

Inter-relationships Between Safety-Net Organizations: The Jordanian Experience

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Inter-relationships Between Safety-Net Organizations: The Jordanian Experience

- **IADI Core Principle on the Relationships with Other Safety-Net Participants**
- **IADI Guidance on the Relationships with Other Safety-Net Participants**
- **The Relationship between the Financial Safety-Net Players: The Jordanian Experience**
 - **Background**
 - **Institutional Structure of Financial Safety-Net in Jordan**
 - **Mandatory Responsibilities of JODIC**
 - **Scope of Cooperation**
 - **Cooperation Arrangements**
 - **Challenges**

IADI Core Principle on the Relationships with Other Safety-Net Participants

Principle 6 – Relationships with Other Safety-Net Participants

- **A framework should be in place for the close coordination and information-sharing among the deposit insurer and other financial system safety-net participants;**
- **Routine basis as well as in relation to particular banks;**
- **Information should be accurate and timely (subject to confidentiality when required);**
- **Information-sharing and coordination arrangements should be formalised.**

IADI Core Principle on the Relationships with Other Safety-Net Participants

Essential Criteria

- 1. The powers and responsibilities of each safety-net participant are clearly delineated. Each safety-net participant understands its respective roles and policy objectives.**
- 2. Information-sharing mechanisms and the coordination of actions among safety-net participants are explicit and formalised through legislation, memoranda of understanding, legal agreements or a combination of these techniques.**
- 3. A deposit insurer's information needs vary significantly according to its mandate and powers. However, all deposit insurers need information to be able to reimburse depositors' claims promptly including information on the amount of insured deposits held by individual depositors.**

IADI Core Principle on the Relationships with Other Safety-Net Participants

Essential Criteria

- 4. Rules regarding confidentiality of information apply to all safety-net participants.**
- 5. The safety-net participants make the relevant information available to the deposit insurer in advance and in respect with professional secrecy or, where pertinent information is not available from other safety-net participants, the deposit insurer has the power to collect information directly from member banks.**

IADI Core Principle on the Relationships with Other Safety-Net Participants

Additional criteria

A deposit insurer with a “loss” or “risk-minimisation” mandate must have access to timely and accurate information so that it can assess the financial condition of individual banks, as well as the banking industry. These deposit insurers also need access to information regarding the value of the bank’s assets and the expected time frame for the liquidation process, given that the value of a bank’s assets depends, in part, on the time necessary to liquidate them.

IADI Guidance to Promote Effective Interrelationships Among Financial Safety-Net Participants

- **Clear understanding of the composition of the financial safety-Net**
- **Clear understanding of respective functions in normal times and during financial crisis**
- **Clear articulation of mandates, powers and responsibilities**
- **Mandate specifies relevance**
- **Direct access for the deposit insurer to certain critical information**
- **Formalization of the cooperation arrangements**
- **Rules regarding the confidentiality of information exchanged need to be respected at all times**

Establishment of Jordan Deposit Insurance Corporation (JODIC)

- **Background**
- **The Central Bank of Jordan created JODIC**
- **The JODIC was established in the year 2000**
- **The JODIC enjoys a corporate entity status with financial and administrative independence**

JODIC Mission

To protect depositors with banks by insuring their deposits with the banks in accordance with the provisions of the JODIC's law in order to encourage savings and enhance confidence in the Kingdom's banking system

Institutional Structure of Financial Safety-Net in Jordan

- **Central Bank of Jordan (CBJ)**
- **JODIC**
- **Ministry of Finance**
- **Ministry of Industry and Trade**
- **Securities and Exchange Commission**

