Financial Services Sector:
Banking Services Sub Sector

Trade In Services
Benchmarking Study

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THE Envision Consulting Group
الرؤية للإستشارات الإقتصادية والإدارية

Table of Contents

List of Tables

Annexes

List of Acronyms

ATM	Automated Teller Machine
BICRA	Banking Industry Country Risk Assessment
CBJ	Central Bank of Jordan
CRM	Customer Relationship Management
EU	European Union
EU-AA	European Union Association Agreement
FTA	Free Trade Agreement
GAFTA	Greater Arab Free Trade Area
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
IT	Information Technology
JBS	Jordanian Banking Sector
MENA	Middle East and North Africa
ROA	Return On Assets
ROE	Return On Equity
SCP	Structural Conduct of Performance
SWOT	Strengths, Weaknesses, Opportunities, Threats
TPLs	Total Problem Loans
WTO	World Trade Organization

1.0 Research

1.1 Previous Research

Different studies have been conducted that examine the Jordanian banking sector. But most of these studies have concentrated on the technical aspect or the performance of the sector.[1] However, in recent years and after Jordan entered the WTO and signed the GATS Agreement, studies started to examine the competitiveness of the sector.[2]

1.2 Current Research

This study provides an overview of the main developments of Jordan's banking system to date as set fourth under CPC Prov 81 (see Annex 2 for a full listing of sub categories). Currently, the banking industry is seeing the advent of new products with the boom in retail banking. E-banking is also flourishing, and investing in IT and human resources is the path that most banks have taken.[3] The study also provides benchmarks; explains the level of compliance of the Jordanian banking sector with the rules and stipulations of the GATS; an opportunity scan of the banking sector in Jordan; and a SWOT analysis that sheds additional insight into the current strengths and weaknesses of the sector and highlights the opportunities and threats that should be taken into consideration in strategizing fro the development of the sector in a manner consistent with best practices and the Jordanian development drive.

The legal environment is improving considerably to meet the developmental needs of the banking sector. The new banking regulations, which stem from the Basle II, encourage banks to meet the new capital requirements, which would indirectly enhance competition. Moreover, the new regulations aim to improve corporate governance, Banks' control, and anti-money laundering procedures.[4]

2.0 Sector Analysis

2.1 Sector Context

Financial transactions in Jordan are primarily intermediated through the banking sector. Jordan's banking sector is fully privately owned, well-developed, and profitable.[5] The number of banks operating in Jordan currently stands at 25 banks, of which two are Islamic banks and eight are branches of foreign banks.

Jordanian banks carry out their operations through a network of 558 branches and 79 representative offices throughout the Kingdom. Accordingly, the index of population to the total number of operating branches was about 10.2 thousand citizens per branch at the end of 2007 banks.[6] On the other hand, the number of branches of the Jordanian

1 Bdour, J. I. Al-khoury, A. F. 2008, "Predicting Change in Bank Efficiency in Jordan: A Data Envelopment Analysis," *Journal of Accounting and Organizational Changes*, Emerald, Vol. 4, 162-181.
2 Assessment of Trade in Services of Jordan, Part II – Sector Assessments, UNCTAD, Ministry of Industry and Trade , 2005.
3 Jayawardhena C. and Foley, P. 2000, "Changes in the banking sector? The case of Internet banking in the UK," *Internet Research*, Emerald Vol.10.
4 Bdour, J. I. Al-khoury, A. F. 2008, "Predicting Change in Bank Efficiency in Jordan: A Data Envelopment Analysis," *Journal of Accounting and Organizational Changes*, Emerald, Vol. 4, 162-181.
5 Annual Report, Central Bank of Jordan, 2008.
6 Annual Report, Central Bank of Jordan, 2008.

banks operating abroad at the end of 2007 was 129 branches and 24 representative offices of which 57 branches and 12 representative offices were operating in Palestine.[7]

Jordan's favorable economic conditions in 2007 have had positive spillovers on a banking sector that continued to grow and post double-digit growth rates in practically all major aggregates. The licensed banks' balance sheet displayed a growth of JD 2,578.0 million, or 10.6 percent, at the end of 2007 compared to JD 3,151.1 million, or 14.9 percent, and JD 3,265.4 million, or 18.3 percent, in 2006 and 2005 (CBJ, 2008), respectively. On the asset side, domestic assets grew by JD 2,264.9 million, or 12.6 percent; accounting for 87.9 percent of the overall increase in total assets during 2007 compared to a growth amounting to JD 2,309.5 million, or 14.7 percent, in 2006[8].

On the liabilities side, the deposits of the private sector (resident) were up by JD 1,232.4 million, or 10.9 percent; accounting for 47.8 percent of the total increase in liabilities. The item of "foreign liabilities" increased by JD 577.3 million, or 13.7 percent; accounting for 22.4 percent of the overall increase in liabilities. Further, the items of "unclassified liabilities" and "capital, reserves and allowances" were up by JD 356.4 million, or 9.4 percent, and JD 339.7 million, or 10.7 percent, respectively.[9] The results indicate that Jordanian banks have expanded their operations in recent years.

A major and much stronger impetus for the expansion of banking sector activities was credit facilities. The latter have been on a steady and solid rise in recent years and are increasingly catering to the growing funding needs of economic agents at large and thereby enticing a much wider customer base for banks, ranging from individuals seeking personal loans to large corporations with substantial liquidity. The outstanding balance of credit facilities extended by licensed banks stood at JD 11.3 billion by the end of 2007; increasing by JD 1,533.7 million, or 15.7 percent, compared to an increase in the amount of JD 2,017.6 million, or 26.1 percent, during 2006. The increase in credit facilities was concentrated in the facilities extended to the general trade sector, which recorded an increase amounting to JD 518.1 million, or 33.8 percent of the total increase in the facilities, followed by the increase in credit facilities extended to the construction and industry sectors, which were up by JD 381.3 million and JD 255.0 million; accounting for 24.9 percent and 16.6 percent of the total increase in credit facilities, respectively.[10]

In parallel, banks' total equity continued to grow in 2007 to fund their increasing activity, though at a lower pace than last year. Total equity of banks in Jordan reached JD 3,523 million at year-end 2007, increasing by 10.7% from JD 3,183 million at year-end 2006. This rise could be attributed to increased non-distributed bank earnings but also to equity raised in anticipation of the new JD 100 million minimum capital requirements that should be gradually introduced by the sector regulator, i.e. the Central Bank of Jordan, by JD 20 million.[11]

According to a survey conducted for this study,[12] the number of foreign minority-ownership banks is nine, while the number of foreign majority-ownership banks is six.

7 Annual Report, Central Bank of Jordan, 2008.
[8] Annual Report, Central Bank of Jordan, 2008
[9] Annual Report, Central Bank of Jordan, 2008
[10] Bank Audi, *Jordan Economic Report, 2007*.
[11] Bank Audi, *Jordan Economic Report, 2007*
[12]25 November 2008

The banking sector employs 15853 people and the share of the banking labor force employed by the foreign banks equals 11%. The ratio of the number of employees to operating income equals 0.003% for nationally-owned banks, 0.002% for foreign-branches and 0.004% for foreign-owned subsidiaries. The non-performing loans, as a percentage of total bank assets, equal 1.72% for nationally-owned banks and 1.99% for foreign banks.

In Table 1 and 2, the basic characteristics are provided of the 6 largest banks in the market in terms of deposits and loans and return on equity. The numbers presented in these two tables confirm the concentrated situation in the Jordanian banking sector, where most of deposits and loans are concentrated in small number of banks.

