



# **Managing Operational and Credit Risk**

Brussels

April, 2014



# **CREDIT RISK MANAGEMENT**

# Credit Risk Management

- Credit Risk of Contingent Liabilities
  - Treasury guarantees
  - Exposures in PPP projects
    - Implicit – Explicit
  - Other liabilities of the government
  
- Credit Risk of the Receivables Portfolio
  - Previous assumptions from guarantees
  - On-lent loans



# Credit Risk Management Measures

## Guarantee and On-lent Loan Limit:

- A guarantee limit is imposed on the Treasury guarantees since 1998 through the Annual Budget Laws.
- This limit is expanded to cover the on-lent loans starting from 2009.

## Guarantee/On-lent Fee:

- A fee of up to 1% of the total guaranteed/on-lent amount is charged to the beneficiary institution.



# Credit Risk Management Measures

## Partial Guarantee:

- The guarantee amount provided by the Treasury is limited to 95% of the total amount.

## Risk Account:

- A Risk Account was established for the redemption of the undertaken guarantees in 2003.



# Credit Risk Management Measures

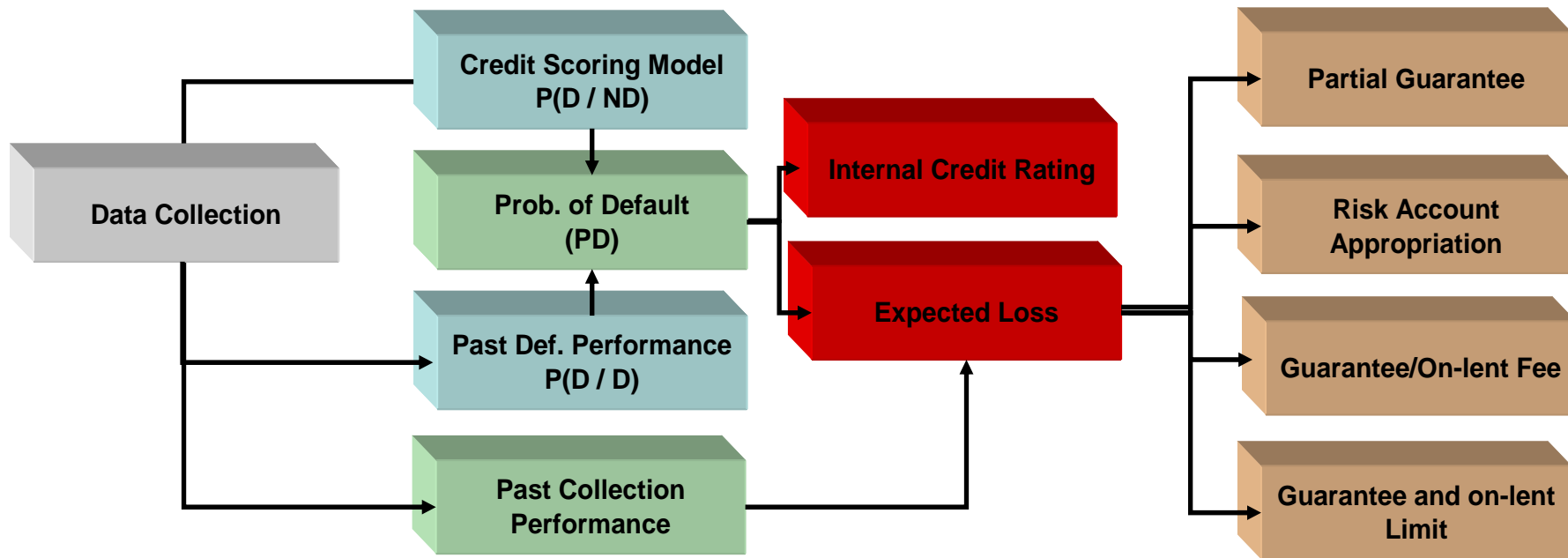
## External Debt Payment Account:

- Municipalities have to establish an external debt payment account in commercial bank for debt service of guaranteed and on-lent credits.