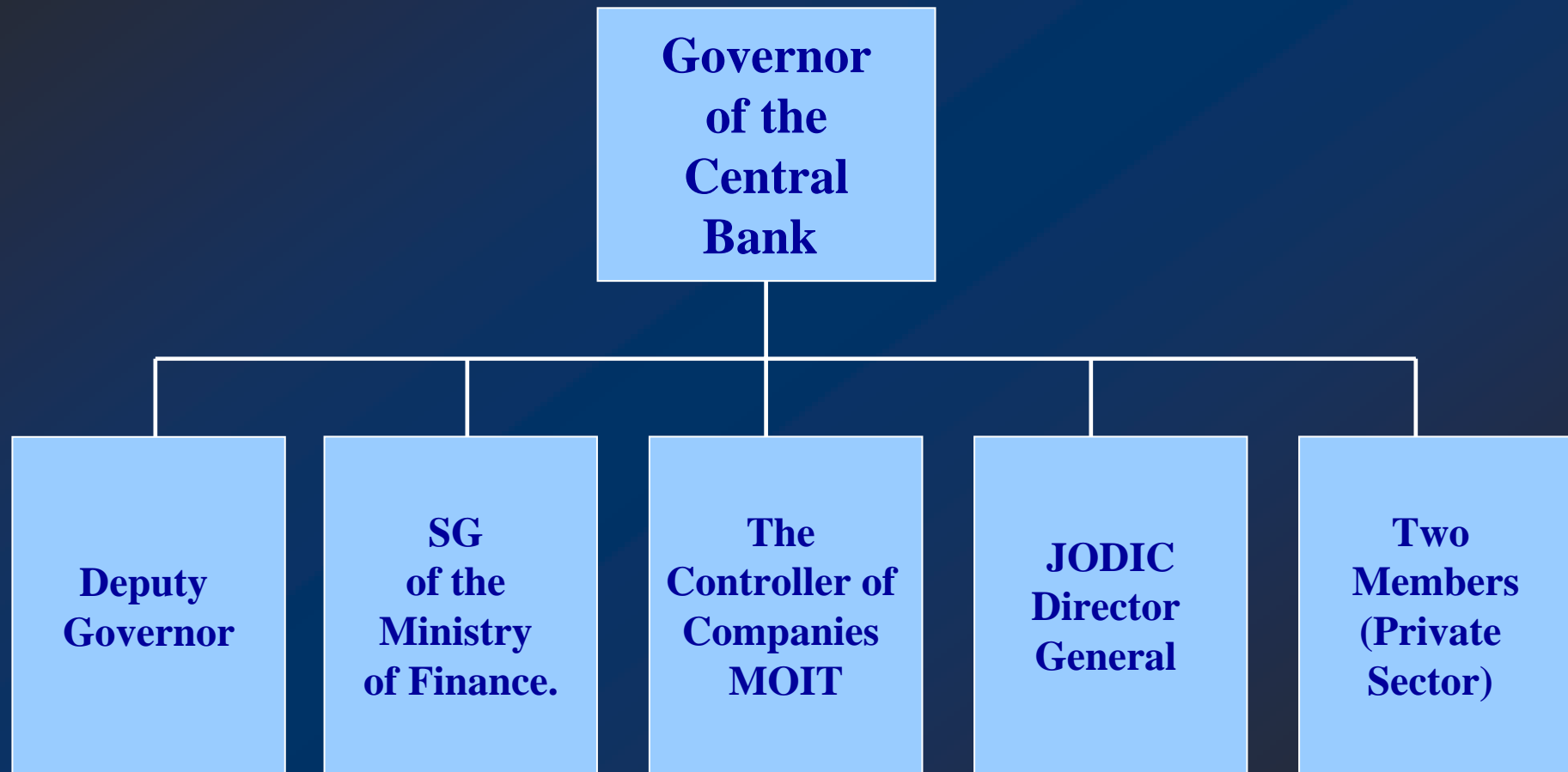
Mandatory Responsibilities of JODIC

Insurer of less financial sophisticated depositors	Liquidator of failed banks
Manager of deposit insurance fund	Co-supervisor, preventive role

Mandatory Responsibilities of JODIC

- **Importance dictates priority**
- **Should know clearly who does what**
- **Laws provide background but do not cover everything**
- **Cooperation enhances efficiency**
- **Harmony of interest not conflict of interest**
- **Governance should support cooperation**

