



Guidelines for Bank Licensing

Central Bank of Jordan

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First: Licensing Standards According to International Standards and Practices

Prologue

In pursuit of the keenness to enhance the vitality of the banking sector, and in order to promote the economic development by avoiding instability issues resulting from the rapid expansion in many banks, find a healthy financial system, and identify institutions that are subject to precise supervision; bank licensing arrangements, along with the activities banks are allowed to practice should be clearly defined herein.

As a supervisor, the Central Bank of Jordan (CBJ) is responsible for the safety of the banking sector. In this regard, it's worth mentioning what happened in many developing countries that were unable to control the entry of new banks; thus leading to the vulnerability of the banking sector. Therefore, controlling the entry of new banks is part of the Central Bank's responsibility and one of its key objectives.

When examining the licensing applications, the Central Bank shall consider the total impact on the safety of the banking sector, so that to ensure that the increased number of banks does not negatively affect the banking sector, nor does the lack of banks negatively affect the credit or ability to provide adequate banking services for the society.

The licensing process should involve at minimum an assessment of the banking institutions' ownership structure, members of the board and senior management, operational plan, internal control systems, and projected financial data including the capital. If the applicant is a branch of a foreign bank, prior consent of the supervisor in the mother country must be obtained.

According to the Banking Law no. (28) of 2000, the bank licensing authority is exclusive to the CBJ which has the right to set the licensing criteria and reject the licensing applications that do not meet most of these criteria. Clear and objective criteria therefore reduces potential political interventions in the licensing process.

The CBJ, being the sole licensing entity for banks, should ensure that new banking institutions rely on incorporators with well-known banking experience, adequate financial position, a legal structure consistent with the operational structure, and

administrative expertise with a competency, integrity and ability to properly manage the bank.

It is important that the licensing standards are to be consistent with the applicable practices in the banking supervision field, where one of the criteria to withdraw the licensing should apply when the bank is unable to meet these standards. Even though the licensing process does not ensure a good management of the bank following its operation, it could be an effective method to reduce the number of instable institutions joining the banking sector.

The licensing regulations, as in the supervisory methods, are designed to limit the default cases and the amount of losses for depositors without jeopardizing the competency and competitiveness of the banking industry, which may arise due to the closure of the market to new institutions. These two factors (licensing regulations and supervisory methods) are considered necessary to maintain the public trust of the banking system. By setting the criteria for examining the licensing applications, the CBJ reserves its absolute right to reject the licensing applications if they do not meet the criteria or part thereof. According to international standards and practices, the most important of these criteria are listed as follows:

A. Ownership Structure and Shareholders' Solvency

The CBJ should be able to assess the ownership structure of banking institutions, while this assessment includes all shareholders who have a direct or indirect control on the bank; in addition to direct and indirect major shareholders, (the major shareholder in Jordan, as in many other countries, is a shareholder whose ownership is not less than 5% of the bank's capital). Based on this assessment, previous shares of largest shareholders whether in banking or non-banking institutions are reviewed to ensure their integrity and position in the business community. Moreover, the financial solvency of major shareholders, along with their ability to provide more financial support when needed is also assessed. As a further step towards investigating the integrity and financial position, the CBJ should identify the preliminary capital to be invested.

In the event that the bank is a large institution which includes other institutions within its structure, the CBJ will make sure that the bank's ownership structure and organizational structure are sources of power not weakness, and they help mitigate risk that may be faced by depositors due to the transfer of what is called "Contagion Impact" from other activities performed by other units within that large institution. This is in addition to reviewing other objectives of the bank's major shareholders and

evaluating the financial position of other units, taking into account that the bank is not exploited as a source of financing for its owners. Furthermore, when assessing the affiliates and the bank's position within a company consisting of many companies, the CBJ should guarantee the existence of sufficient transparency that allows identification of persons responsible for the safety of the bank's operations and ensuring that these employees enjoy independence within that large company in a way that guarantees prompt response to the supervision recommendations and requirements. It is worth mentioning that the CBJ has the power needed to prevent the rising of alliances or institutional structures which may impede effective supervision over banks.

B. Operation Plan, Control Systems, Internal Organization and Human Resources

The incorporators of the bank applying for licensing shall submit a detailed operational plan, which includes targeted activities, resources needed for completing such activities, organizational structure, details on targeted automated systems, and expected financial results according to estimated budget and profit and loss statement. Incorporators shall prepare the operational plan by themselves, provided that this plan shall not be previously prepared by an administrative consultant or approved audit company.

