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Non-bank financial institutions in Morocco: development and implications for financial stability[1]

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[1] This presentation was prepared for the meeting. The views expressed are those of the author and do not necessarily reflect the views of the BIS, the IFC or the central banks and other institutions represented at the meeting.

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BANK FOR INTERNATIONAL SETTLEMENTS

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Non-bank financial institutions in Morocco: development and implications for financial stability

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بنك المغرب
BANK AL-MAGHRIB

SUMMARY

I Non bank financial institutions (NBFI) in Morocco

- Legal framework
- NBFI's data coverage

II Use of financial accounts to assess the NBFI sector

- Development of the activity
- Implications for financial stability

I- Non bank financial institutions in Morocco

- Thanks to liberalization reforms undertaken during the 90s, the structure of the Moroccan financial system (MFS) has become diversified and similar to the majority of emerging countries.

- The financial innovations have resulted in the creation of numerous financial products, activities and actors.

- The current structure of the MFS is modern and characterized by the presence of different types of actors, from banks to payment institutions.

- The MFS is regulated by three main regulations :
    - *Banking law 103-12 (2014)*
    - *Financial market law 19-14 (2017)*
    - *Insurances code 17-99 (2002)*

I- Non bank financial institutions in Morocco

Financial market

- Money market funds : 47
- Non money market funds 450
- SPV 3
- Private equity funds 7
- **Real estate funds**

Banking system

- Banks :19
- **Participatory banks 5**

Other financial institutions

- Finance companies **32**
- Offshore banks **6**
- Microcredits associations **13**
- CDG
- Money Transfer companies **9**
- **Payement institutions 5**

Insurances and reinsurance companies

- Insurance : 22
- Reinsurance : 2

Pension funds

- Moroccan Interprofessional Pension Fund (CIMR)
- National Pension and Insurance Fund (CNRA)

Entities supervised by the Central Bank (BAM)

Entities under the control of the Moroccan capital market authority

Entities under the control of the Supervisory Authority of Insurance and Social Welfare

I- Non bank financial institutions in Morocco

- Since 2008, BAM has started a long process to include this sector's data in the monetary and financial statistics. the main objective is to have an effective regulation, closer supervision, and also for an assessment of the risks of this sector on financial stability,
- This process was engaged under the technical assistance of the IMF and also in close collaboration with other national financial system supervisors

2008
- Bank Al-Maghrib
- Commercial Banks
- Money market fund
- Al-Barid Bank

69% SSF

2011
- Finance companies
- Micro-credits associations
- Offshore banks

77% SSF

2012
- Non money market Investment funds
- Caisse de Dépôt et de Gestion (CDG)

91% SSF

2013
- Insurances and reinsurances companies

97% SSF

2014
- Pension funds

98% SSF

2016
- SPVs
- Patricipatory banks

99% SSF

2018
- Payement institutions
- Real estate funds

100% SSF

I- Non bank financial institutions in Morocco

BAM publishes monetary and financial statistics in accordance with IMF standards and at different frequencies :

- Monthly basis for the banking system
- Quarterly basis for the NBFI. Morocco is among the 50 countries who reports data on NBFI under IMF standards, out of 145 countries.

These statistics :

- are an important building block for the compilation of financial accounts.
- Allow us to calculate the NBFI position vis-à-vis other sectors which gives us a preliminary view on this sector (development of activity, involvement in economy financing).

II Use of financial accounts to assess the NBFI sector

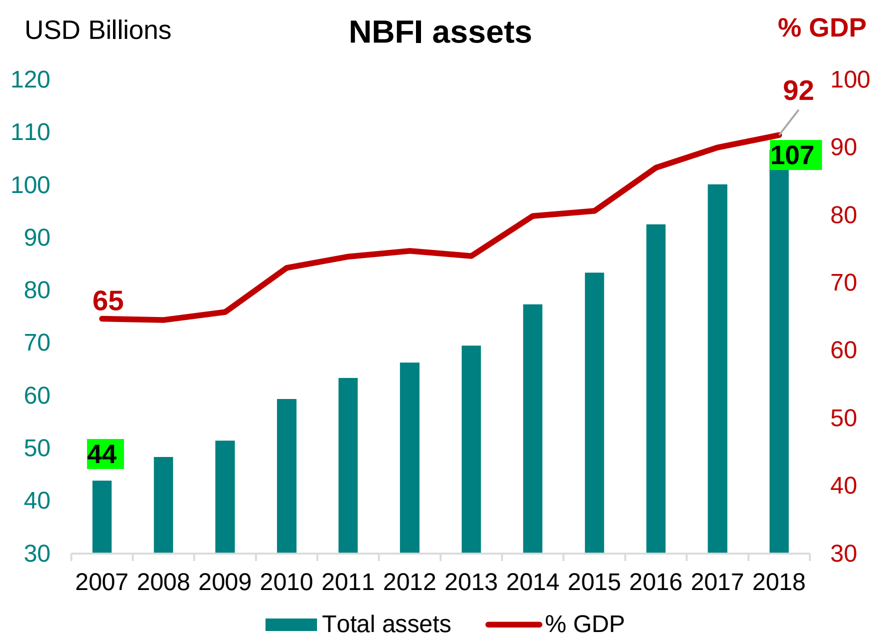
II- Use of financial accounts to assess the NBFI sector

