How quantitative is operational risk supervision in Latin America?

A comparison of 16 banking supervisors: from the probability-impact matrix to the internal loss multiplier.

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AT A GLANCE

- Only **4 of 16 supervisors** (Brazil, Colombia, Mexico and Chile) let each bank's own loss history change its operational risk capital.
- **No supervisor requires Monte Carlo simulation** or loss distribution models (LDA) for regulatory capital. Quantification comes in through capital self-assessment and stress testing, where none prescribes a method.
- **Five countries have no operational risk capital charge**: Guatemala, El Salvador, Honduras, Bolivia and Paraguay. The Dominican Republic is about to join the most advanced group.
- What separates countries most is the **quality required of the loss event register**, not the capital formula.

1 The matrix and the number

Across much of the region, operational risk management still revolves around a probability-impact matrix. The matrix is useful for prioritising and for talking to process owners, but it does not answer the question a board cares about most: how much could we lose in a bad year, and how much capital do we need to withstand it?

The 2017 Basel III reform changed the ground. It removed the advanced measurement approaches (AMA) from regulatory capital and replaced them with a single standardised approach, in which each bank's loss history adjusts the requirement:

Capital = BIC × ILM

BIC = Business Indicator × marginal coefficients of 12%, 15% and 18% by bucket

ILM = $\ln(e - 1 + (LC / BIC)^{0.8})$, with **LC** = 15 × average annual loss over the last 10 years

The paradox is worth noting: there are fewer models in Pillar 1, yet internal losses matter more than ever, and probabilistic modelling moves to Pillar 2, to capital self-assessment and stress testing. This article asks how far each Latin American supervisor has taken its banks along that path, from qualitative to quantitative.

2 How the assessment was done

Each supervisor was scored from 0 to 4 on five dimensions. The overall score is the simple average. The assessment covers regulations published as of October 2026, not the practice of individual banks.

Dimension	0	2	4
D1. Capital method	No operational risk charge	Basic indicator or standardised by business line	Basel III standardised approach with an internal loss multiplier
D2. Use of internal losses	Not used	Reported, with no effect on capital	Change capital
D3. Loss event register	Not required	Required, without quality criteria	Thresholds, minimum years, accounting reconciliation and supervisory validation
D4. Internal quantification	Not mentioned	Qualitative scenarios or stress	Economic capital or quantitative stress required or validated
D5. Beyond the risk matrix	Probability-impact matrices only	Matrices plus key risk indicators	Matrices as a complement to measurement

Because advanced models no longer exist in Pillar 1, Monte Carlo simulation and LDA are assessed under dimension D4, as management and economic capital tools.

3 Results

The regional average is 2.4 out of 4. The distribution is not gradual: there is a group of four countries clearly above 3, a broad block between 2 and 2.6, and a group of five countries below 2.