The incorporators shall also discuss the plan in person with CBJ's employees and officers, therefore enabling the CBJ's management to form an opinion regarding the quality of the licensing application and the ability of those incorporators to discuss and defend the operational plan, since the quality of such a plan is an indicator of the quality of the bank's management.

The operational plan shall describe and analyze the market fields that are expected to be the core of the bank activities and business. It shall also include the bank's strategy towards its proposed activities and a description of the internal organization of the bank's management. The CBJ will determine whether these arrangements are consistent with the proposed strategy and the extent to which internal policies and procedures and resources of funds allocated for this purpose are adequate.

The CBJ will also determine the application of appropriate corporate governance standards reflected by an administrative structure clarifying accountability lines, a board of directors that has the ability of independent supervision over the bank management, and separate audit and follow up tasks. To maintain the clarity of these lines, best international practices indicate the need for segregation of duties between

the board chairman and general manager or executive manager. The board chairman shall be also a non-executive member and shall not assume executive responsibilities pertaining to the bank's daily tasks.

The CBJ shall also ensure that principles of distributing different tasks, overlapping in audit, duplication in supervision, ...etc. will be implemented. It is important here to emphasize that both the bank's legal framework and operational framework will not impede CBJ's supervision, whether it is individual or unified, and will ensure that CBJ's inspectors have sufficient access to management and information.

The bank should prepare a human resources plan for assessing the current and future human resources needs. This plan should also include the recruitment strategy, an early diagnosis of deficiencies in the local labor market especially in terms of senior level management and middle level management, and a clear human resource development policy prepared in accordance with the latest and best administrative applications and practices and technological development.

All of the bank's core activities shall be included within easy, understandable and written policies in a way that ensures their consistency with the laws and regulations in force, where such policies provide for any exceptions, if any, and how to deal with and document them.

C. Assessing the Solvency of Members of the Board and Senior Management

Assessing the competency, integrity and qualifications of the bank's management, particularly the board of directors, is one of the main steps in the licensing process. Despite the fact that the responsibility of daily operations is delegated to the bank's executive management, the board remains accountable for the safety of the bank's different operations. To ensure the effectiveness of the board, each member thereof shall enjoy adequate characteristics to serve the bank and its shareholders.

The CBJ shall obtain all necessary information about members of the board and senior management to assess their banking expertise at the aggregate and disaggregate levels, their knowledge and ability to make sound judgement in a manner that enables them to perform all their duties and responsibilities, their experience in other business fields, and their personal integrity and skills. This assessment shall include historical knowledge of their previous activities such as any judicial and legal sentences issued against them, and any doubts about their

eligibility, integrity, and reason. It is so important that candidates of the bank's administrative team enjoy a solid record in the banking field.

In addition to the conditions to which managers are subject according to the Banking Law and Companies Law, the solvency criteria for the individuals who will form the bank's management require them to enjoy the following: -

- Competency evidenced by an experience of no less than 5 years.
- Competency evidenced by a certain level of education or training.
- The ability of having an autonomy in judgment, especially in practical issues (i.e. existence of previous evidence on the ability of making sound practical decisions.)
- High integrity and compliance with common principles, in addition to manifesting no evidence for financial manipulation or for the lack of integrity.
- Good reputation and respect in the financial community.
- Special skills or experience contributing to enriching the board in the accounting, finance and banking fields, or any other banking experience.
- Knowledge of the banking sector.
- Financial knowledge including knowledge of financial data, and a reasonable understanding of financial ratios used for measuring performance.
- Commitment to learning the bank's business, fulfillment of the shareholding conditions, willingness to resign from the board in the event of any change in professional responsibilities, and finally dedication of sufficient time and effort.
- Understanding and recognition of the best international practices in the management fields and application thereof in agile business environments.
- Having the ability and sufficient time to deal with and manage crises on the long and short run.
- Experience in international markets in terms of the board of directors of banks who work within such markets.
- Leading character through granting powers and motivating employees with high performance.
- The ability of strategic direction and a clear forward vision.

D. Projected Financial Data Including the Capital

The CBJ will review the bank's projected financial data that were built based on initial current assumptions. This review will determine whether the bank has an adequate capital to support its strategic plan especially in light of the potential operational costs and losses in the first stages. The CBJ will evaluate these estimates in terms of their consistency, materiality, and applicability. It should be taken into account that the CBJ, which determines as the case in many countries a minimum preliminary bank capital, will consider shareholders' capability to provide additional support for the capital, if needed, when banks launch their activities, provided that the source of the bank's paid-in capital shall not result from borrowing. The CBJ will also properly study the source of the shares to ensure their eligibility.