Table 1: Characteristics of the 6 largest Banks in the Market for Deposits

Name of Bank	Year of Establishment	Domestically Owned Equity (%)	Foreign Equity (%)	Market Share in Total Deposits (JD Million)	Return over Equity (%)
Arab Bank	1930	41.4	58.6	25.15	13.5
The Housing Bank	1974	21.1	78.9	18.88	12.40
Jordan Kuwait Bank	1977	39.3	60.7	6.32	27.80
Jordan Ahli Bank	1956	68.7	31.3	5.33	5.29
Bank Of Jordan	1960	72.9	27.1	5.29	14.10
International* Islamic Arab Bank	1997	100	100	3.76	23.40

Source: *Banks Association of Jordan, Annual Report 2007*, and *Amman Stock Exchange Annual Report,* 2008.
* Completely owned by the Arab Bank

The Jordanian banking sector (JBS) is highly concentrated, as shown in Table 2 below, with only one large international bank, the Arab Bank, and a number of small national and foreign banks. The three bank concentration ratio for total assets, total deposits, and total equity in 2007 amounted to around 47.80%, 50.35%, and 47.86%, respectively; which rates are considered high relative to other countries. More importantly, in 2007, the total assets concentration ratio of the largest bank (the Arab Bank) relative to all other banks was 43.78% (author's own calculations).

Table 2: Characteristics of the 6 largest Banks in the Market for Loans

Name of bank	Year of establishment	Domestically owned equity (%)	Foreign Equity (%)	Market share in total Loans (JD Million)	Return over Equity (%)
Arab Bank	1930	41.4	58.6	18.83	13.5
The Housing Bank	1974	21.1	78.9	14.34	12.4
Jordan Kuwait Bank	1977	39.3	60.7	8.82	27.8
Bank of Jordan	1960	72.9	27.1	6.27	14.10
Jordan Islamic Bank	1978	24.4	75.6	6.24	18.48
Jordan Ahli Bank	1956	68.7	31.3	5.97	5.29

Source: *Banks Association of Jordan, Annual Report 2007*, and *Amman Stock Exchange Annual Report,* 2008.

Table 3 provides the concentration ratios of the banking sector in Jordan relative to a sample of developed and developing countries. The findings indicate that the structure of the banking sector in Jordon follows the protocol of Structural Conduct of Performance (SCP), whereby heavily capitalized banks, though few in number, enjoy the better share of banking activities and gain the largest portion of sector profits. Meanwhile, the majority of banks, which are small-to-medium capital banks, do not enjoy the benefits of the larger banks, regardless of their core operational capabilities.

Table 3: Concentration Ratios 3 and 1 (2007)

Concentration Ratio for the Three Largest Banks (%)				Concentration Ratio for the Largest Bank (%)		
	Total Assets (%)	**Total Deposits (%)**	**Total Equity (%)**	**Total Assets (%)**	**Total Deposits (%)**	**Total Equity (%)**
Jordan	**47.80**	**50.35**	**47.86%**	**24.32**	**25.15**	**16.94**
Saudi Arabia	47.76	47.35	49.64	19.95	19.49	19.11
Egypt	53.82	54.33	38.14	27.60	27.90	19.30
Lebanon	45.51	46.60	49.18	17.54	18.28	18.26
Tunisia	28.64	27.54	29.42	10.02	9.26	11.45
Turkey	21.30	24.49	27.39	7.37	8.18	9.69
Germany	22.27	22.44	17.47	9.60	9.93	7.23
US	10.52	11.70	10.88	3.67	4.00	3.78
Japan	25.81	25.25	24.65	9.78	9.25	9.69
UK	25.88	25.35	29.20	10.39	9.80	11.87

Source: Author's calculations based on the Bank Scope Database, 2007.

Note that based on the three largest banks concentration ratio in Table 3, the Jordanian banking sector is the highest among comparators in terms of assets and deposits concentration. It is second highest in terms of equity concentration. In terms of the Concentration Ratio for the largest bank, Jordan is second only to Egypt in the assets and deposits categories and is among the highest in the sample in the third category.

2.2 Driving forces affecting the sector

The banking sector is subject to a myriad of forces and can be categorized as political, economic, social and technological changes. In the wider business environment, they are likely to have the greatest impact on the sector. Such developments are, by definition, beyond the control of the businesses themselves. However, success or failure will depend on how well management is able to anticipate and react to these changes.[13]

> An IBM research survey has revealed that large size trends are to shape the industry in the future and the key strategic imperatives banks need to develop. They can diversify their products, enter new markets, and improve the efficiency of their operations. The combined implications of these trends will create an environment in which nothing less than concentration and excellence in day-to-day operations will be acceptable, and Jordanian banks will have to generate growth through continuous innovation of new products and services and to be aware of a risky environment or be left behind.

Developments in technology have dominated the revolution in the banking sector during the last decade. The world-wide expansion in technologies for connection has supported increased globalization of capital flows and financial organizations. Technology has also facilitated the proliferation of new products and services supporting new consumer demands. Competitive pressures will intensify as Jordanian banks seek ever greater productivity and efficiency improvements to sustain profitability. Additionally, these banks try to adopt new methods of operations, like e-banking, expand branching, and apply new techniques of risk management.

Over the next few years Jordanian banks will have to plan new strategies in order to survive stiffening competition as the banking sector is expected to be reshuffled. They have to improve the efficiency of their operations, expand their operations outside Jordan, and be ready to encounter new competitive forces, including the impact of the global credit crisis.

Today, mergers have reduced the number of banks and traditional values are no longer enough to acquire and retain customers. All Jordanian banks will have to further specialize and focus on their core strengths as studies suggest only those institutions capable of harnessing product service and process innovation to anticipate and meet customers' needs will become industry leaders.

Pronounced shifts in demographics, attitudes and behaviors, in addition to ubiquitous information, are giving customers the power to demand much greater responsiveness and transparency from their banks. Additionally, large players will generate higher aggregate profits by reaping the benefits of super scale, while niche players will aggressively pursue the most desirable customers by addressing their needs in distinct ways – those in the middle will get squeezed[14]. These trends will put pressure on Jordanian banks to increase their size bay merging with other banks in order to generate advantages from economies of scale.

[13] Chanaka, J. and Foley, P. 2000, "Changes in the Banking Sector? The Case of Internet Banking in the UK," *Internet Research*, Emerald Vol.10.
[14] Hedley, K., White, J., Petit dit de la Roche, C. and Banerjea, S., 2006, "Banking 2015: a Classic Strategy Battle of Scale vs. Focus", Strategy and Leadership, Emerald, Vol. 34, PP. 51-58.

The other three trends – changes in managing human capital, regulations and technologies – will strongly contribute to and reinforce the effects of intensifying competition. Therefore, Jordanian banks should upgrade the skills of their employees and adopt modern strategies to differentiate there products and to minimize their costs. Moreover, the central bank of Jordan should follow the international accounting standards, especially for those related to capital adequacy.

In recent years, Jordan has made solid progress in the monetary and financial sectors by implementing comprehensive economic adjustment and reform programs.[15] The reforms have resulted in a well-developed financial sector, and financial depth in Jordan, measured either by the comprehensive financial development index or as broad money to GDP, is close to the highest in the MENA region. Notwithstanding this relatively high level of development for the region, the need for further financial deepening is still felt throughout the economy.

3.0 General Business Environment

3.1 General Business Environment

As a small open economy with a strategic location in the Middle East, Jordan's economic growth depends on the ability of private sector firms to competitively access regional and international markets. This will require both a very attractive business environment to spur local and foreign investment, as well as building a strong competitiveness based on the excellence of the Jordanian labor force.

Jordan is vulnerable to external shocks, due both to the fragility of the regional political environment, and to the volatility of some key economic parameters. The economy is exposed to commodity price fluctuations, volatile tourism receipts, and dependence on energy imports. External financing has been heavily dependent on current transfers, including large workers' remittances from the Gulf countries, and official assistance, and most recently on private capital flows. At the same time, the country's external and domestic debt burden remains high, notwithstanding progress towards debt sustainability. Jordan is also significantly affected by regional economic and political developments, including the transition in Iraq which has re-emerged as an important trading partner, the developments in the Palestinian territories, and threat of terrorism in the Region.

Jordan also faces a number of domestic social challenges related to its demographics, persistently high unemployment, and the domestic repercussions of regional conflicts. Political stability, relatively good governance, and broad-based external support, which have allowed Jordan to withstand such volatile environment in the past, are expected to continue in the future.