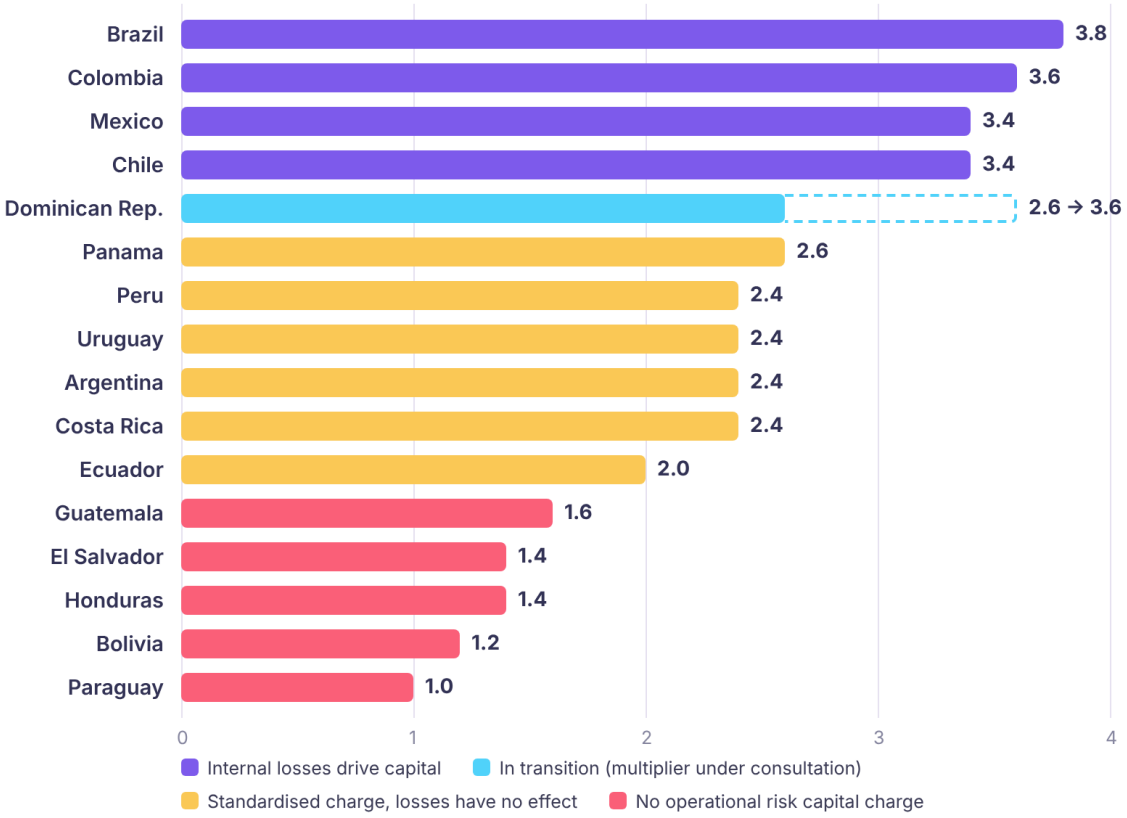


Figure 1. Overall quantitative maturity score of the supervisor (0 to 4). The dashed line shows the Dominican Republic with its capital rule, under public consultation since July 2026.

The matrix by dimension shows where each score comes from. Columns D1 and D2 split the region: where capital is loss-sensitive, both are at 4; elsewhere they do not exceed 2 or 3. Column D3, by contrast, shows that a loss event register is already mandatory everywhere, although with very different levels of demand.

