Non-Bank Finance and Financial Intermediation

Naples, 18-19 June 2019

“Measures to limit potential risk arising from non-banking financial institutions & its effect on macro financial stability”

Tarek Fahmy – Sub Governor

On-Site Banking Supervision-Central Bank of Egypt

June 18th,2019

Egypt's Economic Reforms and Growth Agenda

For four years in a row the Committed Egyptian Cabinet has been implementing a broad spectrum of economic/legislative reforms together with mega infrastructure projects across all economic and social Sectors that includes:

- **Macro economic mega projects developments**
- **Energy Reforms**
- **Currency reforms**
- **Fiscal Reforms**
- **Legislative and Structure reforms**

to support a strong and inclusive medium to long term growth by creating an enhanced economic platform and attract foreign and local private sector investments, increase gross domestic productivity and generate more jobs.

Role of Banking and Non-banking Institutions

NBFIs are taking an increasing role in the global financial system

- In the last decade, assets under the management of NBFIs have almost doubled.
- In 2017, they represented a little less than half of the total assets of the financial sector at the global level 40% of total financial system credit assets.
- The role of Non-banking institutions - besides the current role of banking institutions- will grow more widely in coming years as the main gate for the funding required for the growth in investment opportunities and expansions.
- Promoting economic growth by enhancing competition in the financial sector
- Providing financial services to small and medium sized enterprises (the “SMEs”).

Non-banking Financial Institutions Risks

Non-banking institutions face several risks factors categorized as risks factors arising from the business operations and market risks factors affecting the nonbanking business operations.

Risk factors that arise from NBFI's operations and structure are further categorized under two categories:

Operational Risks

- Management risk
- Corporate Governance Risks
- Operational Risks
- System and technology Risks
- Market competition and stability Risks
- Regulatory procedures risks

Financial Risks

- Capital structure risk
- Credit Risks.
- Provisions Risk
- Collection Risk
- Liquidity Risk
- Financial risks

Non-banking Financial Institutions Risks-Cont’d

Market Risk

Both global and local Economic, regulatory and political reforms can have a direct effect on the performance of non-banking institutions and its related markets &financial instruments.

- Inflation, Currency risks, interest rates and monetary policies risks
- Market liquidity, FDI risks and Global recession risks
- Political and legal reform risks (Taxes, business laws, investment laws, competition law..etc). risks

Accordingly, NBFIs can become a source of systemic risk that may affect the financial system and the general economy

The role of banking and non-banking institutions and related risks demands a strong and dynamic regulatory framework that closely supervises the operations of financial institutions & related funding instruments.

Regulatory and Supervisory Frameworks

For Non-Banking Institutions

FRA - Financial Regulatory Authority – Regulator to create investment climate and attract investments for economic growth

The Financial Regulatory Authority is an independent legal public authority. The Authority is responsible for supervising and regulating non-banking financial institutions, related markets and, financial instruments.

The FRA covers:

- Capital Markets
- Insurance
- Mortgage finance
- Financials Leasing
- Microfinance
- Pension Funds
- Governmental Insurance funds
- Factoring
- Securitization

Regulatory and Supervisory Frameworks-Cont'd

For Banking Institutions, Fiscal Plan and Economic Stability;

CBE – Central Bank of Egypt – Regulator to mitigate risks facing economic stability and to support government fiscal plan.

The role of the CBE is to control, regulate and supervise monetary risk stability required to facilitate the accomplishment of the fiscal plan set to achieve the economic growth objectives.

The role of CBE is to:

- Formulate and implement monetary policies
- License and developments of credit tools and regulations for banking institutions
- Manage of money supply and capital/reserve requirements
- Manage auctions for TBs and sovereign bonds
- Act as the supervisory and regulatory authority

Measures by Regulatory and Supervisory Frameworks

FRA - Financial Regulatory Authority

The FRA's role is to provide measures and procedures that mitigate external and internal risks affecting non-banking institutions in order to:

- Stabilize non-banking financial markets
- Protect investors & participants right by regulating and developing non-banking financial market and
- Issuing various means, systems, rules and regulations
- Ensure efficiency and transparency of these markets

Measures by Regulatory and Supervisory Frameworks -Cont'd

FRA's role is achieved through the guidelines and procedures that:

- Coordinate with all governmental regulatory bodies.
- License of non-banking financial activities.
- Approval on non-banking institutions management and board members.
- Regulate corporate governance, operational, capital structure and financial monitoring procedures(provisions).
- Inspect licensed entities engaged in non-banking financial activities.
- Regulate non-banking financial markets (Corporate governance and operational procedures).
- Regulate the dissemination of information related to non-banking financial markets.
- Ensure transparency and competitiveness Protect non-banking market investors' rights.
- Take necessary measures to limit market manipulation and fraud.

Measures by Regulatory and Supervisory Frameworks -Cont'd

CBE –measures to control non-banking risks – (Indirect measures)

- CBE indirectly mitigates the external risks facing non-banking institutions.
- Banking institutions are the main source of debt finance for non-banking financial institutions.

The CBE indirectly regulates the procedures for the financing provided through banking institutions to non-banking institutions.

Thank you