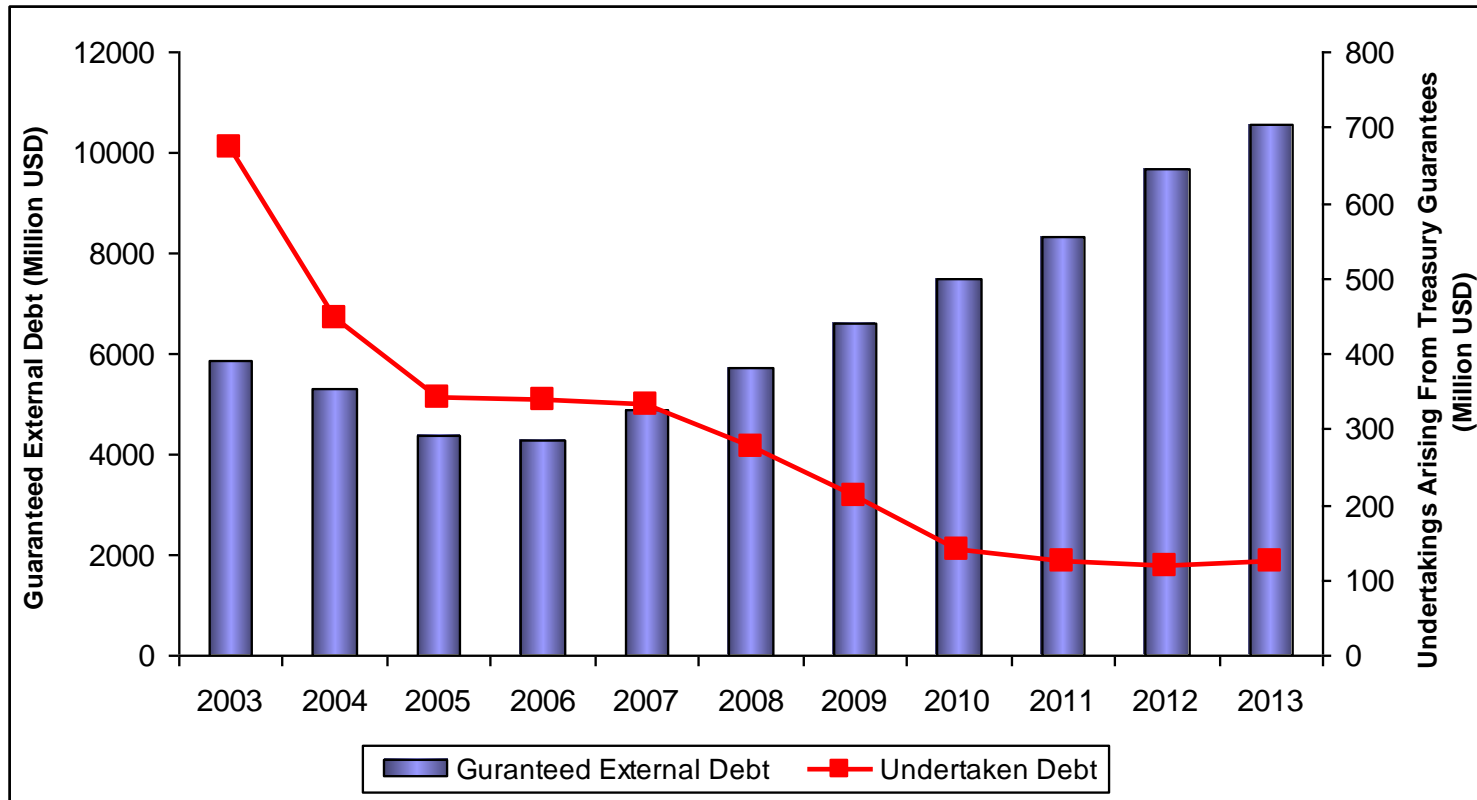
## Receivable Interest Rate:

- There is an interest rate on receivables which reflects the Treasury rates.

