البنك المركزي الأردني
CENTRAL BANK OF JORDAN

Regulatory and supervisory frameworks to facilitate the sound development of non-bank finance and address potential risks

Mohamad Amaireh
Executive Manager, Financial Stability Department
Central Bank of Jordan

AGENDA

- Non-Bank Financial Intermediaries(NBFIs)
- FSB Addressing Non-Bank Financial Intermediation
- FSB Policy Recommendations
- Regulatory Framework for Financial Services
- Jordan’s Financial System & Non-Bank Financial Sector in Jordan
- Current Regulatory Framework and supervision of NBFIs in Jordan
- Areas of Improvement & Challenges
- Best MaP approach for risks within Non-Bank Markets

Non-Bank Financial Intermediaries(NBFIs)

- Non-bank financial intermediation is defined as financial intermediation activities that are outside the traditional, regulated banking system.
- Non-bank financial intermediation provides a valuable alternative to bank financing and helps to support real economic activity.
- NBFIs Cannot issue or accept demand deposits, and is not part of payment and settlement system thus cannot issue checks.
- NBFI risks can be compounded where non-bank activities have links to the banking system.
- There is no conceptual approach that is comprehensive enough to deal with such risks.
- Examples of NBFIs: Insurance firms, currency exchange, microfinance companies, pension funds, credit companies, broker, e-money issuer..etc.

FSB Addresses Non-Bank Financial Intermediation

To address Financial Stability Risks in NBFI (*Prev. Shadow banking*)

1. Monitoring: Conducting an annual system –wide monitoring exercise to assess global trends and risks from NBFIs

FSB wants to address bank-like risks* while sustaining Non-bank activities that don’t pose risks

2.Policymaking: Developing a range of policies and ensure NBFI is subject to appropriate oversight and regulation

(*Example: credit intermediation that involves maturity mismatch, leverage or imperfect credit risk transfer)

FSB Policy Recommendations

Strengthen Oversight and Regulation of 4 Areas

- Mitigating spill-over risks between the banking system and the system of non-bank financial intermediation
- Improving transparency and aligning incentives associated with securitization
- Dampening procyclicality and other financial stability risks associated with securities financing transactions such as repos and securities lending.
- Assessing and mitigating systemic risks posed by other non-bank financial entities and activities.

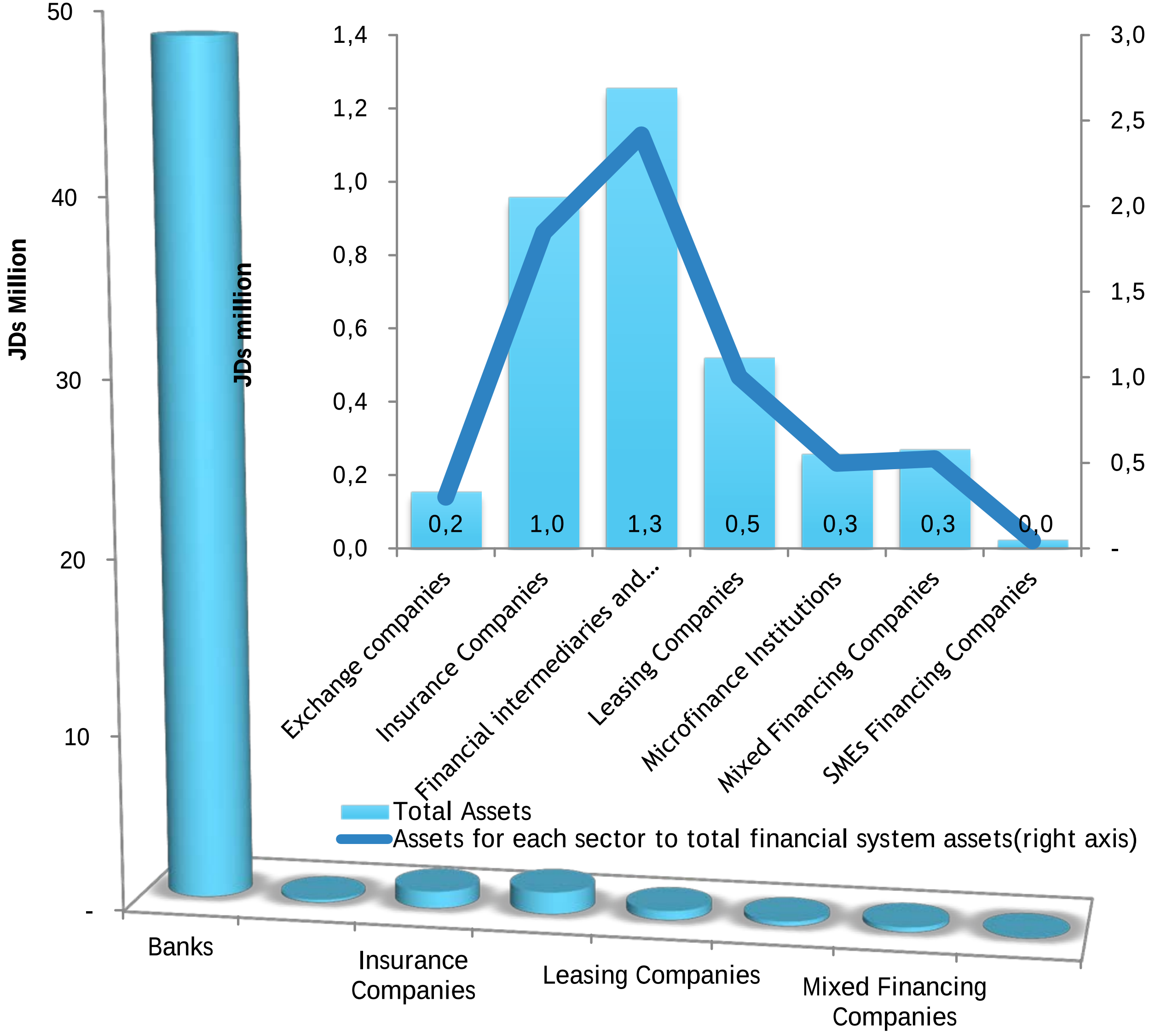
Regulatory Framework for Financial Services