Nevertheless, increasingly complex demands of medium-term adjustment, service delivery, investment promotion in productive economic activities and poverty alleviation will take place in a challenging environment. In transition to a more stable, growth

[15] Bdour, J. I. Al-khoury, A. F. 2008, "Predicting Change in Bank Efficiency in Jordan: A Data Envelopment Analysis," *Journal of Accounting and Organizational Changes*, Emerald, Vol. 4, 162-181.

stimulating macroeconomic stance, availability of adequate resources, including expected current and capital inflows, channeled increasingly from short term investment instruments and real estate into foreign exchange generating investments, particularly in manufacturing and services, are critical. In a downside scenario, however, macroeconomic instability resulting from inappropriate macro/fiscal policy mix that will promote increase in speculative short-term capital inflows and vicious circle of low growth or inadequate response to a shortfall in external inflows are possible, with repercussions on the economic and social gains of recent years[16]

Structural reforms of the last decade have liberalized the private investment regime, opened the trade regime, and established modern regulation and institutions for the private sector development and privatization. To complement these structural reforms, Jordan has entered into free trade agreements such as the EU-Jordan Association Agreement (EU-AA), joined the Greater Arab Free Trade Area (GAFTA), and signed the US FTA, giving Jordan free access to a market of almost one billion people. Despite the significant structural reforms and open access to markets, the job-creating private sector response has been weak. The indicators of Doing Business of the last two-three years show that Jordan, while performing slightly above regional averages, it is far from being top of the class in MENA, and compares less favorably with some of the most dynamic emerging economies in Asia and Latin America.

Progress requires three inter-linked actions: (i) a coherent overarching investment and trade policy with a correspondingly effective legal and institutional framework; (ii) an effective, unified institutional structure for private sector support in contrast to the plethora of agencies that now deal with the private sector; and (iii) reforms in some critical aspects of financial, capital and labor markets.

Jordan remained steady in most of its rankings, except for the Institutional Investor's Country Credit Rating. According to the World Economic Forum's Global Competitiveness Report for 2006-07, the three most problematic factors for doing business in Jordan are tax regulations, access to financing, and inefficient government bureaucracy. Despite improvements over the last two years, Jordan ranks in the bottom 5% of countries in minimum capital required to start a business, at 795.4% of income per capita (down from 1,011% in 2005). This minimum capital requirement is significantly higher than the average of the comparators in its income group -- 116.5% of income per capita.

3.2 Effect of business environment on the sector

Jordanian banks operate within solid financial fundamentals, however, their exposure to the struggling real estate and volatile local equity markets, the large concentration of banks relative to the small economy and tightening international credit conditions all affect the ability of the sector to expand.

Nondas Nicolaides, a Moody's Senior Vice President, explains: 'Jordan is a small and concentrated economy that, however, demonstrates resilience and offers limited but improving opportunities for the banking sector. The system is dominated by the country's

[16] World Bank , *Country Assessment Strategy*, 2006

largest bank, Arab Bank, which accounts for more than half of total banking assets, while there are also a relatively large number of small banks.'[17]

On the whole, banks have modest risk profiles as they tend to offer relatively simple or basic classical banking products. However, Moody's cautions that they are susceptible to high levels of systemic risk stemming from exposure to the Palestinian territories and spill-over effects from political turbulence in neighbouring countries.

The country's banks benefit from low operational costs due to their small scale of operations, but many experts expect efficiency levels to weaken as banks report lower profitability in the challenging economic environment. Meanwhile, capitalization levels are healthy, providing a comfortable cushion for growth and for the absorption of possible loan losses. Nevertheless, Moody's expects Jordanian banks to be adversely affected by reduced earnings capacity and higher credit costs.

4.0 Legislative and Regulatory Environment

The Jordanian banking sector is regulated by the Central Bank of Jordan (CBJ), which was established in 1964. Currently, the number of professional regulatory and supervisory staff working at CBJ is eighty. Although the government is main source of financing for the CBJ, the CBJ operates independent of regulatory oversight.

In recent years, the Jordanian commercial banking industry has undergone numerous changes in laws and regulations for the purpose of bringing the banking sector operations in line with international standards. After 1993, the Central Bank of Jordan largely de-regulated interest rates and the allocation of credit, liberalized entry into the sector, and introduced modern prudential regulation and supervision.[18]

The CBJ exercises strict controls to ensure that Jordanian banking sector regulations are broadly consistent with international norms. These regulations include bank payments, foreign currency positions, government securities transactions commercial paper, large and internal loans, capital adequacy, risk-based provisioning, internal controls, liquidity management, payments issued by debit/credit cards, and deposit insurance. Within this regulatory environment, there are no controls on deposit or lending rates.

Any new entrant (domestic and foreign) banks must fulfill a number of conditions: registration as a public shareholding companies, payment of license fee, presentation of detailed business plan, minimum capital of 40JD Million for domestic banks and 20JD million for branches of foreign banks, compatible home country regulation, in addition to other conditions (see articles 6-20 of Jordanian Banking Law, 2000). Once licenses have been allocated, there are restrictions on banks ability to sell or dispose of these licenses.

[17] *https://www.entrepreneur.com/tradejournals/article/190818371.html*
[18] Bdour, J., Al-khoury, I.. 2008, "Predicting Change in Bank Efficiency in Jordan: a Data Envelopment Analysis," *Journal of Accounting and Organizational Change*, Emerald, Vol. 4, 162-181.

Foreign banks are subject to additional licensing requirements. For example, the bank must be licensed to accept deposits in its home country, enjoy good reputation and strong financial position, and have the approval of the competent authority in the country of its head office to operate in the kingdom.

A number of banking classification institutions (such as Fitch, a banking risk classification institute) view the CBJ as a relatively active and competent regulator. Furthermore, banking supervision has been strengthened in recent years, and has shifted to a risk-based rather than rule-based approach. Prudential regulations are in place to limit banks' exposure to certain sectors such as construction, the CBJ has strict loan classification and provisioning guidelines, and prudential regulations place relatively conservative limits on banks' liquidity ratios. Accounting standards have been brought into line with international best practice, and the Basel II framework was introduced in January 2008. The quality of disclosure is high by regional standards.

Key aspects of regulations include minimum capital adequacy of 12 percent, which is higher than the 8 percent, but consistent with BIS guidelines to factor in higher levels of market risk in places. Loan classification requirements are set at 90 days, which refers to the number of days after which unpaid loan has to be classified as a non-performing loan.

According to regulation No. (37/2007) dated 11/11/2007, all banks should achieve 100 per cent liquidity ratio, which refers to the percentage of assets to be held against deposits for liquidity purpose. Additionally, the regulations limit exposure to single borrowers. Thus, Jordanian banks should consider improving their liquidity positions and the level of diversification of their credit operations.

All banks are required to join the deposit insurance scheme and publish their financial statements annually and semiannually. It's worth noting that the CBJ, Jordan's lender of last resort facility, is available for nationally owned banks and foreign owned branches and subsidiaries to buttress their positions. Therefore, the banks are subject to annual on-site inspections and frequent off-site inspections. The CBJ requires banks to disclose critical information related to performance, changes in ownership, and risk. Additionally, all foreign banks supervisory systems are subject to these controls, and service providers are consulted in advance of regulatory decisions. The laws and regulatory decisions are made public through the CBJ website, Official Gazette and the media.[19]

The structure of domestic supply of the banking sector is open for competition from private sector firms, although banking services are restricted to licensed banks. Non-banking financial services are open to service providers of foreign origin. Supply of all money market services is regulated by the Central Bank of Jordan’s regulations, which is, as in the rest of the world, the ultimate authority on money supply in Jordan and the Jordanian Dinar’s maintenance of convertibility and exchange rate inside and outside the country.

The recent turmoil in the international banking industry following the deterioration of mortgage-backed securities, which culminated in the present Global Credit Crisis and the consequent melt down in financial systems across the developed economies, has

[19] See: www.cbj.gov.jo

intensified the centuries-old debate on whether banks are properly governed and regulated.

