Towards a characterization of cross-border banking supervisory systems: Case of Morocco as an emerging country

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Abstract

The internationalisation of banking operations has significantly contributed to making the supervision of cross-border banks much more complicated not only at a national level but at a regional level as well.

The main purpose of this paper is to take a first step towards a characterization of cross-border banking supervisory systems to help design and manage them successfully following an integrated and holistic approach, including a description of processes covering the regulation, supervision and resolution of financial systems and the linkages between the key different processes. This paper constitutes a compilation of literature's review on cross border banking supervision.

The results collected through a general review of the available literature and the case study of the Moroccan banking supervision framework attempt to outline the possibility of proposing a supervisory system organized around key macro-processes.

The first part of the paper presents an overview of cross-border banking. The second part describes the supervisory system adopted in Morocco as an emerging country and highlights the processes set up within the different agencies constituting a whole system to be monitored in an integrated way to ensure the same shared objective which is none other than the financial stability.

Keywords
Cross-border banking, Regulation and supervision, Moroccan banking supervision, Micro and Macro prudential policies, resolution and safety nets.

Introduction

The banking system has expanded widely with the internationalisation of banking activities and the integration of new services and diversified products world widely. It has become more complex to manage by bankers thus so complex to regulate and supervise by banking authorities.

Cross-border banking activities bring many opportunities and benefits for banks, host countries and supervisors but also challenges and costs for all of them.

Generally, there is a relationship between the regulatory and supervisory activities and banking development, efficiency, and soundness (Barth, Caprio and Levine, 2002) particularly in a cross border context.

In this respect, it is highlighted that cross-border banks have contributed actively and have had a key role in the dynamics of the last global crisis of 2007-2009 (Allen, Beck, Carletti, Lane, Schoenmaker and Wagner, 2011).

The micro-prudential policy applied on those cross-border banking groups is not sufficient any more. The macro-prudential supervisory acts in addition to avoid or reduce at least the probability of being exposed to generalized difficulties or system crisis and avoid the cost that economy has to support to save banks and keep them alive.

Achieving effective cross-border supervision requires also the development of effective crisis management and resolution arrangements.

Given those needs and in order to be able to ensure permanently financial stability and empower the soundness of cross-border banking groups, it appears clearly that the supervisory system should incorporate processes covering at least the micro prudential, the macro prudential, the resolution and safety nets. Other processes connected to the supervision of activities related to insurance, securities, payment systems and digital services could be incorporated taking into consideration the vision of a supervisory system in a specific country as a whole system.

It is noticed that in developing countries as in many emerging markets, supervisory frameworks designed are based on those policies and approaches including the micro-prudential, the macro-prudential, the resolution regime, the deposit insurance, the role of central bank, the market discipline, the home and host supervisory and the monetary policy. Those frameworks of regulation and supervision are in line with the international standards but are not designed in a unique way. Each country has the ability to adjust its proper and specific regulatory and supervisory system.

In the next sections, the paper intends to shed light on the banking supervision system and its key underlying processes, structures and functions and then describes the supervisory system adopted in Morocco.

1. Overview of cross-border banking

1.1 Cross-border banking basics

The main function of the financial system is to channel savings and transfer resources from savers to those who need funds acting thus as a financial intermediation process.

The financial system with all its components has to be and remain stable over time even under stressed context to completely ensure its main functions.

The concept of financial stability is defined as a condition in which the financial system including domestic banks and international banking groups operating at a national, regional and global level is capable of withstanding internal and external shocks in the financial intermediation process which are severe enough to significantly impair the allocation of savings to profitable investment opportunities. What has made this context more complicated to deal with are from one side the interactions that exist between the financial system and the real economy and other policies including monetary and fiscal ones (Goodhart and Schoenmaker, 1995) and from the other side the rapid transformation and expansion undergone by financial markets driven by deregulation, innovation and globalization without being accompanied with a reinforcement of a real market discipline and effective prudential oversight (Schoenmaker and Wagner, 2011).