# Credit Rating Model

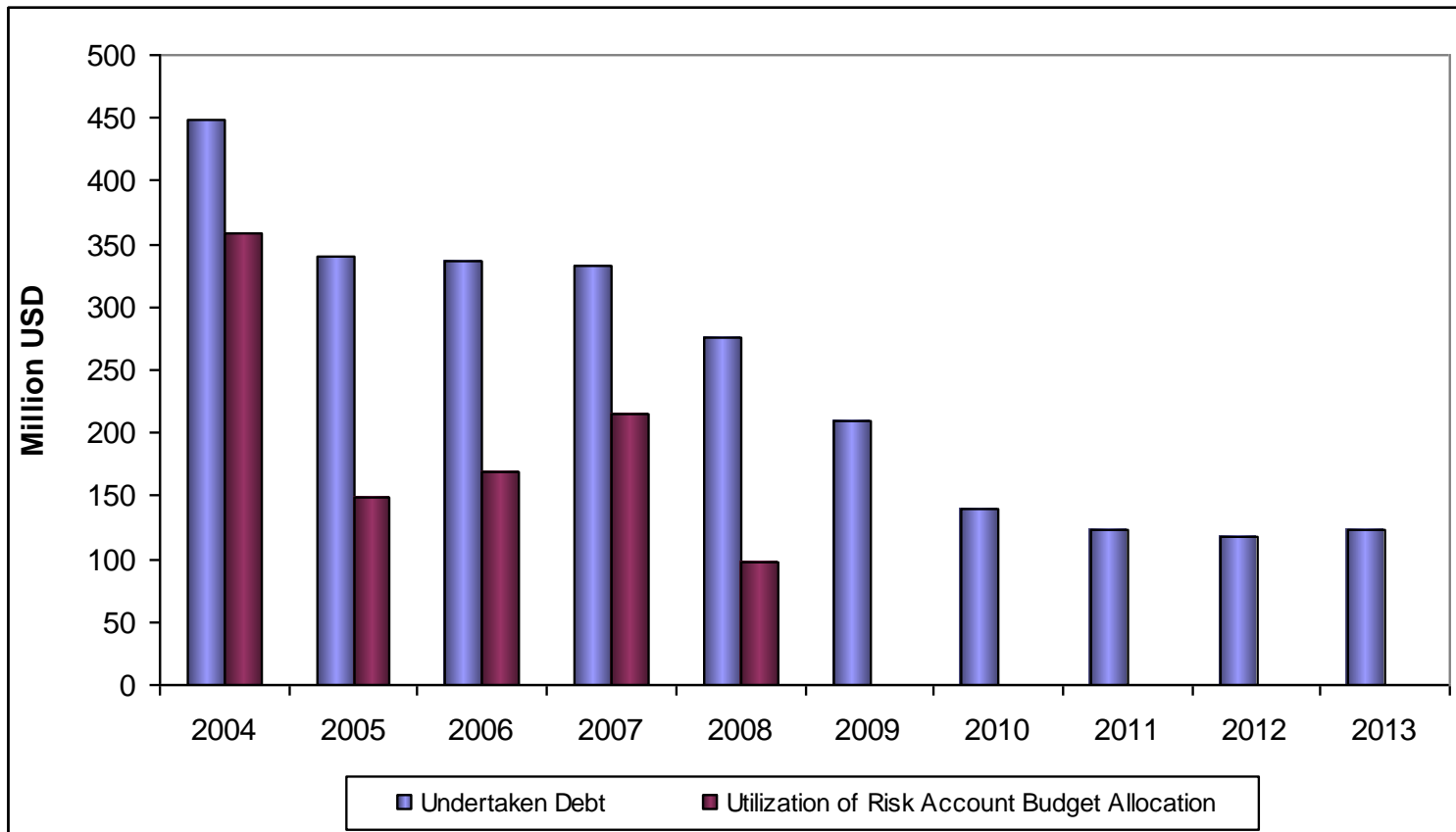


# Guaranteed Debt and Undertaken Amounts





# Undertaken Debt and Utilization of Risk Account Budget Allocation



# Credit Risk Management- Disclosure

## Monthly Public Debt Management Report

- Guaranteed Stock/Receivables Stock
- Undertaken Amounts
- Guaranteed Stock Debt Service Projections
- Guarantees Provided
- Risk Account Realizations



# **OPERATIONAL RISK MANAGEMENT**

## What is Operational Risk?

### **Operational Risk (OR) is**

- the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, system or from external events.

### **Operational Risk Management (ORM) is**

- defined as a continual cyclic process resulting in acceptance, mitigation or avoidance of risk.