Note that when bank managers are subject to sound regulations and proper governance mechanisms, the likelihood that banks will efficiently mobilize and allocate savings is enhanced, and sound governance of the firms they fund is encouraged. Appropriate regulations and governance systems can reduce bankruptcies, lower the cost of capital to firms, and accelerate economic growth.[20]

On the other hand, the changes in regulatory frameworks, advances in technology and market enlargements impose increasing pressures and, therefore, aggravate concerns for competition and efficiency within a deregulated industry. The deregulation and liberalization of financial market has transformed the banking systems in many countries. The global reforms will most likely to have a profound effect on the development of the banking sector in Jordan and its overall macroeconomic performance.

5.0 GATS / Restrictiveness Measures

GATS requires the removal of capital account restrictions in order to facilitate cross border supplies and consumption abroad.[21] Thus, in principle, by facilitating the international flow of capital, GATS ensures that investment flows internationally to those enterprises where it will be most productive in terms of risk and returns in the new world trading regime. In theory, freer capital flows are an opportunity for producers to attract the new investment necessary for development, and an opportunity for domestic savers to invest in projects anywhere in the world**.**

GATS defines trade in banking services by way of four service supply modes.[22]

Mode 1 (cross-border supply), allows for provision and transfer of financial information, financial data processing etc., as well as advisory, intermediation and other auxiliary financial services.
Mode 2 (consumption abroad) indicates that the consumer travels into the country in which the services are delivered by the foreign services supplier for all banking and other financial services.

Mode 3 (commercial presence) provides that the country shall allow financial service providers of another member to establish commercial presence and to expand within the host territory. Established commercial presence of another member shall be allowed to provide new financial services, as well as transfer and processing of financial information and transfer (importation) of equipment necessary for business operations of a financial services supplier.

Mode 4 (presence of natural persons) provides that temporary entry shall be allowed for necessary personnel. For these four modes of supply related to the banking sector,

[20] Thorsten, B., Laeven, L., Levine, R., and Pennacchi, G., 2008, Banking and Bank Regulation: Challenges for the future, *Journal of Financial Intermediation*, Science direct, Vol. 17, 509-510.
[21] Srinivasan, 1999, Developing countries in the world trading system, *World Economy*, Vol. 22, 1047-1065.
[22] Backović, M. and Prica, L., 2007, Financial Services Libralisation in South and East Europe,Conference Proceedings: 2007 International Conference Enterprise Transition, Croatia.

Table 4 summarizes Jordan's specific commitments that must afford market access and national treatment to foreign services suppliers, except as indicated in its GATS schedule.

Table 4: Summary of Jordan's specific commitments in Banking Services

Sectors or subsectors	**Modes of supply**			
	(1) Cross -border supply	**(2) Consumption abroad**	**(1) Commercial presence**	**(1) Presence of national treatment**
	Market access/ National treatment			
Deposit taking	NL/OP	NL/NL	NL/NL	Uex/ Uex sp
Guarantees and commitments	NL/OP	NL/NL	NL/NL	Uex/ Uex sp
Money brokering	NL/OP	NL/NL	NL/NL	Uex/ Uex sp
Lending of all types	NL/OP	NL/NL	OP/NL	Uex/ Uex sp
Financial leasing	NL/OP	NL/NL	OP/NL	Uex/ Uex sp
All payments and money transmission services	NL/OP	NL/NL	OP/NL	Uex/ Uex sp
Trading of securities/financial instruments	OP/NL	OP/NL	OP/NL	Uex/ Uex
Underwriting of securities	U/ U	pU / pU	OP/NL	Uex/ Uex
Asset management	U/ U	pU / pU	OP/NL	Uex/ Uex
Settlement and clearing services	Utf/ Utf	NL/NL	OP/OP	Uex/ Uex
Advisory and other auxiliary financial services	NL/NL	NL/NL	OP/NL	Uex/ Uex
Provision and transfer of financial information	NL/NL	NL/NL	NL/NL	Uex/ Uex

Source: WTO, World Trade Review, 2008, WT/TPR/S/206, P118.

Notes:

NL No limitations, i.e. Jordan agreed to place no constraints on the services in question.
U Unbound, i.e Jordan made no commitments with respect to the service in question.
Uex Unbound, except as provided by Jordan's horizontal commitments.
Uex sp Unbound, except as provided by Jordan's horizontal commitments and special provisions apply.
pU Partially unbound (certain financial services).
Utf Unbound due to lack of technical feasibility.
OP Other provisions apply.

The following details the determinations in Table 4:

- Mode1: Jordan has fairly liberal regimes regarding cross-border supply (Mode1) with no limitations on market access or national treatment for deposit taking, guarantees and commitments, money broking, lending for all types, financial leasing, advisory and other auxiliary financial services, provision and transfer of financial information and all payments and money transmission services. The only limitation is related to real property which may not be mortgaged to banks outside Jordan. Moreover, there are no limitations for trading of securities/financial services, except derivatives products, which is unbound. The other unbound financial services are underwriting of securities, asset management and settlement and clearing services due to technical limitations.

- Mode 2: For consumption abroad (Mode 2) the financial services that are classified without limitations under mode 1 are also classified to be without limitations under Mode 2, but without any exception. Moreover, there are no limitations for trading of securities/financial services, except derivatives products, which is unbound. However, the other financial services (underwriting of securities, asset management and settlement and clearing services) become unbounded, except for issuance and public offer of securities outside Jordan by foreign service providers abroad, and for management by service suppliers outside Jordan of assets which are not traded in the Amman Stock Exchange or in Jordan.

- Mode 3: Jordan's GATS schedule of commitments includes commitments on most financial services sub-sectors in all GATS 'modes of supply'. The 'commercial presence' mode of supply (mode 3) has the most significant commercial application for banking services because national regulators can most effectively oversee banks established on their territory. Jordan's GATS schedule defines the scope of banking services subject to WTO discipline, and describes permissible limitations or conditions on foreign investment, the forms of establishment permitted for foreign financial institutions, and limitations that Jordan may apply to restrict market access by foreign financial institutions. Foreign banks in Jordan, act as licensed Jordanian banks or Jordanian branches of foreign banks, but they are practically foreign banks operating in Jordan. These banks are allowed to open subsidiaries, branches and representative office. There are no restrictions on, accepting deposits, guarantees and commitments, the number of foreign banks branches and ATMs to be opened by the foreign bank.

According to securities services, all banks and financial services companies have the permission to trade, for their own account or for the accounts of customers, the following: Money market instruments, derivative instruments, exchange rate and interest rate instruments, transferable securities, and other negotiable instruments and financial assets. In this area, Jordan has limitations on market access (mode 3).

The most usual limitation is "legal form of entry" which means that Jordan requires a certain type of domestic legal incorporation (e.g., banks and financial services) in order to achieve domestic market access. This finding is directly comparable with that reported recently for a number of countries in south east Europe (e.g., Slovenia and Hungaria). [23]

All banks operating in Jordan are allowed to participate in the issue of all kinds of securities, and asset management. However, some limitations exist on market access. For settlement and clearing services for financial assets, the most common limitation is the access regards these assets. This access is restricted to the Depository Center at the Amman Bourse and the Central Bank of Jordan for other financial instruments. Also, banks can provide advisory and other auxiliary financial services. The most usual limitation is "legal form of entry" which means that Jordan requires a certain type of

[23]Backović, M. and Prica, L., 2007, Financial Services Liberalization in South and East Europe, Conference Proceedings: 2007 International Conference Enterprise Transition, Croatia.

domestic legal incorporation. Finally, lending, financial leasing provisions and transfer of financial information can be provided without restrictions.

Foreign competitors enjoy an open market, and according to financial services intermediaries, the market is more open to foreign competitors than what the official commitments exhibit (as restrictions) in the Jordanian services schedules. In this sector, competition is a prominent feature of trade-in-service in banking and financial services. Issues related to market access and services trading are not a problem for the providers in this sector, but for the other Jordanian services exporters that rely on these services to engage in more export transaction, there are problems in the supply / offer of credit, financing, funding, lending, and facilities.