1.2 Benefits and challenges

Cross-border banking activities bring many opportunities for banks, host countries and supervisors but also challenges for all of them. It helps banks to benefit from market opportunities, diversification and economy of scale (Sissi, Amidu and Yindenaba, 2016).

In developing their activities abroad, banks would probably face many challenges, among them, the regulatory burdens, reputation establishment, risk of marginal portfolio connected to the problem of decomposing the risk in a portfolio into a sum of risk contributions associated with individual contributors.

From the bank side, international groups want to be profitable while avoiding burdens from regulation and relying on state protection and exploiting regulatory gaps. From the supervision side, supervisors must know banks risks, examine banks viability and apply correction measures.

Cross-border banking can contribute to a better sharing of an economy's risks with other countries (Baxter and Crucini, 1995; Neumeyer and Perri, 2004).

Foreign entry in the domestic market will tend to increase competition in the domestic banking market. This effect will be particularly pronounced if the domestic market was previously highly concentrated or if domestic banks were operating inefficiently. Competition may then force domestic banks to become more efficient as well, hence further enhancing stability. In addition, foreign banks can assist in the recovery from a crisis by purchasing assets (Tschoegl, 2004, Cull and Peria, 2010).

Foreign banks are less likely to cut and run if they have established their presence in the form of a subsidiary. This is confirmed by studies showing that lending by subsidiaries is more stable than direct cross-border lending (Peek and Rosengren, 2000, De Haas and Van Lelyveld, 2004, McCauley, McGuire and von Peter, 2010, Schnabl, 2010).

Another important cost comes in the form of contagion: in the same way as cross-border banking insulates the domestic economy from domestic shocks, it also exposes it to foreign shocks. A credit shock to one economy, for example, can be propagated more easily to the other economy if both countries are financially integrated (Kalemli-Ozcan, Papaioannou and Perri, 2011).

Using data collected from banks operating in 35 different markets during the period of 2000-2014, a significant evidence was highlighted concerning the fact that the risk of domestic banks increases with the presence of foreign banks in the host economy (Ji Wu, Minghua Chen, Bang Nam Jeon and Rui Wang, 2017).

This cross-border expansion could be costly if it is transformed into destabilizing force in the form of contagion exposing domestic economy to foreign shocks taking into consideration that this expansion increases the complexity, the interconnectedness and the size of institutions leading some cross-border banks to become systemically important and very costly on economies if they fail.

Countries with the largest banking centers, ie, the UK and Germany, are well diversified along all key dimensions of the metrics used (Allen, Beck, Carletti, Lane, Schoenmaker and Wagner, 2011). The other country with a large banking system, France, is coming close to these countries. The US and Japanese banking systems have a better external diversification.

Cross-border banking brings about important stability benefits, perhaps most prominently in the form of diversification for banks and risk sharing in the economy, but also has potential costs. The benefits from cross-border banking might outweigh the costs, as long as cross-border banking does not become excessive.

2. Overview of cross-border banking

2.1 Classification

The ability of a banking system to collect foreign deposits and give foreign loans reflects its capacity to compete as a financial intermediary at an international level.

Based on their net cross-border deposits and net cross-border claims, countries can be in one of the four following categories (Eaton, 1994):

-Banking centers countries: ensure net financial intermediation to the rest of the world. Banks collect deposits from foreign nonbanks and are lenders to nonbanks abroad. The concerned countries include Austria, Belgium, France, Netherlands, Switzerland, United Kingdom, Japan and Singapore.

-Net disintermediated countries: nonbanks in this group are making deposits in banks abroad and are taking loans from foreign banks. This group includes South American countries including Mexico, Malaysia, Jamaica, Panama and the Philippines.
-Inward Transformers countries: this group collects deposits from foreign nonbanks, but not able to supply all of the domestic demand for loans. The banking system transforms all foreign deposits collected into domestic loans. Denmark, Norway, Sweden, Canada, Greece, Ireland, Spain, Germany, Australia, Philippines fall into this category
-Outward Transformers countries: Banks in this group use the deposits collected nationally and from abroad and transform them into foreign loans. This group includes the United States, Panama, Germany and Japan.