- Most countries have a strong regulatory framework for the banking sector in place.
- Current financial development and financial technology, which introduces new and innovative financial services confirms the need for a strong regulatory financial system that goes beyond banking sector.
- A strong regulatory framework:
- Ensures financial markets and financial services function properly
- Supervises and regulates the different financial institutions in various markets

“Regulator's basic function is to protect different categories of stakeholders using financial services provided by financial institutions(Banks, credit card companies, insurance, stock brokerage, mutual fund…etc.)”

Jordan's Financial System & Non-Bank Financial Sector in Jordan

- Banks dominate the financial system with a 93.4% share.



Assets for each sector to total financial system assets (%)	Total Assets(JDs Million)	
93.4	48,550.1	Banks
0.3	156.0	Exchange companies
1.8	959.7	Insurance Companies
0.0	**24.0**	**SMEs Financing Companies**
1.0	521.7	Leasing Companies
0.5	259.0	Microfinance Institutions
0.5	272.0	Mixed Financing Companies
2.4	1,256.5	Other Financial Institutions
100.0	51,999.0	Total Assets of the Financial Sector

Current Regulatory Framework and supervision of NBFIs in Jordan

- Current Supervision and Regulation of the banking industry as well as:
  - Microfinance Sector: The CBJ expanded its regulatory umbrella to include microfinance as per the cabinet approved bylaw No.(5) for the year 2015. As of June 1st 2015, CBJ is the legal reference for licensing microfinance companies and for their supervision and oversight.
  - And Insurance Sector: On the 24th of February 2016, the Cabinet directed the CBJ to assume the responsibility of supervision of the insurance sector and regulate its activities.
- Regulations of each sector are well established with small room for overlap or regulatory gap.
- The CBJ's mandate is to ensure financial stability and this is done through maintaining the safety and soundness of the financial system, the development of the financial sector and the protection of the rights and interests of depositors.
- In 2013, CBJ Established the financial Stability department
- In 2016 the consumer protection department and supervision of microfinance department were established.
- The Financial Inclusion Strategy in Jordan was launched in 2017

Current Regulatory Framework and supervision of NBFIs in Jordan(Cont’d)

- Microfinance companies are regulated by the Central Bank of Jordan
- Established a credit registry in 2017, and 8 microfinance companies are registered so far in it
- The consumer protections department issued instructions regarding protecting microfinance companies customers.
- Insurance companies have recently been added under the supervisory umbrella of the Central bank of Jordan(the amended insurance law is in the parliament)
- CBJ has a supervisory department in place regarding Currency exchange companies
- Financial Leasing companies which are subsidiary companies of banks are regulated by CBJ but others are registered by Ministry of Industry and Trade and Supply
- Other Credit institutions are registered by Ministry of Industry and Trade and Supply
- Pension fund is part of Social Security Corporation
- Brokerage firms are regulated by Financial Securities Commission

Areas of improvement & Challenges

- **Improvements needed in:**

1. In the legal powers granted to NBFI regulators

2. In the prudential standards, regulations and rules which, in general, need to become more risk-based to catch up with banking standards;

3. In the internal practices and processes of regulators where there is a general need for stronger governance standards and for a greater commitment to enforcement among prudential regulators and conduct regulators alike.

- Challenges:
  - Data Limitation poses a challenge for risk management (NBFIs data are collected based on source of fund or asset allocation but not on bilateral exposure on institution level, and interconnectedness data).
  - Innovation: needs a dynamic, system view of risks and productivity
  - Fintech's use of financial innovation and advanced information and communications technology offers new financial products to a wider scale of consumers. Such as P2P lending, money market funds under management by Fintech firms. The legal, regulatory, and supervisory framework for Fintech should continue to be strengthened to provide legal clarity and manage risks, allowing for healthy growth.
  - The challenge is to balance Financial Technological Innovation with safety and soundness of the financial system.
  - Instability of complex systems: needs new modeling eg: agent-based
  - Regulatory gaps: weak understanding of systemic risks due to unclear mandate to supervise cross sectoral products.

Best Macro-Prudential (MaP) approach for risks within Non-Bank markets

- Regulate intermarket-based financing , using an activity-based approach:
  - Direct : minimum margins , early redemption fees, etc.
  - Indirect: higher capital, liquidity for securities financing transactions
- Macro-prudential policies such as CCyB
- Adapt mandates for regulators to allow non-bank system oversight:
  - Governance toolkit implementation
  - How to cover capital markets

Thank you