Mode 4: Under Mode 4, the limitations on market access and national treatment for all banking financial services, are unbounded, except as provided by Jordan's horizontal commitments and special provision which indicate that branches of foreign banks in Jordan are required to have a resident regional manager (See Table 4).

6.0 Benchmarking

Table 5 present the benchmarking of Jordanian banking sector based on the Capital Adequacy, Assets Quality, Management Quality, Earnings Quality, and Liquidity (CAMEL) system, which reflects capital adequacy, assets quality, bank management quality, earnings quality and liquidity.

Table 5: CAMEL Factors for Banking Sectors in the Region in 2007

Country	Capital Adequacy	Assets Quality	Management Quality	Earnings Quality	Liquidity
Jordan	15.06	1.35	43.41	1.60	4.60
Lebanon	8.50	1.30	55.49	0.91	64.36
Saudi Arabia	15.77	0.52	31.89	1.63	7.80
Bahrain	15.76	0.74	58.00	1.85	14.43
UAE	9.55	0.74	34.00	1.92	7.29
Egypt	5.38	1.43	56.38	0.91	18.52

All numbers presented in the table are in percentages.
Source: Bank Scope DataBase, UK.

Jordanian banks have adequate capital adequacy and improving financial profiles. Jordanian banks, already benefiting from high capitalization levels by international standards, have adopted the Basle II requirements as of early 2008. Preparations in 2007 for this included the bolstering of risk management systems and practices, ameliorated disclosure and transparency in terms of financial reporting, the introduction or upgrading of compliance units in several banks and of a new code of corporate governance late in 2007 by the regulator, in addition to the creation of an Anti-Money Laundering Unit at the Central Bank. At the end of 2007, the percentage of total equity to total assets reached around 15%, which is much higher even than some other mature banking systems in the region.

Additionally, asset quality indicators, with the ratio of the system's total problem loans (TPLs) to total Assets reaching 1.32% in 2007. Even the value of this ratio seems acceptable by the mangers of the Jordanian banking sector, it has low ranking among the ratios achieved by the banking sectors in the region.

According to management quality, which is measured by cost to income ratio, equals around 43%. Based on this result, Jordanian banks are located in the middle position among the banking sectors in the region. This should motivate the Jordanian banking managers to improve the level of operating efficiency at their banks.

The earnings quality, which we measure by the return on assets (ROA), equals 1.60. This means that ROA for the Jordanian banking sector is better than ROA for banking sectors in Lebanon and Egypt and worse than the banking sector in the Gulf area (particulalry, the United Arab Emirates, Bahrain, and Saudi Arabia).

The liquidity ratio, which is measured by liquid assets to total deposits and borrowing, is the lowest among the banking sector in the region. Therefore, the Jordanian banks should improve the level of liquidity.

Based on these results, it can be argued that, while the Jordanian banking system capital is sound compared to other banking sectors in the region; it has to improve its asset quality, operating efficiency, profitability and liquidity.

7.0 SWOT

The following table below provides the SWOT Analysis for the Jordanian banking sector.

Table 6: SWOT Analysis

Strengths	**Weaknesses**
• Offering a wide range of banking and financial products and financial services to corporate and retail customers through a variety of delivery channels. • Focusing on customization of products that are designed to meet the specific needs of customers. • All Jordanian banks have complied with international capital adequacy requirements and prudential norms. • Wide distribution of banks' branches and accessibility of the banking facilities on the local level. • Better than acceptable percentage of non-performing loans. • Diversified ownership, where different investors from the region participate in banks capital. • Acceptable efforts to cope with GATS requirements. • Modern regulation and institutions for the private sector development and privatization	• Most of banks lack strong and direct regional presence. • Insufficient hedging tools applied. The banks resort to diversification among sectors by giving weights to these sectors when granting facilities as a measure of hedging but disregarding country risk, which accordingly would affect the value of all of their portfolios. • A large number of local banks in small economy. The market remains over-banked, with 23 full commercial banks serving a population of 5.9 million. • The banking sector remains dominated by the Arab Bank, which, together with the Housing Bank for Trade and Finance, account for over 35% of total system assets. Therefore, the Jordanian banking sector can be considered as a highly concentrated market. • Most banks are below international standards of operating efficiency.
Opportunities	**Threats**
• Mergers with or acquisition of other banks. (By local or foreign banks, complete the thought please) • An opportunity for more expansion of the banks' retail services, this segment still has room for growth. Historically, Jordanian banks concentrated on wholesale operations because they think that this type of business is more profitable comparing with retail operations. • Efficient employees and good working conditions enables these banks to reduce the operating cost of the functions and increase return on investments. • Expand banks' operations to cover countries in the region. • Mastering new strategies and techniques in risk management and competition. • Discovering the advantages of economies of scale and scope in addition to management efficiency.	• Increasing volatility in local and regional markets. • Net Interest Margin (NIM, differential between interest on time-deposits and loans) pressure is likely to continue from intensifying foreign competition. • Most Jordanian banks--with the notable exception of Arab Bank--are focused on the local market, which means that they should expand their operations outside Jordan. • Fluctuations in economic variables including decreased purchasing power and higher inflation rates. This could have two negative effects in terms of increased costs and higher possibility of payment default. • The Central Bank of Jordan (CBJ) has encouraged consolidation in the system, although so far there have been few signs that banks are keen to consolidate, partly reflecting a culture of family ownership in Jordan. • Applying new methods of information technology and upgrading the skills of staff and management.

8.0 Opportunity Scan

To support Jordanian enterprises to expand abroad, Jordanian banks should develop an appetite for international business and should make room for their own expansion overseas. While some Jordanian banks have grown externally by simply increasing the number of their branches in the region, the time may soon come for Jordanian banks to consider merger and acquisition options to improve their market presence abroad. Breaking new ground in a foreign market can be very slow and expensive for foreign banks in Jordan and also for Jordanian banks in foreign countries; therefore some foreign banks entering Jordan would have to cooperate with local banks to foreign partners' help.

With 25 sector banks, a consolidation exercise in the Jordanian banking industry cannot be kept in cold storage. Due to diversified operations and varying credit profiles of banks, merger and consolidation would serve as a risk mitigation or risk sharing mechanism, besides increasing the potential for growth. Owing to greater scale and size, consolidation can help save intermediation cost and improve efficiency. Experts in the Jordanian banking industry have long been contemplating on the consolidation leading to 6-7 major players in the market. What Jordan needs is a roadmap for managed consolidation. Banks need to find ways for voluntary mergers so that the shareholder value is maximized for both the entities. Government is also planning to kick-off consolidation in the sector by lining up a series of merger and acquisition proposals for the sector banks.

There are two main reasons for the banks not to merge, which should be addressed by the banking regulatory authorities:

1. Purveyance of ownership of banks by families that have a wide investment portfolio and thus benefit from banks in financing own expansion in other sectors.
2. The non-implementation of the Credit Law of 2002 as the Central Bank has not allowed the creation of credit bureau(s) in Jordan as of yet. Each bank maintains its own banking credit history of its customers, which it does not share in a national database or with other banks. The impact is that customers who wish to switch banks may suffer the loss of their banking credit history. Hence a case of "adverse selection" emerges: the customer, albeit dissatisfied with the bank, remains with the bank in order not to lose such a long established history—the other bank does not know the client. Furthermore, a "moral hazard" results from lack of efficiency being not an incentive to merge; thus, banks have no internalized incentives to merge with other banks.

Jordanian banking market (both by domestic and foreign banks) needs further internationalization, leading to better identification of both foreign investment opportunities and improved portfolio allocation. The likely effects are that the absolute level of savings and deposit rates will rise, but the effects on borrowing interest rates and investment is ambiguous. It may be the case that domestic investment may fall and foreign investment may rise but this will be determined by the market and represent the correct balance between domestic and foreign investment in accordance with the optimal diversification and growth strategy of Jordan. Furthermore, improvements in the regulatory regimes, and competitively driven improved financial procedures is likely to promote a greater willingness to invest in the Jordanian economy and through improved confidence reduce contagion effects from any likely domestic financial crisis. [24]

9.0 Constraints to Development

9.1 Constraints and related policy factors

By increasing market access, or even by simply creating the possibility of access to foreign banks, there is likely to be an increase in the competitiveness of the domestic market. Furthermore, foreign banks will now have to receive equal treatment. Therefore, domestic banks will be further exposed to competitive pressures and the need to improve efficiencies.