2.2 Structure and functions

A well-structured regulatory regime contributes to the efficiency and stability of the financial system. A stable and efficient financial system has a potentially powerful influence on a country's economic development.

The main finding of a survey (Barth, Caprio and Levine, 2001) shows that of 107 countries included in the survey, 89 have a single supervisory authority and 18 countries have two bodies or more. Of those countries with only one supervisor entity, moreover, in about two-thirds of the cases it is the central bank that ensures this mandate and acts as a unique supervisor.

Many countries have recently changed the institutional structure of financial regulation and supervision with the general trend being to reduce the number of agencies involved. However, no common pattern has emerged in detail. In particular, while some (including the UK, Korea, Iceland, Denmark, Latvia, Sweden, Hungary) have adopted the single agency approach (at last as far as prudential supervision is concerned), this has not been a universal model (David T Llewellyn, 2006).

Although there is no universal common pattern, there is a general trend towards reducing the number of separate agencies, a move towards integrated prudential supervisory arrangements, reducing the role of the central bank in prudential oversight of financial institutions, increasing emphasis to the central bank in its systemic stability role and, if a unified agency is created, for this not to be the central bank. However, Ireland is an exception to the last-mentioned.

The basic functions performed by regulatory agencies are universal and include ten main areas covering prudential regulation for the safety and soundness of financial institutions, the stability and integrity of the payments system, the prudential supervision of financial institutions, the conduct of business regulation (i.e. rules about how firms conduct business with their customers), the conduct of business supervision, the safety net arrangements such as deposit insurance and the lender-of-last-resort, the role performed by the central bank, the liquidity assistance for systemic stability, i.e. liquidity assistance for solvent institutions, the handling of insolvent institutions, the crisis resolution, and the issues related to market integrity. These are the universal areas that regulatory and supervisory agencies need to address in one way or another. The debate about institutional structure is, therefore, not about which of these activities are to be conducted, but which agencies are to be responsible for which functions (Goodhart, 2000).

2.3 Areas of regulation and supervision

Four areas of regulation and supervision are identified which, in various ways, need to be accommodated within an institutional structure: prudential regulation, systemic regulation and supervision, consumer protection and Competition.

It is also customary to distinguish three broad types of financial business: banking, insurance, and securities trading. In practice, there are many other areas (such as fund management, financial advice etc) which might also be addressed by regulation and supervision and which need to be accommodated within a chosen institutional structure.

There are broadly three ways of categorizing institutional arrangements for regulation and supervision: by institution, by function, or by objectives. The ultimate criterion for devising a structure of regulatory agencies must be the effectiveness and efficiency of regulation. One school of thought argues that the most appropriate basis for organizing the institutional structure is in terms of the objectives of regulation.

Based on an international experience (a sample of 104 countries in 2005), a total of 56 countries had some form of integrated supervision, 30 countries had adopted the Single Supervisor model and at least one country, UK, had integrated all prudential supervision and conduct of business regulation and supervision.

Thus, the Single Supervisor model is not homogeneous and marked differences exist between countries within this group.

Overall, close on 30 percent of the sample had adopted the Single Supervisor model (with recent additions including Estonia, Germany, Malta and Ireland) while 44 percent maintained single dedicated institutions for each sector separately. There is no obvious pattern in that, for instance, the US maintains a multi-agency approach whereas many other industrial countries (e.g. the UK, Scandinavian countries, Japan) have adopted a fully unified structure.

New structures do not guarantee better regulation. More appropriate structures may help but, fundamentally, better regulation comes from stronger laws, better trained staff and better enforcement.