Governance Structure



Scope of Cooperation: Premium Assessment

The JODIC may request that the CBJ ascertains the accuracy of statements submitted by banks to the JODIC

Scope of Cooperation: Fund Management

- **The JODIC shall invest its funds in bonds issued or guaranteed by the Jordanian Government. It may also invest its funds in deposits with the Central Bank by a decision of its board of directors.**
- **The JODIC must deposit its unused fund in its own accounts with the CBJ.**
- **The CBJ manages public debt.**
- **The CBJ maintains the JODIC current accounts.**

Scope of Cooperation: Setting Premium Levels and Premium Structure

- **Risk based premium may be applied based on banks' rating**
- **If the CBJ finds, based on the bank applicable rating rules, that the degree of risk assumed by a bank has become unacceptable, the board may increase the annual membership fee of that bank to no more than double the maximum limit**

Scope of Cooperation: Premium collection

- **Premium settlement**
- **The CBJ may, based on the JODIC's request, directly debit the bank's account with the CBJ with the sums which the bank owes to the Corporation.**

Scope of Cooperation: Bank Monitoring

- **The JODIC may examine banks' closing financial statements and the result of their operations that are available at the CBJ.**
- **The Governor may apprise the Board of any information and financial statements concerning the position of any bank if he finds it is necessary to do so.**

Scope of Cooperation: Bank Examination

- **Based on the JODIC's request and the CBJ's approval, a joint inspection team comprising of employees of the JODIC and of the CBJ may be formed to review or examine the operations, record, and statements of any bank.**
- **The team shall formulate a joint report containing the result of its activities and recommendation for the submission to the CBJ and the JODIC.**

Scope of Cooperation: Preventive Measures

- **If the JODIC learns that a bank or any executive therein has engaged in an illegal activity or violated the rules of banking transactions, it must so notify the CBJ and furnish it with any proposals of recommendations which it deems necessary.**

Scope of Cooperation: Insured Deposits

- **The JODIC shall insure deposit in any foreign currency which the CBJ decides to subject to the provisions of the law.**

Scope of Cooperation: Bank Liquidation

- **The insurance sum shall become payable under this law if the CBJ decides to liquidate a bank in accordance with the provisions of the Banking Law**
- **The JODIC shall be the liquidator, and shall be considered the sole, legal representative, of any bank whose liquidation has been decided by the CBJ.**
- **The liquidator must complete liquidation proceedings within two years from the date on which the liquidation decision is issued. The Board, with the CBJ's approval, may extend this period for one year. In exceptional cases and for justified reasons, this may be extended in the same manner for additional periods.**