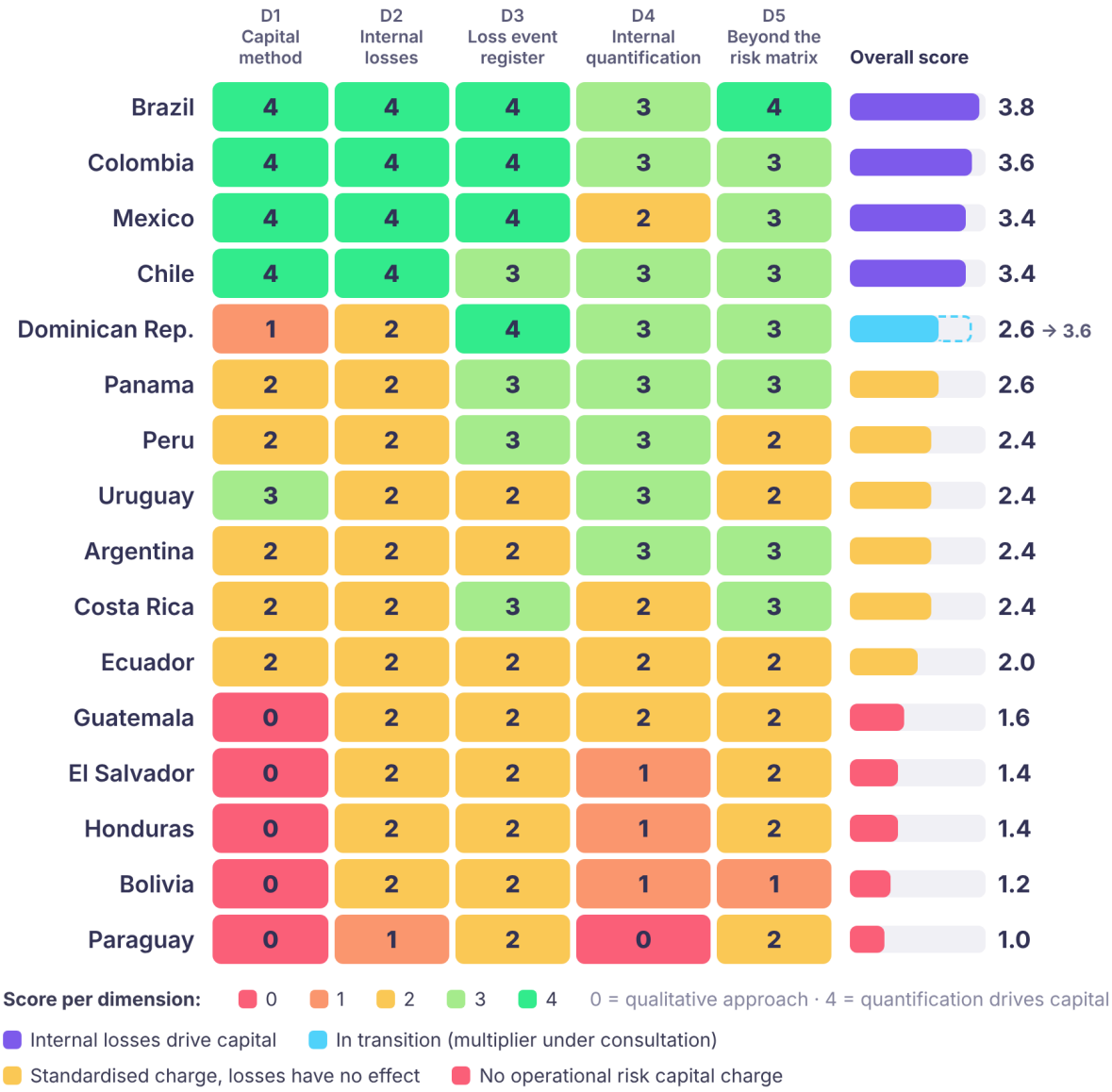


Figure 2. Score by dimension and overall score. Colours run from red (0, qualitative approach) to green (4, quantification drives capital).

4 Four groups of countries

Group 1 Capital already depends on losses: Brazil, Colombia, Mexico and Chile

Brazil (3.8) has the most complete framework. BCB Resolution 356/2023, in force since January 2025, applies the Basel III approach with a calculated multiplier for segments S1 and S2 and a transition to 2027. The loss register requires 10 years, accounting dates and lines, semi-annual reconciliation and an annual internal audit. CMN Resolution 4,557 adds capital self-assessment, reverse stress testing and scenario analysis for rare and severe events.

Colombia (3.6) developed a local version in Annex 13 of Chapter XXXI: VeRO = Business Indicator × coefficient × Internal Loss Indicator (IPI). The IPI is assigned from a table of eleven buckets, from

0.7 to 1.7. To use it, a bank needs a "high quality" register authorised by the Superintendencia Financiera, with a COP 20 million threshold indexed to inflation and aggregation of events by Level 2 category. Without that authorisation, a transitional IPI of 1.5 applies. Between that 1.5 and a 0.7 lies up to 53% of the requirement.

Mexico (3.4) computes capital with the Business Indicator method of the Circular Única de Bancos and an internal loss multiplier. According to banks' own disclosures, the multiplier has a floor of 1: losses can raise capital but not lower it. The weakest dimension is the internal quantification required for operational risk.

Chile (3.4) has applied the Basel III approach since December 2021 (RAN 21-8). The multiplier has no floor and is mandatory for the six systemic banks. When designing the rule, the CMF estimated a multiplier below 1 in 95% of 2009–2018 observations: in Chile, a good loss history saves capital.

Group 2 In transition: Dominican Republic

Today the Dominican capital adequacy regulation does not include operational risk (2.6). But the new Operational Risk Regulation of November 2025 and the draft Instructivo under consultation since July 2026 adopt full Basel III, with 12%, 15% and 18% buckets and a multiplier based on 10 years of losses. The loss register already has a threshold (DOP 50,000), a level 3 taxonomy and accounting reconciliation. Once the Instructivo takes effect, the country will move to 3.6.

Group 3 Standardised charge, losses have no effect

Six countries compute a capital charge, but loss history does not move it. **Uruguay** and **Argentina** already use the Basel III Business Indicator; Argentina does so with the multiplier fixed at 1 for its largest banks. **Panama** weights 75% of its Business Index and requires quarterly reporting of capital adequacy under stress. **Ecuador** introduced in 2024 an Operational Risk Value based on the Business Indicator. **Peru** keeps the basic indicator and alternative standardised approaches, and in 2025 extended its model risk rule to operational risk models. **Costa Rica** charges 15% of average adjusted gross operating income over 36 months, but its rule already requires assessment using historical data and quantitative estimates.