3. Characterization of the Moroccan cross-border supervisory system

The Moroccan banking sector is supervised by the Central Bank of Morocco. The latter has among its fundamental missions supervising the banking system, setting up the legal and regulatory provisions relating to the banking activities and controlling the activity of credit institutions and similar bodies in addition to issuing banknotes, implementing monetary policy, ensuring price stability, supervising money market, managing foreign exchange reserves and monitoring systems and means of payment (Central bank of Morocco, status and missions, 2016).

3.1 Moroccan banking landscape

Moroccan banks have continued their network expansion and financial inclusion both nationally and regionally. The banking system shareholding has a dominant share of private shareholding, which consists particularly of holdings of Moroccan private groups, insurance companies, social security bodies and foreign banking groups. Seven banks and eight finance companies are essentially owned by foreign shareholders of French, Spanish, American and Jordanian origins (Central bank of Morocco, financial stability, 2016).

The total number of credit institutions and similar bodies licensed is 83 institutions composed mainly of 19 banks, 33 finance companies, 6 offshore banks, 13 microcredit associations and10 funds transfer companies.
The total assets of financial system have grown over the past 10 years from 122% to 186% of GDP. The banking system accounts for 67% of financial system's total assets.

The credit institutions of a total number of 53 include 19 banks (7 banks with largely foreign-owned capital, 5 banks with largely state-owned capital, 7 mostly Moroccan-owned private banks, 34 financial companies, other entities involved in banking-related activities in charge of deposit and fund management, guarantee fund, offshore banks (6 entities), microcredit associations (13 entities) and payment institutions (10 entities).

Three banking groups are designated as systemically important banks at both domestic and regional levels.

Abroad, the subsidiaries and branches of Moroccan banks established in 37 countries, 26 in Africa, are around 41 subsidiaries and 18 branches. These entities have nearly 1.453 banking agencies, including 56 percent in West African countries, 15 percent in Eastern and Southern Africa, 15 percent in North Africa, 7 percent in Central Africa and 7 percent in Europe. They also have 50 representative offices, of which 84 percent are based in Europe.

In the sections below, the processes that constitute the components of the supervisory system (gathered in the table 1 below) are briefly described as follows.

Table1. List of the process groups

Process group	Groupset components
1. Licensing & control	1.1 Legal & regulatory framework 1.2 License grant & withdrawal 1.3 Off-sight control 1.4 On-site examination
2. Cross-border oversight	2.1 Memorandum of understanding 2.2 Coordination and exchange 2.3 Cross-border groups scoring and supervision
3. Macro-prudential & Resolution	3.1 Ex-ante restructuring and banks recovery 3.2 Crisis management & Resolution regime 3.3 Macro-prudential policy 3.4 Deposit insurance & other safety nets
4. Protection of Banks customers	4.1 Requirements relating to Transparency 4.2 Protection of banking services Consumers 4.3 Banking Mediation
5. Key Governing bodies	5.1 Credit Committee 5.2 Africa Committee 5.3 Disciplinary Committee

3.2 Licensing & control

3.2.1 Legal & regulatory framework

In the IMF country report issued on February 2016, the FSAP output stated that the size and the complexity of Moroccan financial system have both grown, with increased links between the banking and insurance sectors and a significant expansion into Sub-Saharan Africa. In this context, the report noted that the new banking law introduced by the central bank aims to strengthen consolidated supervision and improve bank resolution while enhancing its independence and expands its role to include contribution to financial stability and financial market infrastructures oversight.

The regulatory framework adopted in Morocco is in line with prudential standards Basel III and international accounting standards (IFRS) to achieve transparency and for the preparation of consolidated financial statements.

Moroccan banks adhere to the Basel III regulations with transitional provisions in place since 2014. They will be covered by the Basle III framework by 2019.

