

*Distinguished friends, visitors, colleagues and participants,*

First of all I should like to extend a very warm welcome to each of you personally, also on a personal level I would like to share the pleasure and excitement I feel in hosting all IADI members here in Istanbul, at this two day event.

I would like to begin my speech with a brief history of deposit insurance in Turkey. Deposit insurance commenced back in 1933, after several growing pains, the Saving Deposits Insurance Fund (SDIF) was formed first within the Central Bank of Turkey in 1983. The next organic development was between 2000 and 2003 when the institution was managed by the Banking Regulation and Supervision Agency, SDIF became an autonomous institution at the beginning of 2004.

When first founded the aim of SDIF (the Fund) was to insure deposits. After the 1994 economic crisis, it extended its brief in to the resolution of failed banks, whose licenses were revoked or not. This new role resulted in the liquidation of a total of 26 banks, 3 of them in 1994, and 23 of them mostly during the crisis of 2000-2001.

Turkey has a unique experience in banking crisis which will constitute a valuable sample model for the rest of the world. SDIF has devoted resources to record these experiences and share with all members its experiences in the upcoming months.

As Turkey has made many naive mistakes in its young banking sector, it has learnt and gained a valuable experience to use in forming a strong, smooth operating and risk adverse system.

I would like to mention some of the naive errors made in the past.

- Administration of banking sector by government departments which are weak, under the control of politicians, open to political influence and were not able to perform their responsibilities, coupled with inability to take initiative,
- Lack of proper regulation and supervision functions,
- Lack of vision or understanding to consider the impact of a hundred percent government guarantee in deposit insurance on moral hazard when and where there exist a regulation and supervision deficiency.
- Misuse of banking system by politicians who leverage personal relationships to develop fraudulent transactions, an extreme example of “crony capitalism”

The recent 2000 and 2001 crisis, with its inevitable, restructuring and resolution process in banking sector was painful and the cost of this process to the public account was far beyond any anticipated burden. This high cost is due to the full coverage granted in 1994 to avoid a systemic crisis. The blanket guarantee was still in force, having not been reviewed for some 10 years, this brought up the issue of moral hazard, as deposit protection right has been misused by the banks and depositors.

While working on resolution of the banks transferred to the Fund, effort has been made to sell the assets taken over from the ex-owners of the banks for maximum return. By the introduction of a new Banking Act, which became effective at the end of year 2003, SDIF became autonomous institution and was equipped with special rights to expedite collections and workouts.

SDIF has made a significant progress in collections through its asset sales, legal follow-up and debt protocols enabling major shareholders of the banks to pay their debts within time.

However, during this period, deposit insurance, which is the main function of SDIF, did not get the focus it deserved, due to resolution of the banks and disposition of assets taken over by the Fund. Consequently, rather than deposit insurance institution identity, SDIF became infamous as a collection institution or a type of Asset Management Company.

After the 2000 banking crisis, a need for restructuring banking sector became apparent. In line with this need an independent institution, Banking Regulation and Supervision Agency (BRSA) was equipped with legislative authority, and was able to regulate and supervise on issues such as;

- The qualifications required in persons applying for a banking license,
- Sanctions to be applied in case of mismanagement,
- The setting of restrictions on loans to related party companies,
- Misusage of bank funds, audit and risk management to mention just a few.

As a result of modernization of the banking sector and new effective control systems coupled with a more stable Turkish economy, the banking sector had rapidly matured and become very robust. Running in parallel the impact of open economic policy and positive changes occurred during the EU accession period, the sector has become attractive for foreign capital investment.

At this point in our activities, we as SDIF, by undertaking new functions related to risk based deposit insurance and considering the level of progress in resolution activities, turned our focus to deposit insurance activities. However, we also faced with new challenges such as; forming healthy and fruitful relations with the banking authority and developing a model that will ensure efficient information sharing to help identifying risk profile of Turkish banks.

Today, increasing cross border activities and functioning of banks in global dimension can increase the probability of an ongoing crisis in a bank or in a country to effect banking systems of other countries and their financial stability. This situation has brought an international prospect to the financial stability function of deposit insurance. In deposit insurance field in the World, issues such as; deposit insurance funding mechanisms, risk based pricing, reserve models, determination of most efficient level of coverage and providing information to depositors are discussed and they are subject to information exchange.

With the aim of developing our main function, deposit insurance, we as SDIF, continue to carry research on assessment of coverage level, optimum Fund reserve and risk based premium systems, primarily in coordination with Banking Regulation and Supervision Agency and other financial safety net actors. In our researches, while priority is given to European Union regulations, we also take different applications in the world into account in line with the aim of following developments in deposit insurance and improving relations with similar institutions, as such we have become a member of European Forum Deposit Insurers.

Distinguished guests,

As we all see, discussion on deposit insurance, which is quite important in ensuring financial stability both in national and global platforms, in collaboration with similar institutions and introducing solutions for problems encountered in this field is critical.

Consequently, I believe that this conference, which is arranged by participation of distinguished guests, will be one of the best platforms to discuss issues of deposit insurance and will enlighten us.

I would like to thank everyone who participate this conference.

A special thanks to Dr. Mohammed Al-Ja'fari, the president of the MENA sub-committee in IADI and Abdullah Canbek from SDIF. They made a great effort to organize this conference.