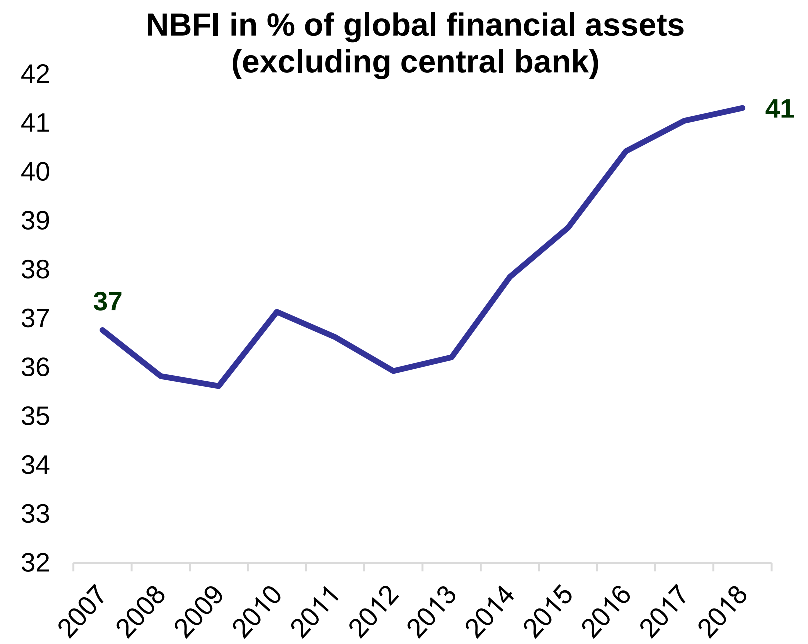
Importance and risks related to the NBFI sector

- Non-bank financing is a valuable alternative to bank financing for many firms and households, which have no access to banking system financing.
- This sector is also important in terms of collecting saving, especially long term saving of the non financial sector.
- The involvement of this sector in financial intermediation has helped enhance competition across the financial system and also improve efficiency and greater risk-sharing capacity.
- But, some activities of NBFI indeed inherently carry risks. In fact, the 2007-2008 global financial crisis highlighted the credit, liquidity, leverage or maturity risks associated with this sector as well as the potential for contagion to the rest of the financial system.
- It is therefore necessary to ensure the existence of an appropriate regulatory framework that preserves both the security of the financial system and the neutrality of regulations.

II- Use of financial accounts to assess the NBFI sector

Fast development of the NBFI during the last decade



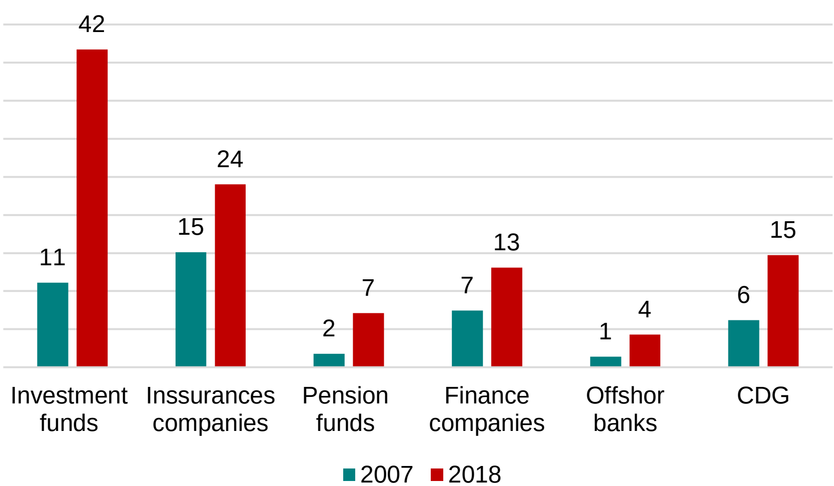


- NBFI's assets has been multiplied by 2.4 while those of the banking sector by 1.9.
- NBFI's assets represent at the end of 2018, 92% of GDP against 65% in 2007
- NBFI's assets represent at the end of 2018, about 41% of global financial assets.