E. Consent of the Supervisor in the Home Country

In the event that a foreign bank applies for licensing to open a branch in the Kingdom, the CBJ shall ensure the foreign bank's compliance with the minimum standards of Basel Committee especially in terms of not granting a licensing before obtaining the supervisor's consent in the home country, in addition to ensuring that the supervisor in the home country implements supervision based on the principle of comprehensive supervision, and that this shall not be limited to the supervisor's nature and scope but that the applicant structure does not impede the effectiveness of the supervision whether by the parent or the hosting supervisor.

F. Contribution to Economic Growth and Development of the Banking Sector

When studying any bank licensing application, the CBJ shall consider the bank intention to contribute to the economic growth in the Kingdom including its plans for developing the banking sector by providing advanced banking services in the Kingdom and delivering banking services to remote areas.

G. Total Impact on the Banking Sector

When studying any bank licensing application, the CBJ shall consider the impact of the bank's entry on the soundness of the banking system.

Second: Licensing Application

The bank licensing decision is issued by the CBJ's Board of Directors in accordance with the provisions of the Banking Law No. (28) of 2000. The incorporators' committee shall present to the CBJ's Governor an application for bank licensing on the form designated for this purpose demonstrating the following information and documents:

1. General Information

- The memorandum of agreement and the articles of association of the bank.
- The minutes of the incorporators' meeting including the election of the incorporators' committee which assumes supervision over the incorporation procedures, and authorized signatories during the incorporation period.

2. Information on All Incorporators Whose Participation in the Bank's Proposed Capital is not less than 1%.

- The four-syllable name of each incorporator, their selected notification addresses, and shares.
- Resume.
- Company name, full contact details and legal position.
- Clearance certificate issued by the Income and Sales Tax Department.
- Clearance certificate issued by the Social Security Corporation, if applicable.
- Certificate of Good Conduct issued by the Public Security Directorate.
- Certificate of Good Conduct issued by the General Intelligence Department.
- Recommendation letter from bankers.
- Full names and addresses (if applicable) for each of the following:
 - Legal counsellors (a list of all names).
 - List of all banks with which the licensing applicants deal.
 - External auditor.
 - Tax advisor.
 - Performance compliance advisor.
 - Business consultant.
 - Information technology system consultant.
- Details on the owner group of the applicant bank (if any), and the main activities it exercises whether inside or outside Jordan, including historical information of previous experience and business areas.

- The applicant (including all incorporators and partners) shall inform the CBJ whether they have been subjected, currently or previously, to judicial or government investigations, and if they received any sanction, or that their sources of funds have went through investigation regarding their eligibility whether inside or outside Jordan.
- Where appropriate, the applicant shall present a written declaration that all information and documents submitted according to what is referred to in items (1) and (2) above are correct and consistent with the provisions of the Banking Law No. (28) of 2000, and the regulations, instructions, and decisions issued thereunder.

3. Work Program

The work program shall be attached to the licensing application demonstrating the following information:

- Full description of the banking activities and services that the applicant bank aim to provide in Jordan, at the level of each activity, in addition to a full description of the clients, identification of banking products and services that they intend to provide to their customers, and size of this activity. This is in addition to details on competitive privileges and available opportunities, economic feasibility studies that were made and proposed marketing methods. The current and future market conditions shall be taken into consideration, along with their impact on the targeted market sectors and a clarification should be also presented on how the bank would deal with such conditions, in addition to a full description of future expansion plans.
- Details on the bank's work program for the 12 months following the commencement of its activities, including directions to launch additional activities (such as capital markets, insurance, ...etc.). This requires presenting projected financial data of the bank based on certain assumptions to determine whether it has adequate capital to support its proposed strategy especially to cover preliminary operational cost and potential loss exposure as a result of banking operations during the first stages.
- Details on the work program for the five years following its operation, including the intention to do more activities (such as the capital market, insurance, ...etc.). This requires presenting projected financial data as shown in item (4) below.

4. Projected Financial Data

The applicant shall present projected financial data prepared based on the most potential case, and a sensitivity analysis for each of the first five years of the bank's operation according to the designated financial reporting forms which shall demonstrate the following:

1. Resources available to the bank and how to exploit them.
2. The bank's income estimates and expected expenses.
3. Projected capital adequacy ratio.
4. Technical assumptions and criteria used in calculating expectations and estimates referred to in points (a-c) of this paragraph.