For these countries, the Business Indicator structure is already built. The natural next step is to switch on the loss multiplier, and for that banks will need loss registers that few supervisors currently audit to that level of detail.

Group 4 No capital charge: Guatemala, El Salvador, Honduras, Bolivia and Paraguay

In these five countries no operational risk capital requirement was identified in the regulations reviewed. Management relies on matrices, self-assessments and key indicators, and the loss register is mandatory but without thresholds or minimum years. There are nuances: **Guatemala** requires frequency and severity methodologies, the natural doorway to an LDA, and **El Salvador** renewed its rule in 2023 (NRP-42). **Honduras** announced in a 2019 draft that it would set capital requirements later.

5 Five findings

1. **Monte Carlo is not a regulatory requirement in any country.** After Basel III, frequency-severity simulation is a management and economic capital tool, not a Pillar 1 method.
2. **Quantification comes in through Pillar 2.** Brazil, Chile, Argentina, Uruguay, Peru and Panama require capital self-assessment or stress testing that includes operational risk, but none defines how to measure it. That is where a loss distribution model offers a defensible figure instead of an expert-judgement estimate.
3. **The loss event register is the decisive variable.** Every country requires one. Only Brazil, Colombia, Mexico and the Dominican Republic demand thresholds, minimum history and accounting reconciliation at the level that allows its use in capital.
4. **The multiplier turns data quality into capital.** In Chile a good history reduces the requirement; in Colombia the gap between the transitional IPI and the minimum is up to 53%; in Mexico the design only penalises.
5. **The direction of travel is clear.** Uruguay, Argentina, Panama and Ecuador already work with the Business Indicator components. Switching on the loss multiplier is the missing step, as the Dominican Republic is preparing to do.

6 What it means for risk managers

- **Treat the loss register as a capital asset.** Reconcile it with the accounts, set thresholds, aggregate correctly and keep 10 years of history. In group 1 countries that is already worth money; elsewhere it soon will be.
- **Measure before you are asked to.** An LDA calibrated on your own losses lets you compare the regulatory charge with the real unexpected loss and support your capital self-assessment.
- **Quantify your scenarios.** A stress scenario expressed in frequency and severity, and simulated, is more useful than a narrative one with a hand-estimated impact figure.
- **Calibrate the matrix with data.** The impact scales of the matrix should be derived from the loss distribution, not set by convention.
- **Watch the multiplier.** Where it exists, know what additional losses would push you to the next bucket and how much capital a better register would release.

7 Scope and limitations

The scores are the author's judgement on regulations published as of October 2026 and do not assess institutions' practice. Several data points come from bank disclosures or third-party analyses. Some points still need confirmation from primary sources: the absence of a capital charge in Guatemala, Paraguay and El Salvador; whether Peru still allows advanced approaches; whether Ecuador's Operational Risk Value consumes regulatory capital; and the effective date of

the Dominican Instructivo. Corrections from colleagues in each country are welcome and will be included in a future version.

Regulatory references

- **Basel:** BCBS, Basel III: Finalising post-crisis reforms (2017)
- **Brazil:** Resolution BCB 356/2023; Resolution CMN 4.557/2017
- **Colombia:** SFC, Annex 13 of Chapter XXXI; Decree 1421 de 2019
- **Mexico:** CNBV, Business Indicator guide (2020); R28 operational risk reporting instructions
- **Chile:** CMF, FAQ RAN 21-8; CMF, Pillar 2
- **Dominican Republic:** SB, draft operational risk Instructivo (2026); Operational risk report 2025
- **Panama:** SBP, Agreement 11-2018
- **Peru:** SBS, Resolution 877-2020; Resolution SBS 00053-2023
- **Uruguay:** HSBC Uruguay, prudential report Dec 2025
- **Argentina:** BCRA, Communication "A" 8068; Risk management guidelines
- **Costa Rica:** SUGEF 2-10; SUGEF 3-06
- **Ecuador:** Resolution SB-2024-02855; Circular SB-INRE-2024-0020-C
- **Guatemala:** Junta Monetaria, Operational Risk Management Regulation (2016)
- **El Salvador:** BCR, NRP-42 (2023)
- **Honduras:** CNBS, draft reform (2019)
- **Bolivia:** ASFI, Regulatory bulletin 39 (2018)
- **Paraguay:** BCP, Resolution 4, Acta 67 (2012)