



TASARRUF
MEVDUATI SİGORTA
FONU

Case Study : Resolution Experience of Turkey

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I. General Information



Roles and Responsibilities of SDIF

	Risk - Minimizer	More than Pay-box	Pay-box
Reimbursing insured depositors	✓	✓	✓
Calculating and raising premiums	✓	✓	✓
Risk assessment	✓	✓	
Imposing differential (risk-adjusted) premiums	✓	✓	
Risk monitoring	✓	✓	
Role in handling bank failures	✓	✓	
Off-site examinations	✓		
On-site inspection	✓		
Intervention in the affairs of its member banks	✓		



SDIF

Main Functions of SDIF



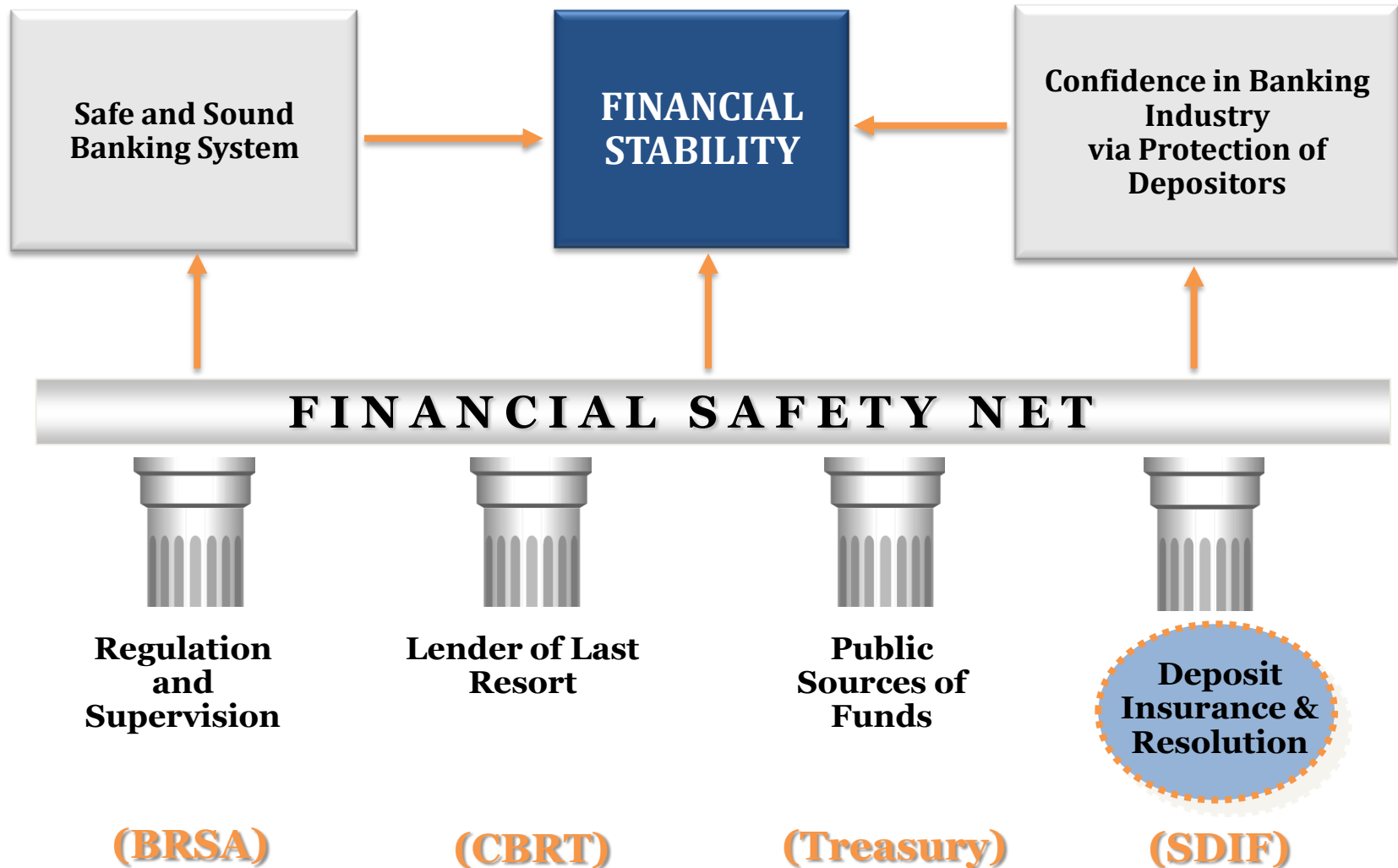
- ❑ Imposing differential (risk-adjusted) premiums
- ❑ Calculating and raising premiums

- ❑ Risk monitoring
- ❑ Risk assessment

- ❑ Role in handling bank failures
 - Reimbursing insured depositors
 - OR
 - Resolution of failed banks thru Sales, Merger & Acquisition, Liquidation

