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LOSS DISTRIBUTION APPROACH FOR OPERATIONAL RISK CAPITAL MODELLING UNDER BASEL II: COMBINING DIFFERENT DATA SOURCES FOR RISK ESTIMATION

The management of operational risk in the banking industry has undergone significant changes over the last decade due to substantial changes in operational risk environment. Globalization, deregulation, the use of complex financial products and changes in information technology have resulted in exposure to new risks very different from market and credit risks. In response, Basel Committee for banking Supervision has developed a regulatory framework, referred to as Basel II, that introduced operational risk category and corresponding capital requirements. Over the past five years, major banks in most parts of the world have received accreditation under the Basel II Advanced Measurement Approach (AMA) by adopting the loss distribution approach (LDA) despite there being a number of unresolved methodological challenges in its implementation. Different approaches and methods are still under hot debate. We review methods proposed in the literature for combining different data sources (internal data, external data and scenario analysis) which is one of the regulatory requirement for AMA.

The development of the corporate governance is the one of key conditions of qualitative changes in the banking sector, aimed to increase competitiveness and sustainability of credit institutions. The reason is that banks which redistribute financial resources in the economy should act in the interests of a wide range of stakeholders. Corporate governance that provides adequate protection of interests of bank owners, creditors, customers and other stakeholders from increasing risk and uncertainty becomes one of the decisive factors of stable operation both individual banks and the banking system in general.