3.2.2 License grant & withdrawal

In order to exercise banking activity, a license should be obtained, issued by the governor of the Central Bank. The decision of granting license or not is taken obtaining the approval of the Credit Institutions Committee. Any licensing application must contain the required documentation in accordance with the provisions of the banking law. The Central Bank can require any additional information or documentation relating to the information and documents submitted in the licensing application (Central bank of Morocco, banking supervision, 2016).

Any project of creation or acquisition of subsidiaries abroad or to strengthen the participation of the banking groups in establishments abroad is subject to prior authorization by Central Bank. This approval is required as well in case of indirect equity participation in existing entities abroad.

Bank's winding-up entails systematically the withdrawal of its license and is carried out in accordance with the provisions of the Commercial Code, except for the appointment of the liquidator. The latter is appointed by the court on a proposal of the Central Bank Governor and issue a quarterly report shared with the Central Bank on the winding-up operations.

3.2.3 Off-sight control

The permanent control process, through all the bodies involved, relies, additionally to its knowledge and assessment, on the on-site examination's findings, and carries out the rating of banks based on a tool set up in house. This rating system is mainly inspired from CAMELS approach (Barth, Dopico, Nolle and Wilcox, 2002). It has in particular as main aiming to highlight the risk profile of the bank, report the diagnosis of the financial and prudential position, and report the qualitative analysis performed. This system serves as a warning mechanism to empower the preventive approach enacted by the prudential risk-based supervision (Central bank of Morocco, banking supervision, 2016).

Through the results of the examination undertaken by the permanent control process, deficiencies, infringement or breaches of legal or regulatory provisions in full force and effect in Morocco if noticed, may set off the process of corrective actions and the imposed sanctions against banks. It is highylithed last year 13 sanctions were imposed on banks. The corrective plan is carefully followed and monitored.

The central can issue an injunction and requires the disclosure of a recovery plan by banks whose management or financial condition or internal control system faces serious difficulties denoting thus insufficient guarantees in terms of solvency, liquidity or profitability.

3.2.4 On-site examination

Inspections at off-site and on-site levels are considered complementary. The aspects that could not be assessed remotely by the off-site process are undertaken within the on-site inspection process. This process has an objective of carrying out targeted investigations and ensuring the fairness of financial and prudential data communicated by banks to the supervisory authority. This process is also in charge of performing a deeper assessment of the governance, the internal control and the risk management system (Central bank of Morocco, banking supervision, 2016).

All the on-site inspection carried out annually is under the scope of an annual program clearly defined to which is incorporated any key issue uncovered by the permanent control during the year. The missions identified in the annual program could be of a general or thematic nature.

The criteria related to the systemic importance assessment of banks, the risk ratings and the periodicity requirements remain the most decisive factors.

The findings of each individual mission, while entirely completed, are reported and submitted to the bank's managers highlighting the areas of vulnerability identified and requiring them to undertake the imposed measures so that to rectify these deficiencies.

3.3 Cross-border oversight

3.3.1 Memorandum of understanding

Agreements under the form of Memorandum Of Understanding are concluded between the Central Bank and the host countries supervisory authorities in order to organize the data exchange between regulators, to set up colleges of supervisors and to carry out on-site inspection of banks' subsidiaries including the joint-control.

Agreements has been concluded particularly with the West African Economic and Monetary Union, the Central African Banking Commission, the Central Bank of Tunisia, the Central Bank of the Republic of Guinea, the Supervision Authority of the Republic of Madagascar, the Supervision Authority of Djibouti, the Central Bank of Rwanda, the French Prudential Supervision and Resolution Authority and the China Banking Regulatory Commission. Other MOUs were also signed recently. Those MOUs covers up to now more than 10 authorities and 22 host countries.

3.3.2 Coordination and exchange

According to the MoUs provisions, the home and host regulators exchange information and data about the situation of the mother bank, the banking group and its subsidiaries and share the best practices and expertise on a regular basis mainly through colleges, confcalls, mails and e-mails.