- ❑ Resolution of NPAs
 - Sales
 - Rescheduling
 - Legal Follow Up

Turkish Financial Safety Net



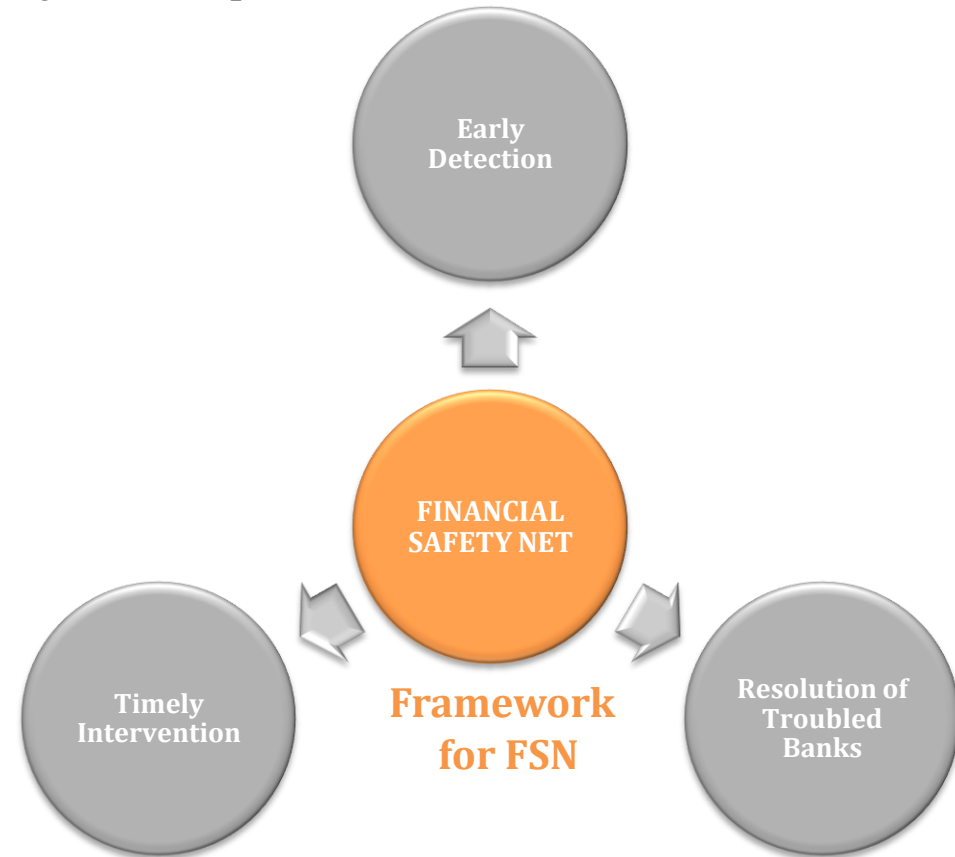
Banking Law No: 5411 gives the responsibility and the power to:

- **Share database and information**

- Agreed upon data and info
- Confidentiality terms apply

- **Have regular meetings**

- Exchange of info and views
- Common policy suggestions
- Systemic risk detection



Coordination Committee

*(Banking Law No 5411,
Article 100)*

- Established to share information on:
 - General overview of the banking system
 - Measures to be taken
 - Bank analysis results affecting risk-based premium calculations
 - Deposits
- Meets at least quarterly
- Consists of chairmen and vice chairmen of SDIF and BRSA

Financial Sector Committee

*(Banking Law No 5411,
Article 99)*

- Established to:
 - Discuss matters that may affect the future of the financial sector
 - Develop common policies
- Meets at least twice a year
- Consists of the representatives of SDIF, BRSA, Central Bank of The Republic of Turkey (CBRT), Treasury, Capital Markets Board (CMB), Futures and Options Exchange (VOB), etc.

Financial Stability Committee

(the Law on the Structures and Duties of the Undersecretariat of Treasury no. 4059, Additional Clause 4.)

- Established to :
 - Determine and monitor systemic risks
 - Identify necessary measures and policy proposals in order to mitigate risk
 - Warn related institutions about systemic risks
 - Evaluate systemic risk management plans
 - Coordinate the systemic risk management.
- Consists of the representatives of SDIF, BRSA, CBRT, Treasury, Capital Markets Board (CMB)