"The financial liberalisation under the GATS is likely to address moral hazard, adverse selection and reduce the scope for corruption problems. This will occur both through the marriage of superior international expertise in project monitoring and assessment and local knowledge and through increased competition, reducing the scope for malpractice on the part of previously favored domestic financial institutions. In part these benefits rely on the wider aspiration of the GATS that signatories will take steps to ensure that the regulatory and supervisory regimes conform to international best practice, concomitant liberalisation in the provision of business services, as well as proper application of equal treatment provisions." [25]

Under the GATS agreement, the competitive environment in the banking sector is likely to result in individual players working out differentiated strategies based on their strengths and market niches. For example, some players might emerge as specialists in mortgage products, credit cards etc. whereas some could choose to concentrate on particular business areas, while outsourcing all other functions. Some other banks may take advantage of deregulation and re-regulation to provide specially tailored services beyond traditional bank offerings to satisfy the needs of customers they understand better than a more generalist competitor.[26]

Within the region, Jordan has a high potential to become a major growth market for traditional banking, investment banking and securities growth given its rapidly growing economy and banking industry. This clearly indicates a one-sided flow, which needs to be changed for the Jordanian banking sector to have visibility in the global market; in other words, inward and outward flows of banking services have to be addressed. However, as banks compete for globalization, it might become difficult to propagate social sector and government policy signals through them.

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[24] "Assessment of Trade in Services of Jordan, Part II – Sector Assessments," UNCTAD, Ministry of Industry and Trade, 2005.
[25] Murinde, V., and Cillian, R., 2003, "The Implications of WTO and GATS for the Banking Sector in Africa," *World Economy*, 26, 181-207.
[26] Murinde, V., and Cillian, R., 2003, "The Implications of WTO and GATS for the Banking Sector in Africa," *World Economy*, 26, 181-207.
[26]Peng, Y., 2006, The Challenges of WTO Entry to China's Banking Industry, Working paper, Judge Business School, University of Cambridge.

Business is becoming both faster paced and more analytical. IT has been a powerful instrument for developing competitive advantage and expanding market share. It is the easiest, most cost-effective and rapid way to become a global operator. In order to maintain their competitive advantage, large global banking players make huge investment in IT to create and deliver new products, improve services, and reduce costs.

Through ATM, bank cards, internet, satellite and so on, foreign giants not only have changed the operation methods and environment of banks, but also re-engineered and restructured the business flows and management streams. One of the important consequences of rapid IT development is the financial innovations and easier deliverance of products and services.

Foreign banks, from the 1980s, have created a wide range of new products, including financial futures, options, swaps, bill facilities, e-business, all kinds of derivates and securitized financial assets. There will no longer be clear dividing lines between raising money for corporations through commercial paper or through share issues, through long-term or through short-term instruments, depending on regulation and requirement. Instead, debt will become interchangeable, an endless stream flowing one currency to another and from one type of paper to another without difficulty.[27] One result of lagging behind in innovation capability is that, Jordanian banks are gradually marginalized in the global value chain. That is: they have to cling to their traditional banking products, especially lending business, which bring most of their profits; whereas, high-growth products and other traditionally lucrative products such as syndicate loans, asset management, Internet-banking will be lost to their foreign competitors.

The most direct result of the above changes is increasing competition and narrowing of spreads and its impact on the profitability of banks. The challenge for Jordanian banks is how to manage with thinning margins while at the same time working to improve productivity. This is particularly important because with dilution in banks' equity, analysts and shareholders now closely track their performance. Thus, with falling spreads, rising provision for non-performing assets and falling interest rates, greater attention will need to be paid to reducing transaction costs. This will require tremendous efforts in the area of technology and for banks to build capabilities to handle much bigger volumes.

The GATS environment brings in its wake risks along with profitable opportunities, and technology plays a crucial role in managing these risks. In addition, to being exposed to credit risk, market risk and operational risk, the business of Jordanian banks would be susceptible to country risk, which will be heightened as controls on the movement of capital are eased. In this context, Jordanian banks are upgrading their credit assessment and risk management skills and retraining staff, developing a cadre of specialists and introducing technology driven management information systems.

The changes in the banking and financial sector require upgrading of the employees skills in this sector. To meet increased competition and manage risks, the demand for specialized banking functions, using IT as a competitive tool is set to go up. Special skills in retail banking, treasury, risk management, foreign exchange, development banking, etc., will need to be carefully nurtured and built. Thus, the twin pillars of the Jordanian banking sector i.e. human resources and IT will have to be strengthened.

In today's competitive environment, Jordanian banks will have to strive to attract and retain customers by introducing innovative products, enhancing the quality of customer service and marketing a variety of products through diverse channels targeted at specific customer groups. Besides using their strengths and strategic initiatives for creating shareholder value, Jordanian banks have to continue in improving their efforts towards the application of corporate governance. Following financial liberalization, as the ownership of banks gets broad based, the importance of institutional and individual shareholders will increase.

Introducing internationally recognized best practices and observing universally accepted standards and codes is necessary for strengthening the domestic financial architecture. This includes best practices in the area of corporate governance along with full transparency in disclosures. In today's globalised world, focusing on the observance of standards will help smooth integration with world financial markets.

For banking supervision, Jordan needs to adopt more advanced early warning systems, improved reports from the banks, and address additional training needs for supervisory staff in new risks that are likely to emerge as the system becomes more competitive and complex. However, for now, the central bank of Jordan has made substantial progress since 1990s, and it is viewed as adequate relative to the risks being assumed by the banks at the moment. However, as noted, these are expected to become more challenging in the coming years, and Jordanian bank systems and staff will need to adapt. [28]

9.2 Specific recommendations for remedial action

- The bankers must recognize that innovation or evolution of financial services is crucial to retaining customers. Therefore, they should create new services and products beyond the classical services (e.g., expanding electronic services, reaching new regions outside Jordan, and improve the investment in off-balance sheet activities).)

- Even though the regulations of the CBJ are consistent, to a large extent, with the international standards, it needs to train its supervisory staff on the new dimensions in regulation especially those related to financial crisis, advanced risk management techniques, mergers and acquisitions, and competition.

- To support Jordanian enterprises that wish to expand abroad, Jordanian banks should develop an appetite for international business and should make room for their own expansion overseas. They can start looking for joint venture projects or full-subsidiaries outside Jordan.

- The CBJ should organize the banking sector within a more competitive environment than a concentrated one. As mentioned before, the banking sector in Jordan is

[28] Assessment of Trade in Services of Jordan, Part II – Sector Assessments, UNCTAD, Ministry of Industry and Trade , 2005.

highly concentrated. Therefore, CBJ can encourage banks in terms of mergers and acquisitions in order to improve the financial strength and the competition level in the sector.

- A number of Jordanian banks have an opportunity to enter the Islamic Banking that's been growing rapidly through the past few years. They can analyze and evaluate the new Islamic financial products. There is a good opportunity for Jordanian banks to coordinate with other foreign banks that are interested in these products. Recently many foreign banks start thinking about these Islamic products because they expect to generate attractive return with reasonable level of risk.

- Develop new strategies to deal with increasing volatility in local and regional markets. This can be achieved by concentrating on product and location diversification.