5. Policies

All of the bank's key activities shall be included within and supported through policies written with a clear and understandable language in a way that ensures their consistency with the laws and regulations in force, where such policies shall provide for any exceptions, and how to deal with and document them. Copies of the following preliminary policies shall be attached to the application:

- Corporate governance policy.
- Audit committee bylaw.
- Credit policy.
- Investment policy.
- Asset and liability management policy
- Treasury and trading policy.
- Internal control and audit policy.
- Risk management policy.
- Performance compliance control policy.
- Anti-money laundering and counter terrorist financing policy.
- Information technology protection policy.

This is in addition to any other activities that should be covered under written policies such as the profit, budget, and capital plans; while these are not required for submitting the application though.

6. Performance Compliance Arrangements

Which include the following:

- Summary of performance compliance arrangements that the proposed bank intends to implement.
- The organizational structure of responsibility hierarchy channels, and details on the performance compliance department including job levels, and responsibilities incurred thereof.
- Details on any external party (including its name) that will exercise performance compliance activities at the bank.
- Copy of the performance compliance plan.
- AML supervision systems which include the following:
 - Copy of the AML policies and the procedures the bank applying for licensing intends to implement.
 - Clarification of the methods that will be implemented to prevent money laundering operations, while indicating details on job levels, duties and responsibility hierarchy.
 - Description of the procedures followed to obtain sufficient information on the identity of clients and business partners.
 - Reviews to be made on AML policies and the supervisory measures and systems to be adopted, while indicating their frequency.
 - Types of training courses to be offered to employees on combating money laundering operations.
 - The procedures to be implemented for supervising and detecting suspected transactions.
 - Proposed disciplinary measures for the employees that fail to present instant reports on any suspected transaction to the AML reporting officer.

7. Internal Audit

Details shall be presented on the duties of internal audit department including its organizational structure, audit scope, and responsibility channels, along with their regularity being attached by an organizational structure demonstrating the channels through which the internal audit department reports go. This is in addition to data on job levels within the department and the tasks pertaining thereto.

8. A survey on Information Technology Systems

The applicant shall fill in a survey designated for this purpose, while demonstrating the following:

- Summary on information technology duties for the proposed bank, while indicating details on the organizational structure, scope and responsibility lines. The organizational structure of reporting channels relating to the information technology department shall be also attached.
- Description of information technology systems to be used for the bank's activities, while indicating how to support such activities. This is in addition to a list of technology systems that will be used by the bank to execute its transactions, and whether an external institution will be assigned to supervise these systems.
- **Information on systems development and testing including:**
 - Information on in-house system development for data processing, if any.
 - List of the project phases and duties to be fulfilled for the system operation.
 - Methodology to be used in testing the systems.
 - Locations of information systems (software or hardware), and the persons responsible for maintenance.
 - Identification of persons, other than employees, who have access to the systems.
- **Information protection including:**
 - The organizational structure of senior management of the information technology department, and a description of key roles and responsibilities within that department, while describing the role of the information protection officer.
 - Summary of proposed protection policy, and the protection infrastructure design and application plan in the bank.
 - List of international standards for information technology protection, if any.
- **Degree of information technology system development.**
 - List of any systems accessed by the public via URL when executing banking transactions (as the e-bank).
 - Does data processing have a high degree of speed?
 - Is the volume of transactions so large that it is impossible to execute the entry process manually?
 - Will information technology be used intensively when providing banking products and services?
- **Contingency plan**
 - Description of the contingency plan, while indicating the following:

- Persons responsible for the plans protection and maintenance.
 - Review of any plans to be executed prior to the bank operation, while showing the results thereof.
 - The frequency of implementing the plan following the bank operation.
 - Review of contingency measures to ensure continuity of information technology systems and banking transactions following the occurrence of emergency cases, while indicating procedures for dealing with emergency cases for example (reporting the procedures taken and how the contingency teams respond to them, ...etc.).
 - The extent to which the plan is consistent with the best practices in the banking industry as ISO 17799.
 - The frequency of updating the plan, so that to reflect changes in the bank business nature.
 - Statement that a copy of the contingency plan is kept at an alternative and safe place outside the bank.
- **Accounting System**
 - Summary of the accounting system to be implemented, while indicating the steps and procedures used in recording banking transactions and the control systems to be applied.
 - Statement that the accounting system complies with the applicable domestic and international standards and regulations.
- **Settlement System**
 - Summary of the proposed procedures for payment settlement and clearing operations, control procedures, and identity of persons designated to implement the procedures thereof.
 - Clarification of the systems to be used in the transactions settlement and clearing operations with any third party (such as cheque clearing, foreign exchange market, stocks and shares, ...etc.).
- **Risk Assessment**
 - Statement on how the bank assesses its risk, for example, details on the risk assessment forms.
 - Summary of senior management strategy to be used in managing banking business risk, while indicating all potential risk and how to deal with them.