II. Bank Resolution Framework in Turkey

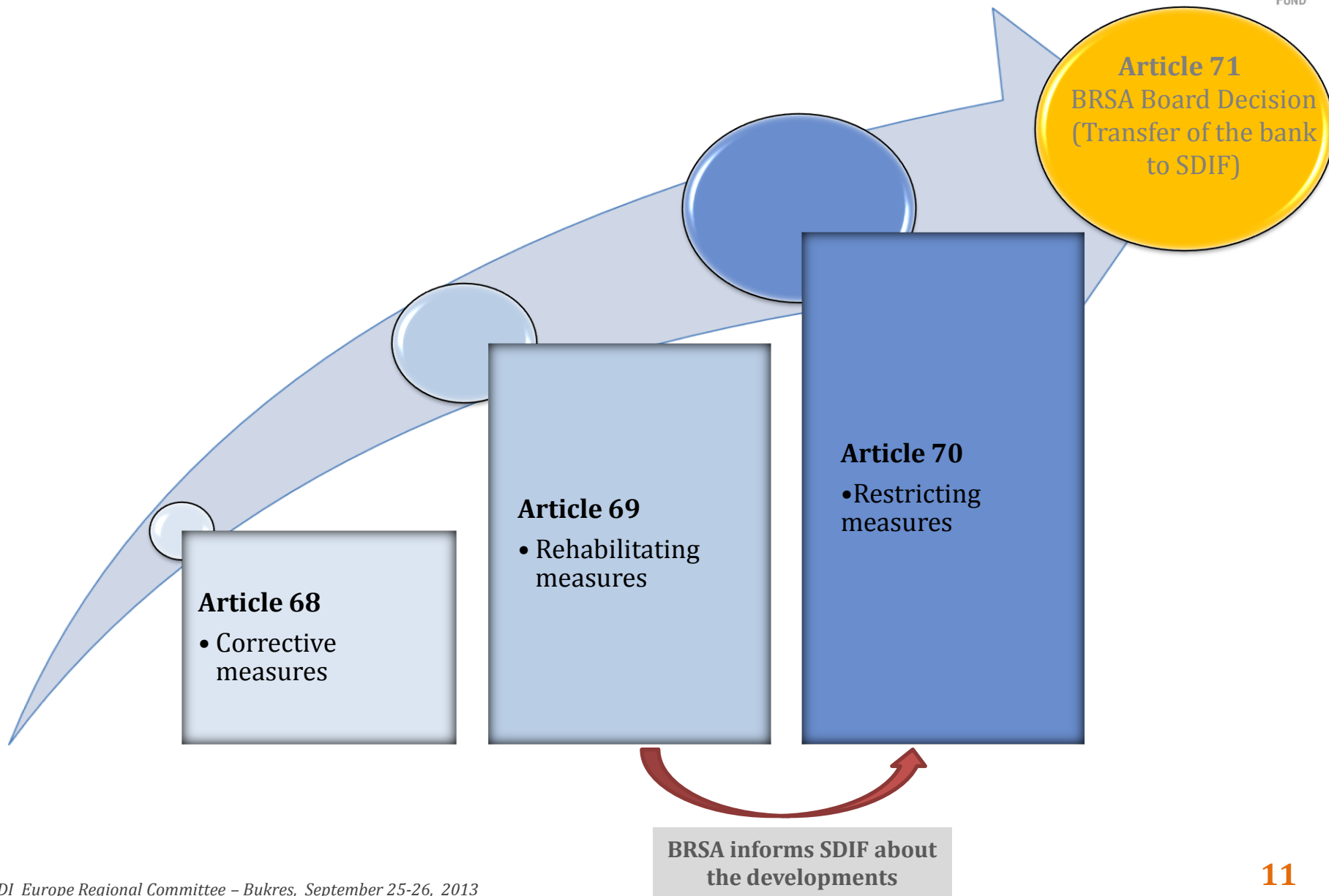


As a result of BRSA Supervision, if it is determined that
(Article 67)



- ***Maturity Gap** between assets and liabilities in terms of maturity,
- ***Incompliance** with the provisions pertaining to liquidity,
- ***Insufficient** profitability to reliably perform its activities,
- ***Insufficient** Capital Adequacy,
- ***Deterioration** in the quality of the assets that will weaken the financial structure,
- ***Violation of Banking Law** and the applicable regulations,
- ***Inefficient** internal audit, internal control and risk management systems.

Bank Intervention Process - II



BRSA Board Decision to transfer the Bank to SDIF

SDIF's Bank Failure Action Plan to take over the Bank

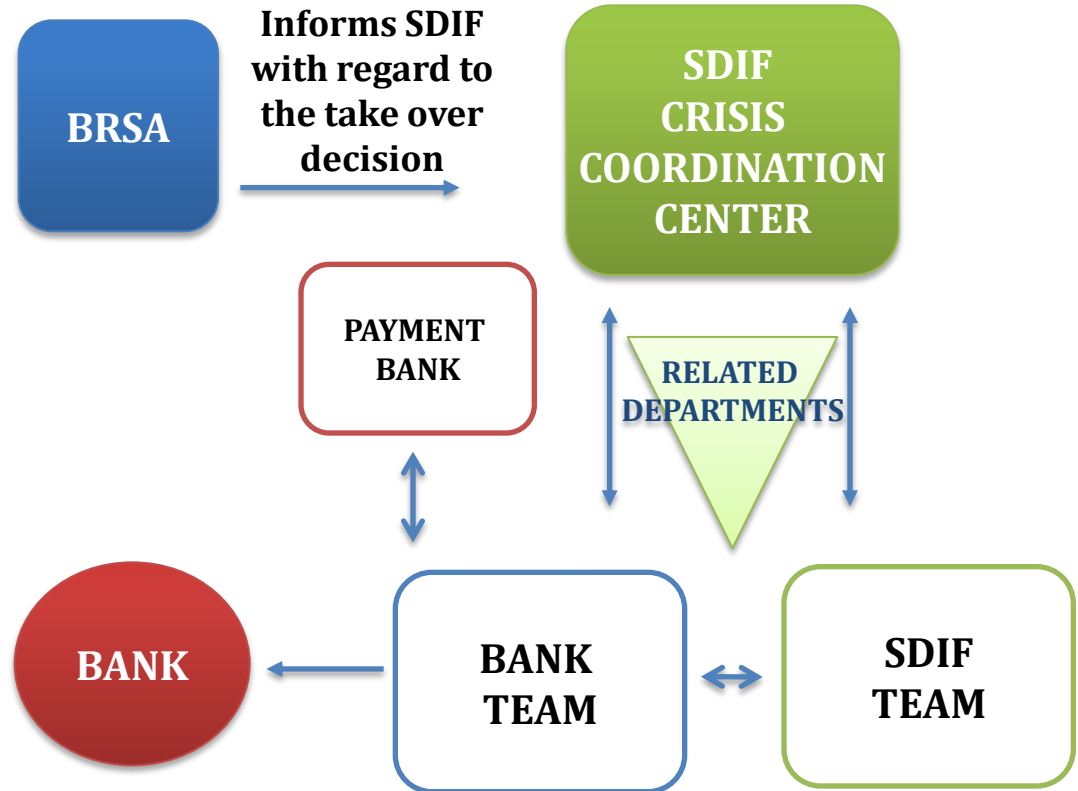
In case of a
revocation of a
bank's operating
license ,
**Bank
liquidation/
bankruptcy
process starts**
(Article 106)

In case of a
transfer of
shareholders
rights (except
dividend),
management
and control of
a bank to SDIF,
**Bank resolution
process starts**
(Article 107)