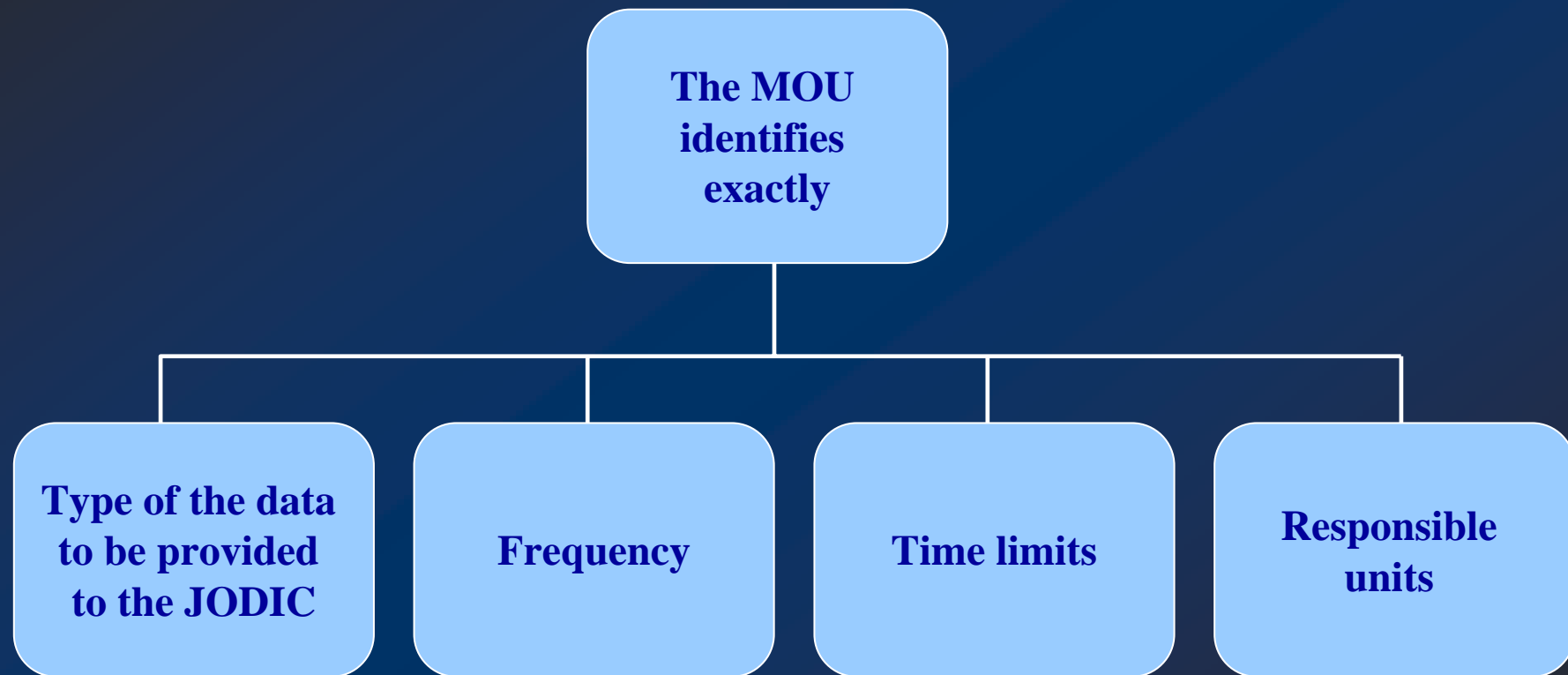
Cooperation Arrangements: MOU between the CBJ and the JODIC

- **One of the earliest steps**
- **Set the objectives clearly and promote the necessity**
- **Be realistic and ask for what you need to carry out responsibilities**
- **Took time and long discussion**
- **Requires cooperation and close coordination**
- **Draws on the experience of other successful examples**

MOU between the CBJ and the JODIC: The General Purpose

- **The memorandum aims at promoting and enhancing the cooperation between the JODIC and the CBJ to fulfill their responsibilities, to contribute to the financial system stability and to strengthen the confidence in the banking system according to their laws.**
- **Subject to the memorandum, the JODIC will have an indirect access (through the CBJ) to all necessary information that it needs such as: annual financial statement, capital adequacy ratios...etc.**

MOU between the CBJ and the JODIC: Information sharing



MOU between the CBJ and the JODIC: Information sharing

- **A joint inspection team comprised from the JODIC and the CBJ employees based on the JODIC's request and CBJ's approval may be formed to review or examine the operations, records, and statements of any bank.**
- **The CBJ according to this memorandum will review the data provided to the JODIC from member banks for annual premiums calculations.**

MOU between the CBJ and the JODIC

- **Both (the JODIC and the CBJ) will develop a watch list for the unsound banks based on quantitative and qualitative measures.**
- **The CBJ will provide the JODIC with the inspection reports results, CAMEL rating results, and any corrective procedures have been taken.**
- **The CBJ will inform the JODIC with actions taken toward any bank such as: termination of a bank license, liquidation of a bank, and controlling over the bank management.**
- **Both the CBJ and the JODIC will collaborate in human resources training programs.**

Challenges

- **System in place**
- **Infrastructure consideration**
- **Cooperation at all levels**
- **Continuous Coordination**
- **Periodic Review**
- **Systemic crisis required ad hoc arrangements**

Thank you

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