9. Human resources development plan

- A human resource development plan shall be prepared, so that to evaluate all current and future human resources needs for the proposed bank. Such a plan shall include a clear and specific human resources development policy, taking into account modern human resource management approaches in line with the best practices and technical advancement.
- The human resource development plan shall include the following:
 - Overview of recruitment strategy.
 - Statement of early training procedures, as well as orientation and preparation procedures for new employees.
 - Ongoing HR training and learning programs.
 - Career paths development methods.

10. Foreign bank branches

The application for a prior consent for a foreign bank branch is submitted according to the form designated for this purpose, being attached with the information and documents referred to above, where appropriate, in addition to the following:

- License for exercising the banking business in the country of foreign bank nationality, while being properly endorsed by the supervisor in the home country.
- Written consent by the supervisor in its home country to operate in the Kingdom.
- Official letter by the supervisor in its home country manifesting its willingness to cooperate with the CBJ with respect to the comprehensive supervision and exchange of supervisory information, while considering full confidentiality and information security.
- Statement that the supervisor in its home country complies with the minimum international common banking supervision standards and related Basel standards when supervising foreign bank branches.
- Pledge by the foreign bank that its branch licensed to operate in the Kingdom will comply with all legislation in force.
- Pledge by the headquarter that it will cover any financial obligations that may be incurred in the future by the branch requesting to operate in the Kingdom.

- Detailed statement including the qualifications and experience of the authorized general manager in accordance with the Banking Law No. (28) of 2000, and a statement for fulfilling the conditions stipulated in the articles therein.
 - The foreign bank's memorandum of agreement, articles of association, and financial position.
 - Duly certified certificate indicating the financial solvency of the foreign bank in its country of nationality.
 - Audited budget of the foreign bank for the three years prior to submitting the application.
 - Statement that the foreign bank has an accepted credit rating by an international institution.
 - Copy of the latest annual report of the foreign bank.
 - Copy of the foreign bank profile including its organization, activities and the markets where it operates.
 - Pledge by the bank's headquarter to notify the CBJ of any developments that may negatively affect the safety and reputation of its financial position.
 - Clear strategy, work plan and economic feasibility study prepared by the headquarter for the branch to be founded in the Kingdom.
 - Pledge by the branch to meet any other requirements requested by the CBJ.
 - Pledge by the branch to exercise the activities referred to in the memorandum of agreement and articles of association of its headquarter in a way that does not contradict the activities it is licensed to perform in the Kingdom.
 - The principle of reciprocity shall be considered when studying an application to open a foreign bank branch in the Kingdom.
- 11. The bank applying for licensing shall present in writing the community needs it will meet.**
- 12. The bank applying for the licensing shall be committed to provide any additional information determined by the orders of the CBJ or that the latter deems necessary to make its decision on the licensing application.**

Third Licensing Procedures

- The Central Bank shall issue its decision regarding a licensing application within three months of the application date be it in the form of a preliminary approval or in the form of rejection. The three month period starts from the

date of presenting the required documents based on which the CBJ will make licensing decisions. The applicant for licensing shall be notified that the official form of the licensing application has been completed.

- During the three month period stated above, the CBJ will hold several meetings and interviews with the incorporators' committee, so that to come up with a thorough opinion on the quality of the licensing application and incorporators' ability to discuss and defend their plan.
- If the Central Bank issues a preliminary approval of the licensing application, it must specify the requirements and provisions necessary for obtaining the final licensing, including the following:
 - The minimum amount of the bank's authorized capital and the amount thereof earmarked for subscription.
 - Full payment of subscribed capital (indicating a statement that the full subscribed amount has been paid under a report by an external auditor).
 - Statement that the source of incorporator's paid-in capital was not through borrowing.
 - Completion of all incorporation procedures of the bank.
 - Proposed names of the Board of Directors.
 - Proposed names for the general manager of the bank and other senior managers.
 - Proof of a qualified administrative system and internal and operational control systems.
 - Any other requirements and provisions determined by the orders of the Central Bank.
- The preliminary approval shall be revoked *ipso facto* if the applicant for licensing does not meet all requirements and provisions necessary for obtaining final licensing, within one year of obtaining the preliminary approval.
- If the requirements and provisions for final licensing are met, the Central Bank shall issue a final licensing to the bank within three months of the date of a new application in which the licensing applicant confirms that such requirements have been met.
- The CBJ shall grant a final license for an indefinite duration. It is provided that the final license shall not be assignable.