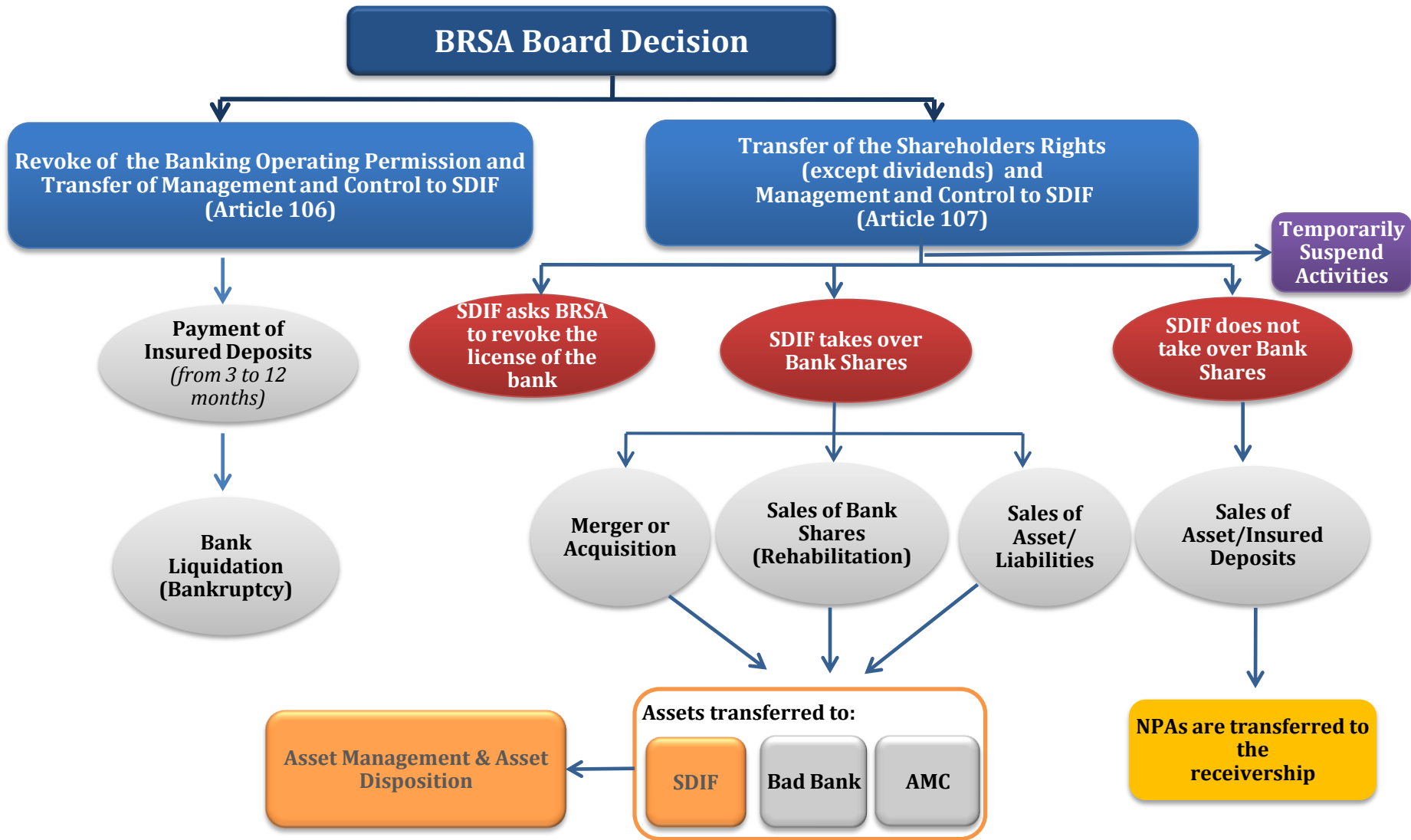
Bank Failure Action Plan (BFAP)

The aim of Bank Failure Action Plan is:

- ✓ to determine the necessary actions
- ✓ to prioritize these actions,
- ✓ to determine the responsible staff and the methods
- ✓ to minimize the risk of having losses



Bank Resolution Framework (Articles 106 & 107)



- SDIF participates as a **super-priority creditor** in the bankruptcy estate.
- Creditors may not require rejection of the bankruptcy petition. No person with a managerial or representative office (at the bank) and **no creditors may require postponement of bankruptcy.**
- The court applies **expedited trial procedures.**
- **Judgment on bankruptcy petition** needs to be **finalized within six months.**
- SDIF liquidates the bank with the authorities and duties of the **bankruptcy office, the creditors' meeting and of the bankruptcy administration.**
- **Debts** of the bank to the SDIF is **paid without waiting** for finalization of the priority list of creditors.

- ❑ Banking Regulation and Supervision Authority (BRSA) has the authority to revoke the banking license of a bank or to transfer the bank to SDIF.
- ❑ If BRSA revokes the banking license of a bank, SDIF has to pay insured deposits and to liquidate assets of the bank.
- ❑ If BRSA transfers a bank to SDIF, SDIF has the powers;
 - to take over the shares of the bank,
 - to make purchase and assumption without taking over the shares,
 - to ask BRSA to revoke the license of the bank.
- ❑ Indemnifications and penalties with regard to misuse of bank funds by shareholders and managers are set in the rules and regulations.

- ✓ To ensure the cost efficiency and protect the confidence and financial stability principle
- ✓ Resolution has to be completed within 9 +3 months
- ✓ SDIF has to own the banks shares for financial assistance
- ✓ The upper limit for the SDIF's financial assistance is the amount of insured deposits of the relevant bank

III. Resolution Experience of Turkey



Financial Crisis in Turkey

❑ 1994 Currency Crisis

- Three small-size bank failed
- Their licences were revoked and these banks were liquidated by the SDIF

❑ In 1997, a mid-sized bank failed and it was put into the liquidation

❑ 2000-2001 Banking Crisis (Twin)

- Nineteen banks were transferred to the SDIF
- Two of them were liquidated, the others were resolved through merger & acquisition and sales.