The supervisory colleges are held as an annual meeting between from one side the supervisory authorities of both home and host countries and from the other side between those supervisors and the top management of the banking group concerned by the college. The college meeting provides a real framework to exchange information and views about the risk profile of the banking entities established under each individual jurisdiction and conclude a supervisory action plan to be carried out.

In addition to the colleges and the periodic exchanges of information via conference calls, mails and emails, special emphasis is made by the Moroccan authority on the control operations carried out jointly by the home and host authorities on the subsidiaries established in host countries.

3.3.3 Cross-border groups scoring and supervision

To streamline the monitoring and the follow-up of subsidiaries established abroad, a scoring approach has been implemented, reflecting the subsidiary's weight in the group, its risk indicators, profitability, capitalization, country risk level, the assessment of host country regulator and the significance of presence in the host country. This system is complemented by a supervisory follow-up carried out on subsidiaries abroad. As mentioned before, three banks among the 19 banks operating in Morocco are the most important Moroccan banking groups and have widely developed an international banking activity, mainly in Africa, through subsidiaries and branches. The supervision of these cross-border activities and entities is governed by an internal Cross-Border Supervision policy based particularly on cooperation with the host countries supervisory authorities (Central bank of Morocco, banking supervision, 2016).

The Central Bank requires from banks, as part of the consolidated supervision of the three banking groups, a specific reporting regarding the cross-border banking activities conducted by subsidiaries and branches abroad including quantitative and qualitative risks data.

3.4 Macro-prudential & Resolution

3.4.1 Ex-ante restructuring and banks recovery

The Central Bank is responsible for dealing with the difficulties faced by banks in accordance with the legal framework in force and the Commercial Code applicable in Morocco.

This legal framework includes in particular preventive measures through the preparation of an ex-ante recovery plan by banks of systemic importance or significant size, presentation of ad-hoc restructuring plans in case of difficulty, nomination of an interim administrator, identification of legal instruments that could be used by authorities for the restructuring, coordination between the financial system supervisors in crisis management period, the intervention of a collective deposit guarantee fund to indemnify depositors, the withdrawal of licenses and the nomination of a liquidator. The Central Bank requires the disclosure of a recovery plan by banks in difficulties.

3.4.2 Crisis management & Resolution regime

For financial crisis management, a specific agreement has been concluded between the Ministry of Finance, the Central Bank and the Moroccan Capital Market Authority in the purpose of coordinating actions between the financial authorities in the event of a crisis. This agreement prescribes sharing information and analysis, coordinated choice of the most appropriate and least costly policy for public finances and costs allocation resulting from the resolution of the crisis to shareholders and managers.

A crisis committee is instituted to this effect. It is chaired by the Minister of Finance, composed of the Central Bank Governor and the presidents of the insurance and social welfare authority and the capital market authority and mandated is to coordinate the action of the authorities involved in the management of financial crises that may require financial assistance from the State.

Restructuring instruments of banks in difficulty are made available by the banking law to the interim administrator including the total or partial sale to another financial institution, the sale of the bank assets to an ad-hoc structure and the splitting up of the bank.

Subject to a prior authorization from the Central Bank, entities resulting from the break-up can be granted the license to operate as a banking institution.

Once the interim administrator is appointed, the deliberative bodies are suspended. The latter takes in charge the restructuring process of the bank starting by diagnosing its difficulties and proposing measures to ensure its recovery.

In the event of a systemic crisis, the Systemic Risks Coordination and Monitoring Committee steps in to assess the situation and decide whether to activate the Crisis Committee. The committee should provide the results of the conducted analysis covering in particular the nature and consequences of the shock, a preliminary draft on possible resolution measures, and the recommended timeline for actions to be carried out. The Crisis Committee measures the likely systemic implications of the crisis and designs the appropriate solutions and exit strategy.

Through crisis simulation, the simulation exercises tend primarily to test the functioning of the existing operational and legal systems as well as the mechanisms for information exchange and coordination between the various authorities participating in the exercises.

