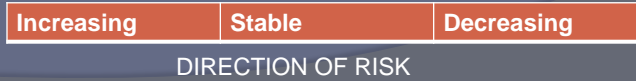
Q  
U  
A  
N  
T  
I  
T  
Y

RISK MATRIX

|      |      |          |        |
|------|------|----------|--------|
| High |      |          |        |
| Med. |      |          |        |
| Low  |      |          |        |
|      | Weak | Satisfac | Strong |

Q U A L I T Y

Q U A L I T Y



*Thank you...*