❑ During 2002-2003, there were two additional bank failures

❑ There is no bank failure since 2003

External

- Political and economic instability
- High profile close relationships among politicians, bankers, media owners and bureaucrats
- Contingent effects of 1998 Russian crisis and 2001 Argentina crisis

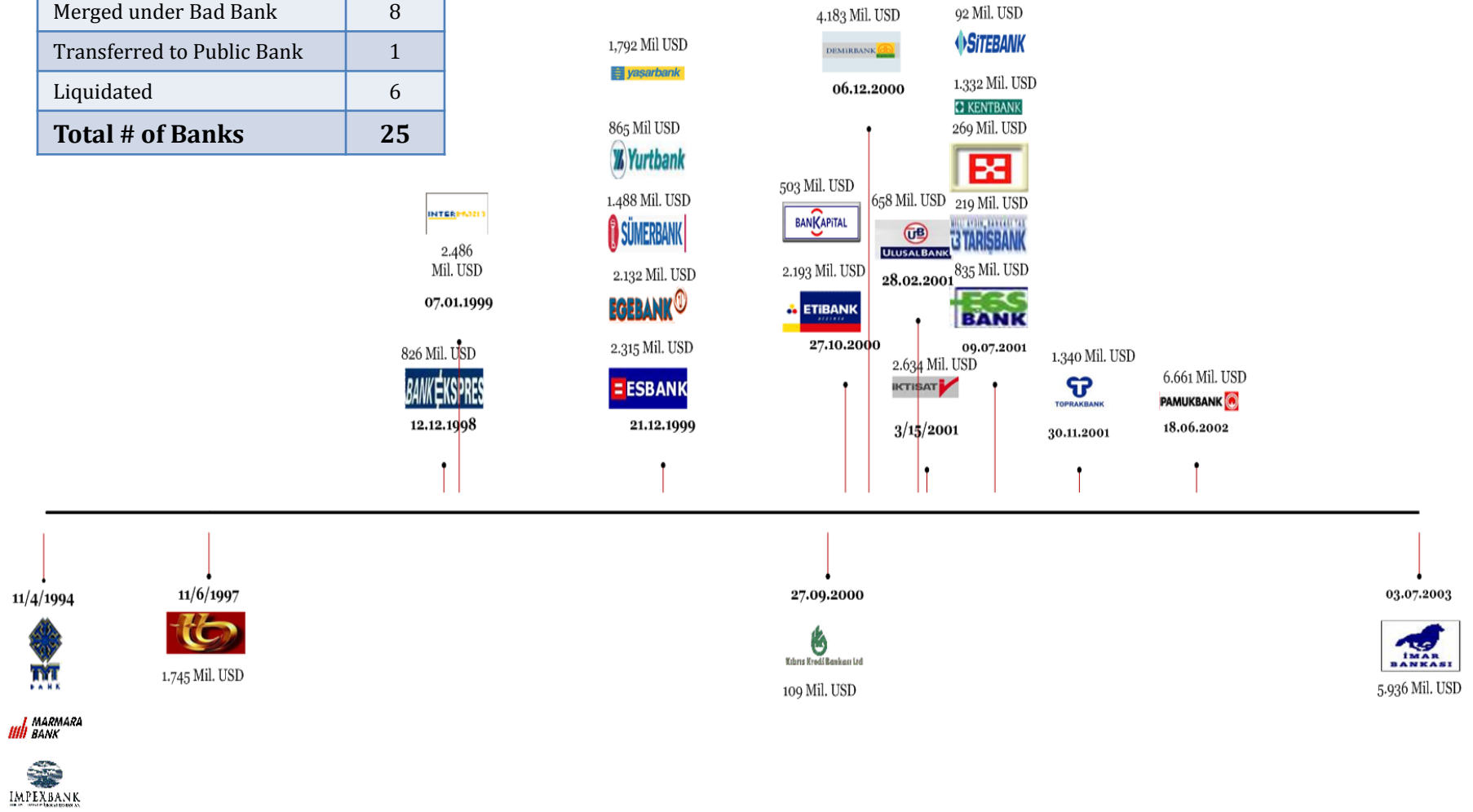
Internal

- Weaknesses in regulatory and supervisory framework
- During 1990's banking licenses granted without considering fit and proper criteria
- High level of connected lending and misuse of funds
- Undercapitalization and excessive risk taking

- ❑ Approximately **50.000 bank employees** lost their jobs due to the failure of banks within 3 years.
- ❑ **Restructuring program** applied for the banking industry.
- ❑ **Cost of the bank failures** to Turkish tax payers reached to **USD 28 billions***.
- ❑ In order to support confidence in the banking industry, **government** extended its **blanket guarantee** to **off-balance sheet liabilities** in addition to on-balance sheet liabilities
- ❑ Due to the limit of “net domestic assets” in the standby agreement with the IMF, **Central Bank of Turkey could not perform its lender of last resort function** although banks were really in need of liquidity.
- ❑ The crisis did **not have a spillover effect internationally**, because SDIF paid back about USD 5 billions of loans to international creditors .

Experience of Turkey

Sold	4
Merged and Sold	6
Merged under Bad Bank	8
Transferred to Public Bank	1
Liquidated	6
Total # of Banks	25



Bank shares were taken over by SDIF to;

- Maintain financial stability
- Avoid bank runs
- Meet expectation of depositors
- Preserve the confidence of international investors
- Utilize limited resolution tools

- Rehabilitation of financial structure
 - Capital injection
 - Liquidity support
 - NPLs out of B/S
- Appointment of (Joint) Board members
- Deduction of operational costs
- Mitigation of legal and administrative problems
- Restructuring of bank operations

- Merged under Bad Bank
- Re-Privatized (directly or after merger)
- Re-Nationalized (or Re-Privatized?)