The Central Bank conducts regularly three major categories of stress tests to evaluate the resilience of the banking system in the face of extreme shocks; the sensitivity stress tests that measure the impact of a shock of credit, liquidity, market, interest rate or exchange; the interbank contagion stress tests that measure the risk of spread of a bank's failure and the macro-stress tests that assess the capacity of the banking system to withstand shocks stemming from the macro-economic environment. The results of those stress tests are used to design and implement the appropriate measures necessary to reduce the impact of shocks and overcome them in case they arise and materialize. The Central Bank published an annual report on the stability of the Moroccan financial market jointly with the insurance authority, the Social Welfare and the capital market authority.

3.4.3 Macro-prudential policy

The aim of the macro-prudential processes is to promote financial stability by contributing to the prevention and mitigation of systemic risk. In accordance with the macro-prudential policy in force, legal, institutional and analytical frameworks have been set up.

In organizational terms, a dedicated department within the Central Bank was set up two years ago to take in charge the macro-prudential activities.

The analytical framework carried out by this department includes the systemic risk map for financial stability and stress tests. The systemic risk indicators map consists of a global balanced scorecard of the main sources of risks to the financial system. The stress tests constitute a tool used to assess banks' resilience against the materialization of identified risks. The stress test framework is structured around 3 categories, the macro stress tests, the contagion stress tests including the interbank contagion, the cross border contagion and the interconnectedness between banks and insurance companies and finally the sensitivity stress tests (Central Bank of Morocco, Annual report of financial stability, 2016).

The key macro-prudential instruments used by the macro-prudential concern the identification of Systemically Important Financial Institutions, the capital surcharge and the countercyclical capital buffer (IMF, Financial system stability assessment, 2016).

The macro-prudential policy takes also into consideration its interactions with the other policies, in particular monetary and fiscal one.
In terms of macro-prudential governance, the financial stability committee is operating within the Central Bank. The Committee for coordination and surveillance of Systemic Risks and Crisis committee operate both in coordination with other financial regulators.

The committee for Coordination and Surveillance of Systemic Risks, composed of the Central Bank, the Ministry of Finance, the Insurance authority and the capital market authority, coordinates the member's actions in terms of supervision, analyses the financial sector, evaluates the systemic risk, proposes measures to prevent and mitigate systemic risks and coordinates the actions of crisis resolution.

3.4.4 Deposit insurance & other safety nets

A deposit Guarantee Fund has as a primary objective to protect the rights and interests of depositors, natural or legal persons, in the event of the bank's inability to repay depositors or in the event of bankruptcy and participate eventually in the bank restructuring process.

This fund is managed by the Moroccan Deposit Insurance Corporation, a public limited company held by the Central Bank and member banks.

The mandate of this company is to manage the deposit insurance fund of commercial banks and the one of participatory banks (Islamic banks). It is in charge of managing the deposit guarantee funds, collecting annual contributions from member banks, indemnifying depositors, contributing in banking stability preservation through granting financial assistance to banks experiencing difficulties that could probably lead to an unavailability of deposits, equity investments in those banks and designation as interim administrator (deposit insurance corporation, 2016).

The Central Bank triggers the reimbursement mechanism after confirming the dramatic worsening of the bank financial situation, the inability of the bank to repay depositors, the inexistence of any sign about the bank ability to refund in the near future. The depositors reimbursement is determined up to a maximum amount per depositor and within the limits of the Fund's possibilities.

The emergency liquidity assistance is a safety net used to prevent or redress a situation representing a risk to financial stability, mainly through interbank contagion. Emergency loans are granted exclusively in exceptional circumstances to solvent and systemically important banks experiencing liquidity shortfalls (IMF, Financial system stability assessment, 2016).

3.5 Protection of credit institutions customers

The Central Bank lays down the rules related to the disclosure of the conditions applied by banks to their operations, the respect of interest rate, lending rate and commissions and the minimum conditions for deposit account opening conventions. The Central Bank also ensures that banks respect the free access of customers to basic banking services and ascertains that banks are compliant with the rules governing lending and deposit interest rates.