Annex 1: CPC Code

Banking and other Financial Services (excluding insurance): CPCprov code 81

Sub-Sector Items	Corresponding CPCprov number and description
a. Acceptance of deposits and other repayable funds from the public	**81115 - Wholesale deposit services**: Services consisting in large-scale deposit-taking, particularly from other financial institutions. **81116 - Other bank deposit services**: Bank deposit services for persons, companies, etc. **81117 - Non-central bank currency issue services**: Services consisting in issuing currency other than by the central bank **81119 - Other deposit services**: Non-bank deposit services for persons, companies, etc.
b. Lending of all types, incl., inter alia, consumer credit, mortgage credit, factoring and financing of commercial transaction	**8113 - Other credit granting services** This Class is divided into the following Subclasses: • 81131 - Mortgage loan services • 81132 - Personal installment loan services • 81133 - Credit card services • 81139 - Other credit services
c. Financial leasing	**81120 - Financial leasing services** Leasing services where the term approximately covers the expected life of the asset and the lessee acquires substantially all the benefits of its use and takes all the risks associated with its ownership. Exclusion: Operational leasing services are classified in division 83, according to the goods leased

d. All payment and money transmission services	**81339 - Other services auxiliary to financial intermediation n.e.c.** Other services auxiliary to financial intermediation, not elsewhere classified, e.g. services related to the implementation of monetary policy.
e. Guarantees and commitments	**81199 - Intermediation services n.e.c.** Services of financial holding companies and own-account dealing services by securities dealers.
f.. Trading for own account or for account of customers, whether on an exchange, in an over-the-countermarket or otherwise, the following:	
1) money market instruments (cheques, bills, certificate of deposits, etc.)	**1) 81339 - Other services auxiliary to financial intermediation n.e.c.**
2) foreign exchange	**2)81333 - Foreign exchange services** Foreign currency exchange services provided by bureaux de change, etc.
3) derivative products incl., but not limited to, futures and options	**3) 81339 - Other services auxiliary to financial intermediation n.e.c.**
4) exchange rate and interest rate instruments, including products such as swaps, forward rate agreements, etc	**4) 81339 - Other services auxiliary to financial intermediation n.e.c.**
5) transferable securities	**5) 81321 - Securities broking services** Services of intermediaries between two or more parties engaged in buying and selling securities
6) other negotiable instruments and financial assets, incl. bullion	**6) 81339 - Other services auxiliary to financial intermediation n.e.c.**
g. Participation in issues of all kinds of securities, incl. under-writing and placement as agent (whether publicly or privately) and	**8132 - Services related to securities markets** This Class is divided into the following

provision of service related to such issues	Subclasses: • 81321 - Securities broking services • 81322 - Securities issue and registration services • 81323 - Portfolio management services • 81329 - Other services related to securities markets
h. Money broking	**81339 - Other services auxiliary to financial intermediation n.e.c.**
i. Asset management, such as cash or portfolio management, all forms of collective investment management, pension fund management, custodial depository and trust services	**81339 - Other services auxiliary to financial intermediation n.e.c.** **8119 - Other financial intermediation services other than insurance and pension fund services** This Class is divided into the following Subclasses: • 81191 - Closed end investment trust services • 81192 - Property unit trust services • 81193 - Open-ended investment and other unit trust services • 81199 - Intermediation services n.e.c. **81323 - Portfolio management services** Portfolio management services on behalf of clients including decisions about the content of the portfolios.
j. Settlement and clearing services for financial assets, incl. securities, derivative products, and other negotiable instruments	**81339 - Other services auxiliary to financial intermediation n.e.c.** **81319 - Other financial market administration services** Administrative services to security or commodity holders, brokers or dealers, e.g. security custody services, financial reporting services, and other market administration

	services, not elsewhere classified.
k. Advisory and other auxiliary financial services on all the activities listed in Article 1B of MTN.TNC/W/50, incl. credit reference and analysis, investment and portfolio research and advice, advice on acquisitions and on corporate restructuring and strategy	**8131 - Services related to the administration of financial markets** This Class is divided into the following Subclasses: • 81311 - Financial market operational services • 81312 - Financial market regulatory services • 81319 - Other financial market administration services Operation and supervision of financial markets (security exchanges, stock exchanges, commodity exchanges, etc.) other than by public authorities. **8133 - Other services auxiliary to financial intermediation** This Class is divided into the following Subclasses: • 81331 - Loan broking services • 81332 - Financial consultancy services • 81333 - Foreign exchange services • 81334 - Coin and currency packing services • 81339 - Other services auxiliary to finan
l. Provision and transfer of financial information, and financial data processing and related software by providers of other financial services	**8131 - Services related to the administration of financial markets**

Annex 2: Questionnaire

Financial Services: Banking

<u>Note:</u> Unless specified, please give information for the latest year available and indicate which year. If insufficient space is provided, please attach additional information on separate sheets. Please report all monetary values in their reported currencies.

<u>I. Policy Section</u>

A. Market Access

Macroeconomic policies

1. Are there restrictions on capital flows?		
Capital inflows Short term ☐ No ☐ Yes	Capital outflows Short term ☐ No ☐ Yes	If yes, what type of restrictions? Is the authority allowed to impose temporary restrictions?
Long term ☐ No ☐ Yes	Long term ☐ No ☐ Yes	

Commercial presence

2. Are there policy restrictions on new entry of banks?			
Entry by any bank	If yes, total number of banks allowed	Entry by foreign banks	If yes, total number of foreign banks allowed
☐ No ☐ Yes		☐ No ☐ Yes	
3. If entry is restricted, what are the reasons provided by the government? ☐ To give state-owned or national banks time to prepare for competition ☐ To increase government revenue from privatization or license fees ☐ Exclusive rights to allow the provision of universal service ☐ To reduce potential systemic risk believed to arise from over-banking ☐ Inadequate regulatory and supervisory capacity			

☐ No perceived economic need for new banks

☐ Other: ____

4. Which of the following legal forms of establishment are allowed for foreign banks?

☐ Subsidiaries ☐ Branches ☐ Representative Office ☐ All

5. Are there restrictions on the number of foreign bank branches? ☐ No ☐ Yes

If yes, what is the maximum number of foreign bank branches permitted? _____

6. Are there restrictions on the number of foreign bank ATMs? ☐ No ☐ Yes

If yes, what is the maximum number of foreign bank ATMs permitted? _____

7. Are foreign banks allowed to raise capital domestically? ☐ No ☐ Yes

8. Which of the following services are commercial banks permitted to provide domestically?

	Domestic banks	Foreign banks
Real estate lending	☐ No ☐ Yes	☐ No ☐ Yes
Insurance services	☐ No ☐ Yes	☐ No ☐ Yes
Securities services	☐ No ☐ Yes	☐ No ☐ Yes
Foreign currency lending	☐ No ☐ Yes	☐ No ☐ Yes
Foreign exchange services	☐ No ☐ Yes	☐ No ☐ Yes
Credit card services	☐ No ☐ Yes	☐ No ☐ Yes
Leasing services	☐ No ☐ Yes	☐ No ☐ Yes
Other (specify)_________	☐ No ☐ Yes	☐ No ☐ Yes

Cross-border banking trade

9. Are the following allowed to borrow cross-border from foreign banks? Domestic banks ☐ No ☐ Yes Domestic corporations ☐ No ☐ Yes Domestic households ☐ No ☐ Yes If applicable, please specify borrowing limits: _____________
10. Are banks subject to any qualifications in order to be able to access foreign capital? ☐ No ☐ Yes If yes, please specify_________________
11. Are the following allowed to make cross-border deposits with foreign banks? Domestic banks ☐ No ☐ Yes Domestic corporations ☐ No ☐ Yes Domestic households ☐ No ☐ Yes If applicable, please specify deposit limits: ______

B. Ownership

12. Is private ownership in the provision of services allowed?			
Existing banks	Maximum private equity permitted (%)	New banks	Maximum private equity permitted (%)
☐ No ☐ Yes		☐ No ☐ Yes	
13. Is foreign ownership in the provision of services allowed?			
Existing banks	Maximum foreign equity permitted (%)	New entrants	Maximum foreign equity permitted (%)
☐ No ☐ Yes		☐ No ☐ Yes	

14. Are banks allowed to hold equity in the following firms?

	Non-financial firms		Financial firms	
Domestic banks	☐ No	☐ Yes	☐ No	☐ Yes
Foreign banks	☐ No	☐ Yes	☐ No	☐ Yes

If yes, please indicate maximum stake permitted in each case.