## Operational Risk Factors

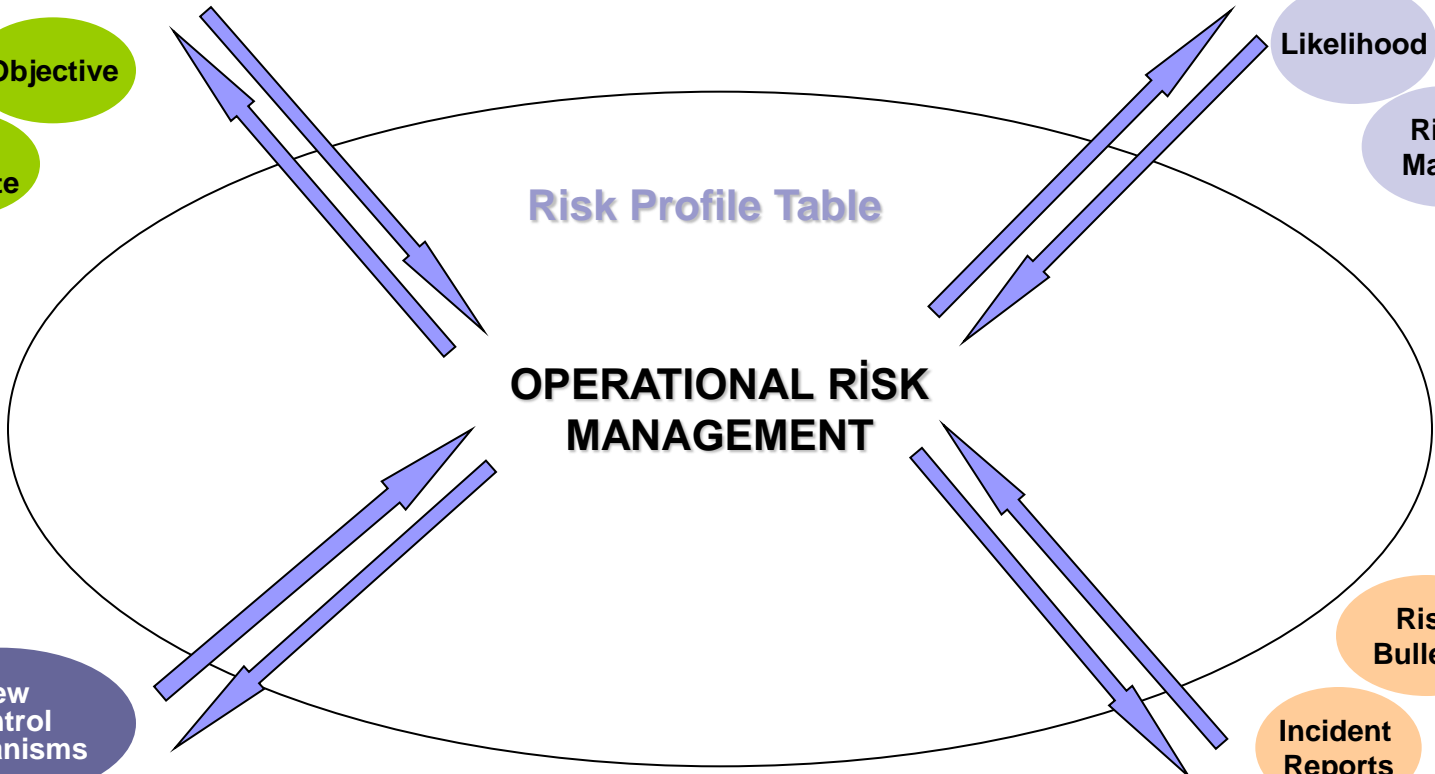
- Personnel risk
- Technological risk
- Institutional risk
- Legal risk
- External risk

# How Operational Risks are Managed?

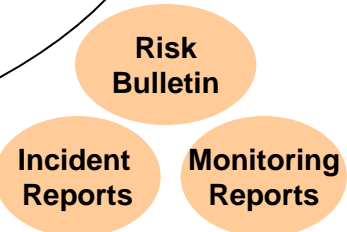
## Identifying Operational Risks



## Measuring



## Developing Appropriate New Control Mechanisms



## Monitoring and Reporting

# Identifying Operational Risks

## Risk Profile Table

- Fields of Activities (Scope of business),
- Activities and Aim of Activities,
- Risks faced,
- Source of Risks,
- Current Controls,
- Likelihood of Risks (Level of Risk Probability)
- Impact of Risks
- New Control Mechanisms

# Measuring Operational Risks

- Likelihood and Impact
  - Importance Level of Risks
    - Total Risk Area
    - High Level Risk Area
- Setting Up Risk Matrices

		Impact				
		Insignificant	Minor	Moderate	Major	Catastrophic
Likelihood	Very Low	1	2	3	4	5
	Low	1	2	3	4	5
	Medium	1	2	3	4	5
	High	1	2	3	4	5
	Very High	1	2	3	4	5
Importance Level		1	2	3	4	5
Frequency						



# Monitoring and Reporting Operational Risks

## ■ Monitoring ORs

- Updating risk profile table
- Incident reports (Users)
- Monitoring reports (Heads of Department)

## ■ Reporting ORs

- Monthly Operational Risk Bulletin (Heads of Department)
- Quarterly Operational Risk Bulletin (Debt and Risk Management Committee)

