

BASEL II IN TURKISH BANKING AND OPERATIONAL RISK CONFERENCE

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Basel II In Turkish Banking

On July 1, 2012, Turkish banks switched to the Basel II regulatory framework by initially applying the standard method. The Turkish regulatory and supervisory body Bankacilik Düzenleme ve Denetleme Kurumu (BDDK) announced that, in the new regulatory regime, the nation's banking system experienced a small drop (1.5 percent) in its overall capital adequacy ratio. Turkish banks' average capital adequacy ratio is now around 15.2% — well above Basel II's 8% minimum. While current Turkish banking regulation does not allow banks to use Basel II's advanced approach for reporting to the BDDK, some banks are currently working on establishing an Institutional Review Board (IRB)-type system within their banks.

It is widely acknowledged that the recent global financial crisis did not hit the Turkish banking sector to the extent that it did in the U.S. and the E.U. The reason for this phenomenon is that Turkey, which experienced its own banking crisis in 2001, subsequently put in place a stronger risk management framework with an aversion to complex derivatives. This system laid the groundwork for the strong financial position in which banks now find themselves as they prepare for Basel II. Hence Turkish banks will not be required to raise capital immediately to be Basel II compliant.

Turkish banks have been using the VaR approach for many years to set daily limits and calculate the in house capital ratios based on model outputs. However, calculating internal risk weights under an IRB regime for banks seems challenging. The BDDK is in the midst of a series of quantitative impact studies (QIS) on the use of a models-based approach for credit & operational risks. Of particular concern among Turkish banks, and all banks holding Turkish securities, is the future of sovereign ratings as such ratings form the basis for risk-weighting.

OpRisk 2012 Turkey Conference

On December 3-4, 2012, Turkey hosted its first International Operational Risk Conference ("OpRisk Turkey 2012") at the Sheraton Istanbul Maslak Oteli. The conference, which featured 35 speakers and three panels, was viewed with great interest by conference participants and media representatives. Chief sponsors Ernst & Young and Akbank were among the numerous supporters of the conference, which attracted over 150 participants.

While past conferences in Turkey have concentrated on credit, liquidity and market risks, no one had ever organized an event concentrating on operational risk, despite the recent move to Basel II compliance. Two associate professors in the risk management field, C. Coskun Küçüközmen and Izzet Gökhan Özbilgin formed OpRisk Turkey for just this purpose.

Among the most significant operational risks highlighted by conference speakers in their presentations were in-house corruption and technology risks. Hansruedi Schutter of RiskBusiness International offered a unique perspective on the time-varying profile of internal fraud. Jonathan Howitt of PRMIA's London office explained that the time and cost involved in managing corruption risk is substantially less than potential loss, highlighting the need for adequate management of such risks. Alex Dali, President of G31000, an international non-profit

organization raising awareness on the ISO 31000 standard, offered his perspectives on enterprise risk management (ERM) and the importance of global risk standards.

The Conference attracted many keynote speakers from the public and private sectors, including Emre Balibek, Assistant General Manager of the Undersecretariat of Treasury, who offered insight into the management of operational risk in public debt management. In addition, Kasim Akdeniz, General Manager of Credit Register Agency, explained the importance of risk reports in today's risk environment.

One point on which participants and speakers could all agree is the importance of the OpRisk Turkey conference in increasing awareness in the field of operational risk. Conference participants, who gained a fuller appreciation of what could happen if such risks are managed improperly, expect to communicate such implications to senior management. For this reason, we expect the conference to continue for years to come.

ABOUT THE AUTHORS



Dr. C. Coskun Küçüközmen has started his official career at the Central Bank of Turkey in 1986. He holds a BSc in Economics from Dokuz Eylül University, Izmir, 1984. He was granted Jean Monnet study-award and received his MSc degree on European Economics and Finance from Loughborough University of Technology, UK in 1995. He then worked for the Deposit Insurance Department at the Central Bank of Turkey during 1996-1997. He conducted his doctoral research at the Exeter University, UK. He wrote his thesis on the distribution of equity returns and implications for value-at-risk (VaR) and awarded a PhD degree in 2000. Upon completing his research he joined to the Banking Regulation and Supervision Agency (BRSA) the supervisory body for Turkish banking system in 2000. He then returned to Central Bank in 2005 after serving five-year at the BRSA. Dr. Küçüközmen is now a full time lecturer at the International Trade and Finance Department of Izmir University of Economics. He is also running a Risk Management Certificate Program at the Izmir University of Economics.



Dr. Izzet Gökhan Özbilgin graduated from Department of Electrical & Electronics Engineering, Middle East Technical University within the list of Dean's honorary list in 1998 and got his MSc degree from the same university. He continued his academic studies in business administration concentrated on management, e-finance, risk, auditing, MIS and got his MBA and PhD degree. Dr. Özbilgin started his professional life in the same year and after many private companies, he started to work in Capital Markets Board of Turkey. He worked about management, auditing, risk, MIS, IT governance and audit, information security and business development. Dr. Özbilgin also works for the university and gives lectures about IT Governance, management, risk and information security. He is the member of both Executive Board of Finance Association and Turkish Informatics Association.