8 Failed Banks with

- Unattractive loan portfolio
- Limited franchise value
- High operational cost
- Legal issues with ex-owners and management

**Merged
under a
Bad Bank
for
liquidation
of assets.**

**10* Failed
Banks with**

- Diversified loan portfolio
- Enhanced branch coverage
- Preferable size for potential buyers
- Attractive real estate portfolio

**Re-
Privatized
by sales of
bank shares**

*6 of these banks were merged under 1 bank before they were reprivatized.

**A
Nationalized
Systemic
Bank with**

- Well designed IT systems, qualified staff, effective branch coverage
- Connected loans with legal problems
- Lack of interested investors
- High operational costs
- Brand recognition

**Merged
with state-
owned
bank
working in
market
discipline**

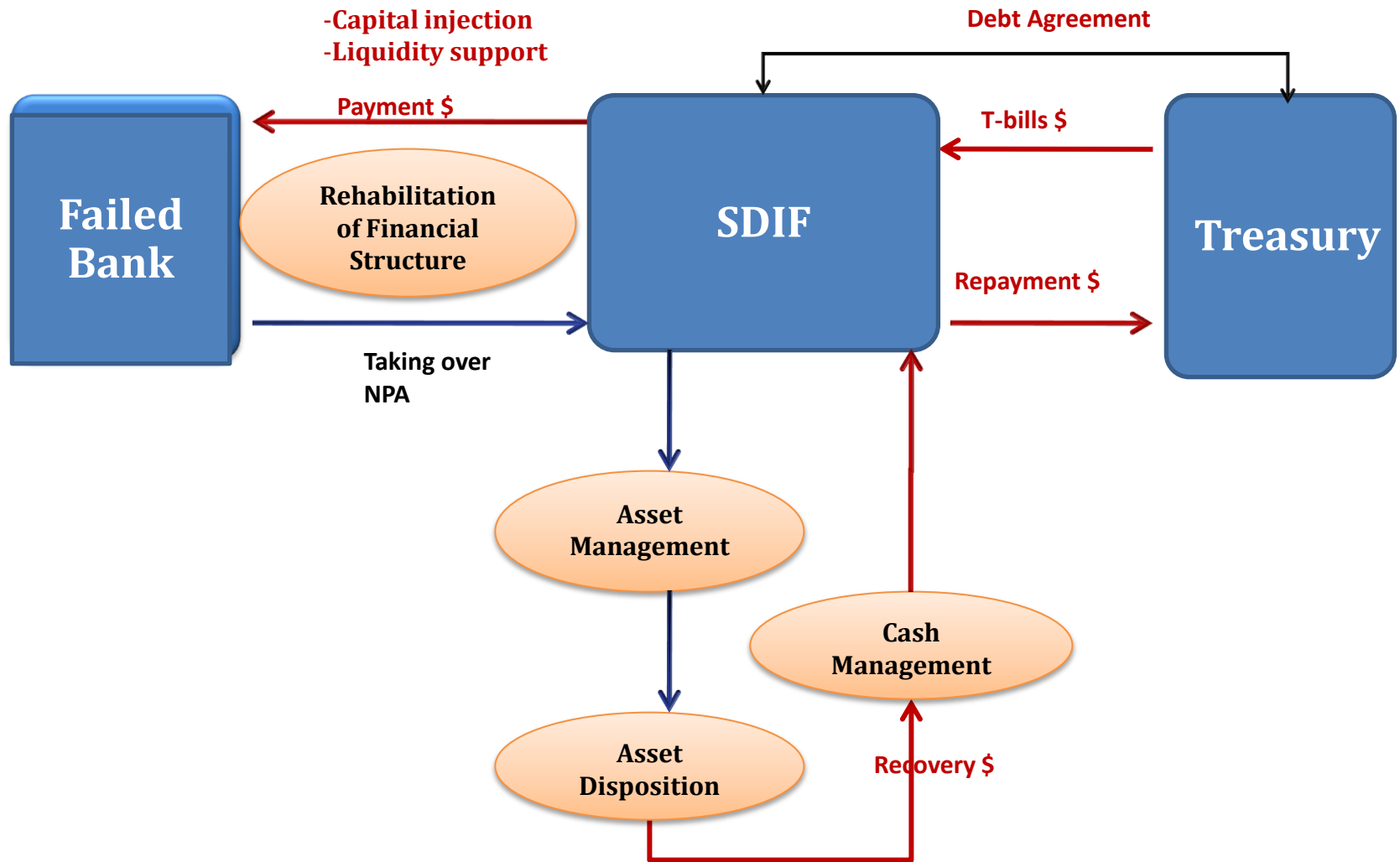
- The merger created additional franchise value and synergy
- As result; 25% of Bank's shares were opened to public with IPO.