The banking law has laid down consumer protection measures and gave the Central Bank the competence in protecting bank's customers that concerns the enactment of regulatory standards and the supervision of their implementation within banks through ensuring banks shows transparency, handling customer complaints and assuring banking mediation. The Central bank is also in charge of processing customer complaints about their banks.

Moroccan Center for Banking Mediation has been set up to ensure the amicable settlement of litigations between Customers and banks. This mediation measure does not replace the banks processing of their customer's claims but steps in when all the internal remedies were tried at their level.

The banking mediation intervenes on all issues related in particular to the management of current accounts, deposit accounts, savings accounts, means of payment, banking transactions, the implementation of commitments made in the context of banking contracts, accounting entries, bank insurance and accounts closure.

3.6 Key Governing Bodies

The "credit institutions committee" consists of a representative of the central bank and representatives of the Ministry of Finance, the professional association of banks, the professional association of financing companies, the professional association of payment institutions and the National Federation of Micro Credit. The committee conducts all studies on the activity of credit institutions and decides on related issues including the approval, changes and enforcement of certain provisions of the Banking Act.

The "national council of credit and savings" deliberates on any question concerning the development of savings as well as the evolution of credit institutions.

An Africa Committee, composed of the Central Bank and the three cross-border banking groups, was set up to ensure compliance with the provisions of a code of good conduct and cooperation adopted with banking groups.

This Committee is organized on annual basis and provides an opportunity to cover many key issues at a high level including an update on Moroccan banks presence and activities in Africa, the evolution of the macroeconomic and macro-financial conditions of the countries of presence, examination of each entity implemented abroad and the development of its activity and the risks highlighted and the measures to be taken to mitigate them.

If the warning issued to the bank remains ineffective, the Central Bank asks for an opinion from a dedicated committee in charge of banks disciplinary as a legal body comprised of representatives from the Central Bank, two representatives of the Ministry of Finance and two magistrates. This committee helps the governor of the Central Bank to choose the appropriate option among the possibility to suspend one or more managers, to prohibit or restrict the exercise of some banking operation, to appoint an interim administrator or to withdraw the bank license.

3.7 Qualitative analysis: Some key elements

The IMF reported that since the FSAP mission achieved in 2007, the Moroccan banking landscape has deeply changed with a significant development of the foreign branches and subsidiaries of the three banking groups. Some of these subsidiaries have become systemically important banks in the host countries. This international expansion strategy has a direct impact on the implementation of effective banking supervision as cross-border activities require strengthening the consolidated supervision, monitoring of the key local entities of the banking groups and reinforcing cooperation with the regulators of the host countries. The supervision scope of Bank Al-Maghrib also extends to the implementation of the regulatory framework of Islamic finance, new services, new products and risks associated (FSAP, 2016). The IMF reported also in 2016, based on a stress testing performed on the Moroccan financial system, that Moroccan banks showed good resilience to the global financial and economic crisis and that cross border shocks has a very low impact. It is indicated that Morocco's insurance sector has expanded strongly in recent years, with close links with the banking sector. The insurance sector would be able to withstand a 100 basis point increase in interest rates

Conclusion and future work

Following what have been described above, it appears that to ensure the financial stability while maintaining adequate balance with the other policies, the supervision at micro and macro levels of banking activities, insurances and securities must be conducted in an integrated way, as part of an interrelated system, which still remains a very critical mandate, complicated and challenging especially with the cross border side of the regional and international banks operating abroad.

The future work, aiming to enrich the expanding literature and dealing with a not yet exhausted theme, should focus on the characterization of a whole supervisory system based on a risk approach, the breakdown of this system into components interconnected in a complementary way, the description of the underlying processes and the definition of key performance indicators at both operational and strategic levels to set up an effective and global monitoring system.

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