C. Regulation

15. Characteristics of regulator: Name of regulator
Year of establishment

% of Regulator’s finances from: License and other fees: _____ Budgetary allocation: _____ Other (specify): _____
Is the regulator independent of the ministry of finance/economy or other regulatory bodies? ☐ No ☐ Yes
Number of professional regulatory and supervisory staff: _______
16. How are banking licenses allocated? a) If the number of providers is not limited by policy , specify the main conditions new entrants must fulfill. ☐ Payment of license fee (indicate amount in local currency: ________) ☐ Presentation of detailed business plan. ☐ Minimum capital ☐ Compatible home country regulation ☐ Other: _____________________ b) If the number of providers is limited by policy, through what mechanism are licenses allocated? ☐ First come, first served basis ☐ Competitive bidding ☐ Discretionary decision by the licensing authority ☐ Other:_______________________________ c) Once the licenses have been allocated, are there restrictions on banks ability to sell or dispose of these licenses?

☐ No ☐ Yes

If yes, please specify:

d) Are foreign banks subject to different licensing requirements from domestic banks ?

☐ No ☐ Yes

If yes, please specify what additional requirements have to be met by foreign banks.

e) Are separate licenses required to establish branches in each state/province?

☐ No ☐ Yes

17. Please provide information on the following indicators of prudential regulation for the latest year available.

Category	Capital adequacy requirement[29]	Loan Classification Requirement[30]	Liquidity ratio[31]	Single exposure Limit[32]	Foreign exchange risk exposure limit[33]	Required to join deposit insurance scheme?	Lender of last Resort facility Available?	Required frequency of publication of financial statements[34]
State owned banks						☐ No ☐ Yes	☐ No ☐ Yes	
Nationally Owned banks						☐ No ☐ Yes	☐ No ☐ Yes	
Foreign owned:								
Branches						☐ No ☐ Yes	☐ No ☐ Yes	
Subsidiaries						☐ No ☐ Yes	☐ No ☐ Yes	

[29] Capital Adequacy ratios for a bank are usually measured by the ratio of capital to risk-weighted assets.
[30] Refers to the number of days after which an unpaid loan has to be classified as a non-performing loan.
[31] Refers to the percentage of assets to be held against deposits for liquidity purposes.
[32] Refers to percentage limits on lending to an individual company.
[33] Refers to the percentage of foreign exchange assets to be held as a proportion of deposits
[34] Please indicate whether financial statements have to be published annually or quarterly.

18. Are banks required to disclose critical information?

Related to performance ☐ No ☐ Yes

Related to changes in ownership ☐ No ☐ Yes

Other ☐ No ☐ Yes

19. Is home country supervision of foreign banks recognized? ☐ No ☐ Yes

If yes, please list the countries whose bank supervisory systems are recognized.

20. Public consultation and transparency

a) Which of the following are consulted in advance of regulatory decisions?

☐ Service providers

☐ Consumer groups

☐ User industries

☐ Other: ______________________

b) How are laws and regulatory decisions made public?

☐ Published on the regulator's website

☐ Published in an official gazette

☐ Other: ______________________

D. Regional Integration Agreements in Banking Services

21. Please indicate if there are any preferential arrangements and/or cooperative arrangements affecting banking services, and list the preferential[35] measures.

Name of agreement	Partner country(s) in agreement	Date of entry into force	Preferential measures

E. Past and Future Changes in Policy

22. Please indicate major changes in market access policies, ownership rules, and regulation since 1990, as well as changes that are anticipated (e.g., privatization of state-owned banks, introduction of competition, entry of foreign banks, creation of an independent regulatory agency, liberalization of capital account, etc.).

Area of policy change (market access, ownership or regulation)	Year of policy change	Description of policy change

٣٥ Please specify how the treatment of banks of member countries of the agreement differs from the treatment of banks of non-member countries.

23. Administered allocation of resources

Category	Controls on deposit rates?	Ceilings on lending rates?	Subject to directed lending?	List of sectors benefiting from directed lending
State owned banks	☐ No ☐ Yes	☐ No ☐ Yes	☐ No ☐ Yes	
Private nationally owned banks	☐ No ☐ Yes	☐ No ☐ Yes	☐ No ☐ Yes	
Foreign banks	☐ No ☐ Yes	☐ No ☐ Yes	☐ No ☐ Yes	

b) Does the government subsidize nationally owned banks?

☐ No ☐ Yes

II. Market Structure Section

24. Please list the characteristics of the 6 largest banks in the market for deposits:

Name of bank	Year of establishment	Domestically owned equity (%)	Foreign equity (%)	Market share in total deposits (%)	Return over equity (%)

Total number of banks in the market for deposits: ______

25. Please list the characteristics of the 6 largest banks in the market for loans:

Name of bank	Year of establishment	Domestically owned equity (%)	Foreign equity (%)	Market share in total loans[36] (%)	Return over equity (%)

Total number of banks in the market for loans: ______

26. Please provide the following information on the actual number of banks:

Number of fully state-owned banks: _____
Number of privatized banks: _____
Number of fully domestically owned[37] private banks: _____
Number of foreign minority-owned[38] banks: _____
Number of foreign majority-owned[39] banks: _____

III. Performance Indicators Section

A. Employment

27. Main employment indicators
How many people are employed in the banking sector? __________
What share of the total labor force is employed in this sector? ____________
What share of banking labor force is employed by state-owned banks? _____________
What share of banking labor force is employed by foreign banks? _____________
What is the annual average wage in the banking sector? ______________
If time series data on these employment indicators are available, please attach them separately.

٣٦ Include consumer and business loans.
٣٧ Banks that are not state owned where the paid-up share capital is entirely held by domestic residents.
٣٨ Banks where foreigners hold under 50% of the paid-up share capital of the bank.
٣٩ Banks where 50% or more of the paid-up share capital of the bank is held by foreigners.

B. Investment

28. Investment indicators (for the years 1990-2000) What is the total amount of investment in banking services? _____________ What is the total amount of foreign direct investment in this sector? ___________ What is the total stock of foreign direct investment in this sector? ___________ If time-series data from 1990 to 2000 is not available, please collect indicators for the years 1990, 1995 and 2000.

C. Prices and Performance Indicators:

29. Please provide information on the following price indicators for the latest year available. For a comprehensive assessment of banking sector performance, it would be extremely useful to have historical data on these prices measures. If time series data are available, please attach them separately (preferably electronically).

Category	Average monthly bank charges for a basic checking account	Average monthly ex – post spread[40] as a % of bank assets	Non-performing Loans as a % of total bank assets	Ratio of no. of employees to operating income
Nationally Owned banks				
Foreign owned:				

٤٠ The Ex-Post Spread of a bank is defined as the accounting value of the difference of the realized interest revenue and total interest cost of that bank and is also referred to as the Net Interest Margin.

Branches Subsidiaries				

D. Quality and Access to Banking Services

30. Which of the following services have been introduced by foreign banks in the last 10 years? ☐ Credit cards ☐ Debit cards ☐ Online banking ☐ ATM network ☐ other (specify)
31. Do foreign banks participate in rural lending? ☐ No ☐ Yes If yes, what is the share of foreign banks in total rural loans? __________
32. Please indicate if the following banks make education loans to the poor: Domestic banks: ☐ No ☐ Yes Foreign banks: ☐ No ☐ Yes
33. Do spreads between lending and deposit rates differ between large business firms and low-income households? ☐ No ☐ Yes If yes, please give sample spreads for a large business firm and a poor household below. Spread for large business:______ % Spread for low-income household: _____ %
34. Indicate the following: Number of banks per 1000 of the population: _____ Average wait time for loan approval: _____ Average wait time for credit card approval: _____ No. of bank failures during 1990-2000: _____

Please, provide the name and contact information of the respondent of this questionnaire, or of a specialist from whom we can obtain clarifications if necessary.

Name____

Telephone____

Fax____

E-mail address:____