Main Indicators

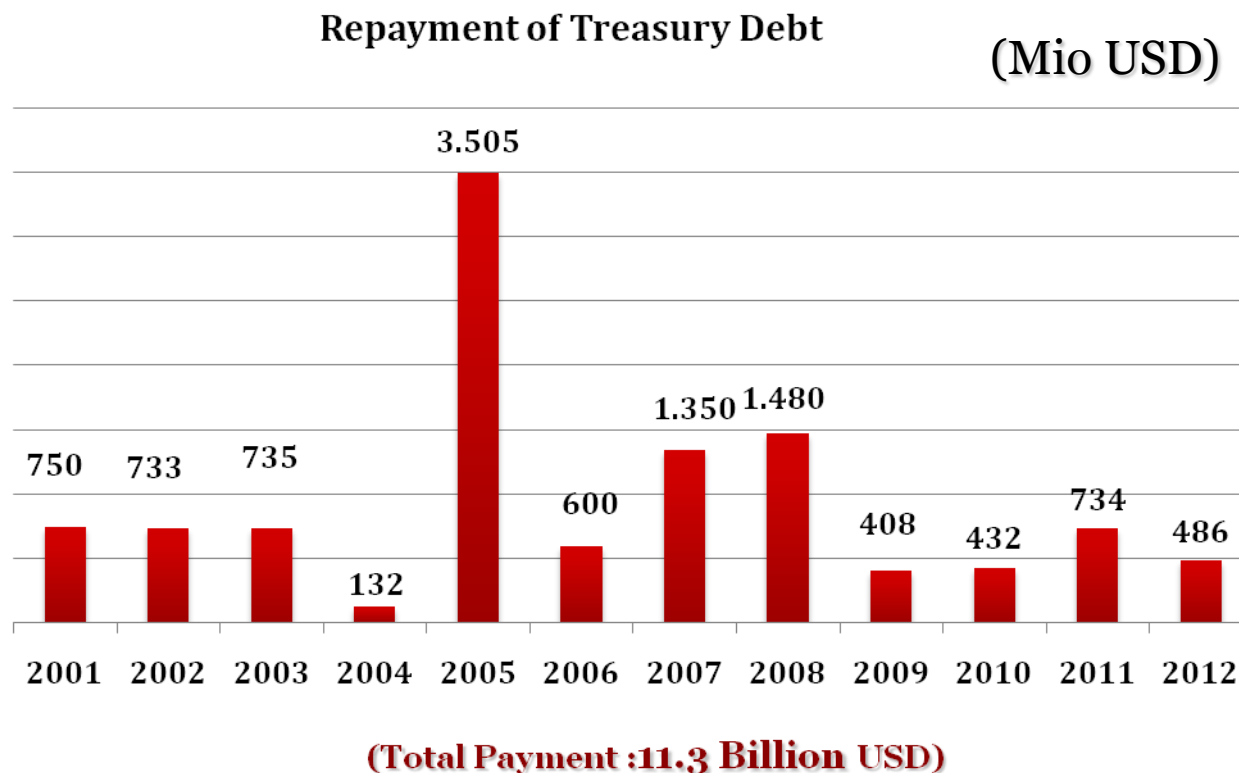
Date of Transfer	Number of Banks	Total Assets (USD millions)	Market Share (%)	Total Deposits (USD millions)	Market Share (%)
1994	3	3.050	%4,1	2.165	%6,7
1997	1	1.745	%1,86	1.446	%2,38
1998	1	826	%0,70	487	%0,63
1999-2001	18	25.456	19,07%	19.101	21,75%
2002	1	6.661	%5,16	4.924	%5,99
2003	1	5.935	%3,44	6.059	%5,49
Total	25	43.586	%34,31	34.155	%42,89

- During the resolution process of 25 banks, SDIF covered losses of more than 9 million depositors and guaranteed USD 34 millions of deposits.
- Government extended its blanket guarantee to off-balance sheet liabilities in addition to on-balance sheet liabilities.

Funding of the Financial Crisis



BORROWING AMOUNTS (As of Borrowing Date)	
Year	Mio USD
2000	5.687
2001	11.879
2002	1.662
2003	5.070
2004	1.579
TOTAL	25.877



As of November 2008, the debt as **USD 78,4 billion** (=93,3 billion TRY) of SDIF to the Treasury (principal+interest) has been cancelled within the scope of the “**Law on the Regulation of the Debt Management and Public Financing**”.

The expected amount to be paid to the Treasury up to **2018** is approximately **USD 2.4 billion**.

- ❑ As a result of 2000-2001 banking crisis, SDIF taken over the burden of management and disposition of the assets of failed banks.
- ❑ In that manner SDIF played an effective role in the resolution and recovery activities and established its asset disposition strategy for maximum return.
- ❑ SDIF implemented various sales methods by considering the features of the assets and created new markets and attracted international investors. Also, SDIF developed resolution tools based on her needs through her experience.
- ❑ Legal framework for asset disposition was evolved and SDIF gained special powers in recovery process.
- ❑ During the crisis SDIF had limited expertise and resource whereas with the experience of last 10 years SDIF now has an international competence in asset recovery.