# Monitoring and Reporting Operational Risks

## ORM Information System (ORMIS)

- Developed by ORM Unit and IT department
- System is used by ~150 staff
- Benefits
  - User friendly
  - Safetly
  - Monitoring and reporting risks effectively

# Monitoring and Reporting Operational Risks

## T.C. Başbakanlık Hazine Müsteşarlığı Operasyonel Risk Yönetimi

Kullanıcı Adı : sevgi.ba

Süreçler | Rapor | Kullanıcı İşlemleri | Admin | Yardım | Çıkış |

Tarih: 23 Eylül 2011 0

Risk Kaynağı No :	<input type="text"/>	Aktif/Pasif :	<input checked="" type="radio"/> Aktif <input type="radio"/> Pasif <input type="radio"/> Kapalı						
Risk Tarih Aralığı (From) : *	23 9 2011	Risk Tarih Aralığı (To) : *	31 12 2011						
Faaliyet Alanı 1 : *	...Seçiniz...	Faaliyet Alanı 2 : *							
Aktiviteler : *		Alt Aktiviteler : *							
(Alt) Aktivite Amaçları : *		Aktivitelerin Yıllık Olma Sıklığı :	<input type="text"/> <input type="checkbox"/> Seçilen alt aktiviteyi güncellemek istiyorum						
Karşılaşılan Riskler : *		Riskin Kaynağı : *	...Seçiniz...						
Mevcut Kontroller :	Zimmet defteri / ilgili şube ile temas Yedekli çalışma Yedek faks kullanımı Yazışmalar	Seçili Mevcut Kontroller :							
Riskin Olabilirlik Düzeyi : *	...Seçiniz...	Riskin Etki Düzeyi : *	...Seçiniz...						
Birimler : *	KAMU FİNANSMANI GENEL MÜDÜRLÜĞÜ GENEL MÜDÜR YARDIMCISI(NAKIT VE İÇ BORÇ YÖNETİMİ) İÇ FİNANSMAN YÖNETİMİ DAİRESİ NAKİT YÖNETİMİ DAİRESİ	Riskten Sorumlu Birimler :							
		Riski Değerlendiren Birimler :							
Önerilen Yeni Kontroller :	Yönetmelik hükümlerinin ihlalinin yaptırma bağlanması Yönetime düzenli aralıklar ile raporlamak Yeterli ve işe uygun insan kaynağının sağlanması. Yeterli ve işe uygun insan kaynağının sağlanması	Seçili Önerilen Yeni Kontroller :							
		Excel'e Aktar	Çıktı Al						
Yeni Kayıt	Tüm Kayıt	Ara	Kaydet	Pasif Yap	Sil	Güncelle	Kapat	Silme, Güncelleme veya Kapatma Notu: *	



## Developing Appropriate Management Strategies

- Check Lists
- Technology Based Solutions
- Protocols/Agreements
- New Plans/Updates for Business Processes
- Training Programs
- Internal Control
- Business Guides
- Business Continuity Plan

# Business Continuity Plan (BCP)

- **Business Continuity:**

strategic and tactical capability of the organization to plan for and respond to incidents and business disruptions in order to continue business operations at an acceptable pre-defined level

- **BCP:**

documented collection of procedures and information that is developed, compiled and maintained in readiness for use in an incident to enable an organization to continue to deliver its critical activities at an acceptable pre-defined level

BS: 25999 – Business Continuity Management – Code of Practice

# Business Continuity Plan (BCP)

## ■ BCP

- Business impact analysis
  - How would our business be affected in disruptions occur?
  - What would be the results?
- Critical processes
  - Which processes are required to continue?
- Critical resources
  - What is needed to continue critical processes?
- Critical infrastructure
  - What infrastructural set-up is required ?
- Emergency scenarios
  - What can trigger disruptions?

# Business Continuity Plan (BCP)

## ■ BCP

- Work-flow charts
  - How will business continue in a given scenario?
- Duties of units and staff (including back-up staff)
  - What are the responsibilities of staff?
  - Who will replace whom?
  - The decision making structure?
- Data back-up and recovery plan
  - set of procedures to recover and protect a business IT infrastructure in the event of a disaster
- Secondary operation site
  - Where will we operate if offices are not available?
- Maintenance and updating of the plan
  - Rehearsals/exercises and training
  - Frequency of updates?

## Benefits

- Risk awareness of DG staff
- Manage risks efficiently [Operational Risk Management Information System (ORMIS)]
- Provide consistency with senior management priorities
- Decreased number of errors
- Ensure that relevant DGs are aware of risks