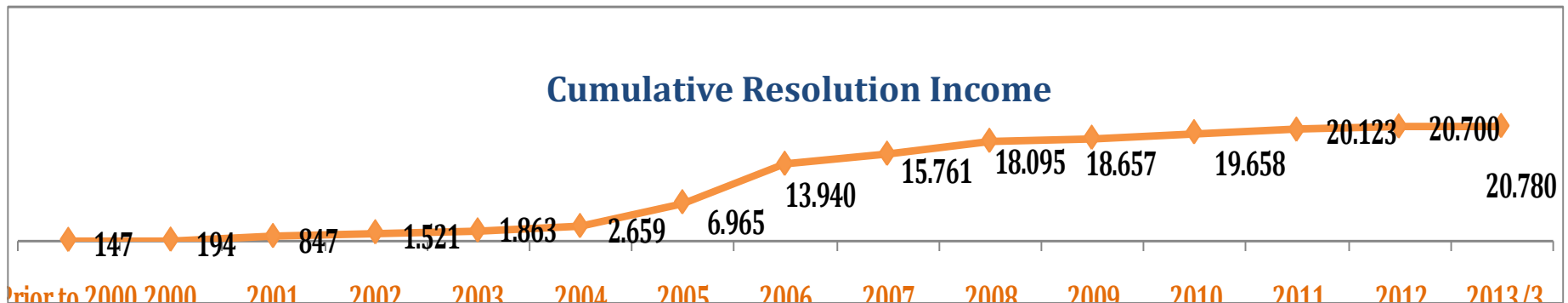
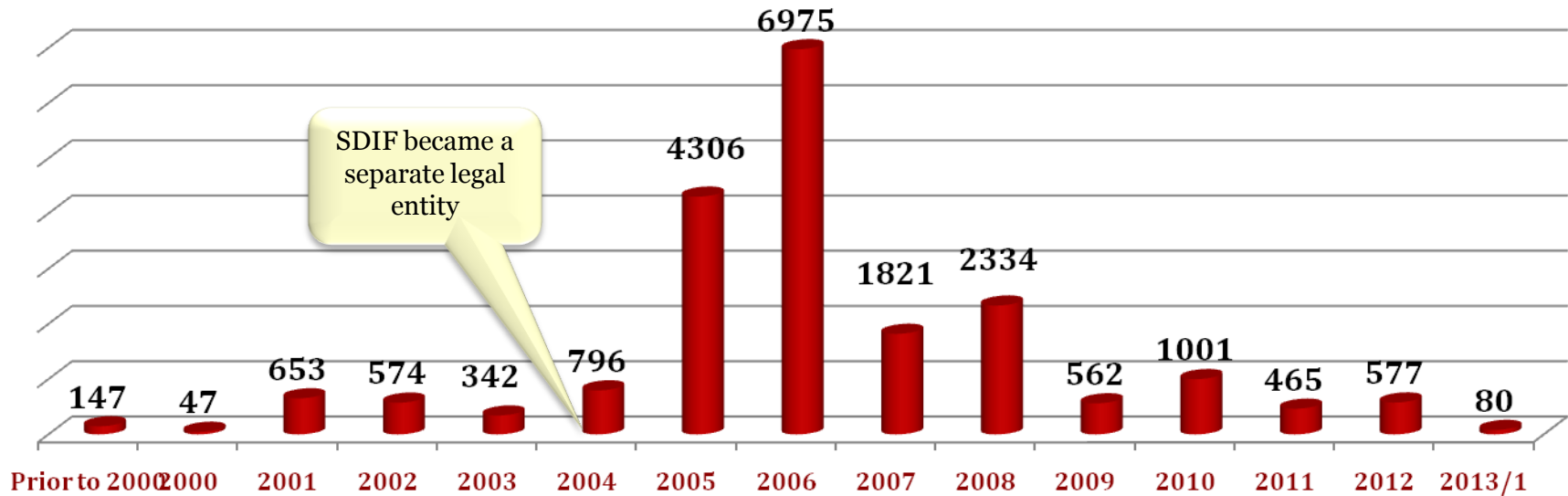
- SDIF has **strengthened collection powers** for the loans which has poor collectability and especially for the loans of majority shareholders of the transferred banks.

- The **recovery methods** of SDIF:
 - Empowered Legal Proceedings
 - Pursuit and collection of the loans according to Law no. 6183 on Procedures for Collection of Public Receivables
 - Pursuit of the loans according to Execution and Bankruptcy Law No. 2004
 - Restructuring Agreements (Protocols with the debtors & Discount Programs)
 - Taking over the management and supervision of the Fund banks or the companies of the majority share holders of the banks
 - NPAs Sales
 - Commercial and Economic Integrity Sales

Within a 9-years period , SDIF Collected 20 Billion USD

As of March, 2013

Million USD



In the process of resolutions SDIF collected USD 20.8 billions as of March 31, 2013. SDIF collected USD 18,9 billions of that amount since 2004.

IV. Lessons Learned



***Good policies are done
in bad times...***

- Capital adequacy regulation
- Internal control and risk management
- Lending limits and loan loss provisioning
- Connected lending limits
- Accounting standards and independent auditing
- Facilitating mergers and acquisitions
- Risk based supervision and tighter prudential supervision
- New Banking Law (Nbr.5411)** was adopted in 2005

With the adoption of new Banking Law (5411) in 2005;

- ❑ Two committees were established to ensure information sharing among all participants of the FSN
 - Coordination Committee (Article 100)
 - Financial Sector Commission (Article 99)
- ❑ In 2010, Financial Stability Committee was established to identify and mitigate emerging systemic risks in the Turkish financial system.
- ❑ MOUs were signed among participants of the FSN
- ❑ SDIF started to use/access the database of the BRSA to monitor and evaluate the operating banks.

❑ Commercial and Economic Integrity Sales

(Especially for the SDIF's receivables from the Bank Majority Shareholders)

❑ Discount Programmes & Asset Sales

(For Non-Performing Loans Portfolio)

❑ İstanbul Approach

(A voluntary non-judicial debt restructuring program for the viable companies of Turkey)

❑ Use of more strict law (Nbr. 6183) against Bank Majority Shareholders and managers of the failed banks to recover the misused bank resources

Implementation of Risk Based Premium System

(SDIF revised its premium system five times during 2002-2011)

Rehabilitation of the state-owned banks

Adoption of several rules for granting banking licences

Restriction of off-shore banking activities

Implementation of new standards for support services of the banks

Conclusion



- ❑ 2000- 2001 crisis caused a high level of cost for the banking sector of Turkey. The cost, born by Turkish Public was **28 billion USD** and increased significantly to a higher level by adding interest calculations.
- ❑ After 2000-2001 Crisis, significant structural reforms were adopted in Turkey to overcome the fragilities in the banking sector. Especially, new applications and improvements were brought to the surveillance and the supervision activities of the BRSA.
- ❑ Therefore, Turkish banking system has not been significantly affected by the recent global financial crisis.
- ❑ On the other hand, the global crisis has indicated the importance of deposit insurance system to ensure confidence and stability in financial markets.
- ❑ In this regard, considering the cost efficiency and time limitation of its legal framework, the SDIF aimed to increase the efficiency of resolution tools and to improve its resolution capacity both in accordance with the standards which were developed by the international standard setting institutions (IADI and FSB) and as well as its past experiences.

**Thank You
for your attention...**