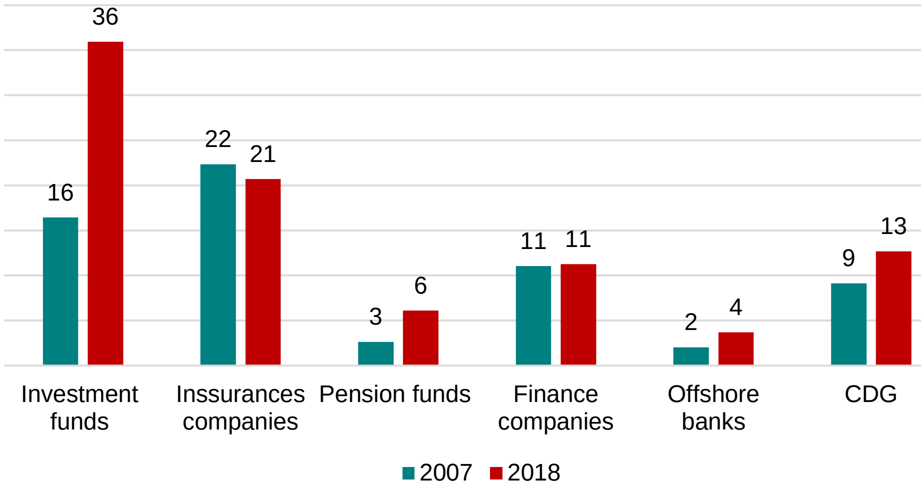
Use of financial accounts to assess the NBFI sector

Development driven mainly by investment funds (IF) which is the main NBFI subsector

NBFI assets by institutions
$ billion



NBFI structure % GDP

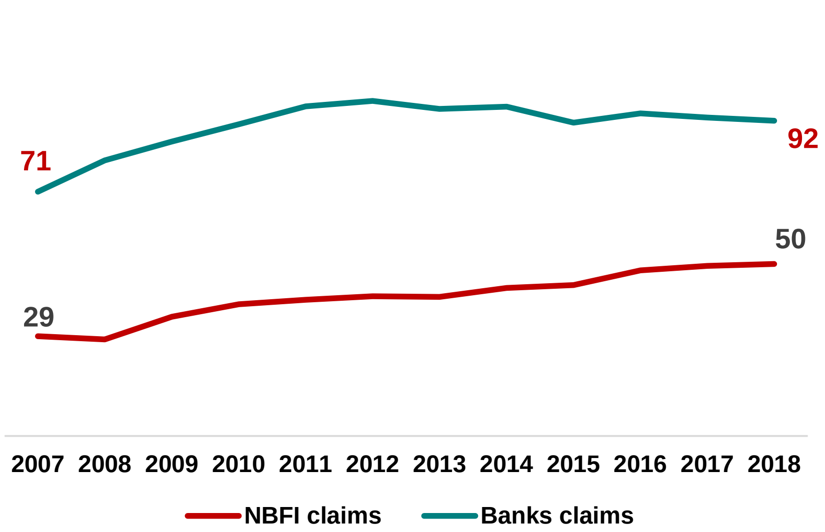


- All sectors have seen their assets grow.
- The development of NBFI assets was driven mainly by the IF which is the largest NBFI sub-sector, followed by insurance companies.
- IF assets rose from $11 to $42 billion, taking their share from 16% to 36% while the share of the insurance companies fell from 22% to 21%.

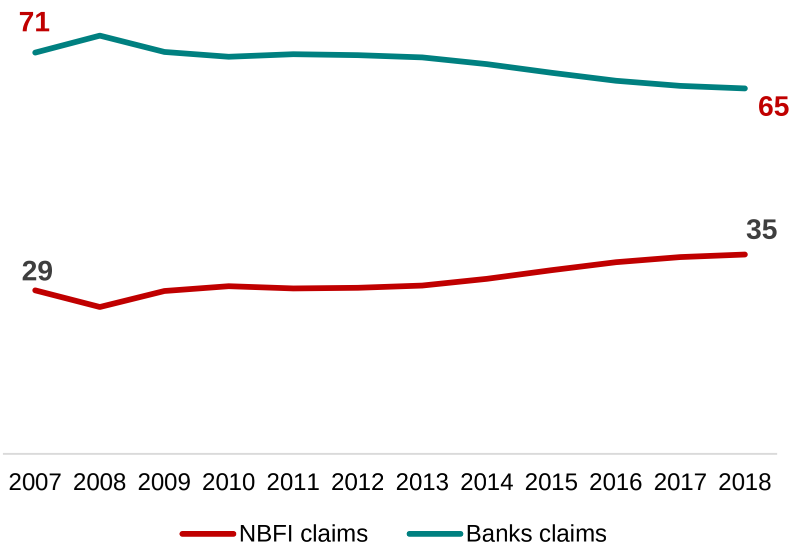
II- Use of financial accounts to assess the NBFI sector

Contribution of NBFI sector to financing the economy

Bank and NBFI claims (loans, shares, securities) on the economy (excluding CG) in % GDP



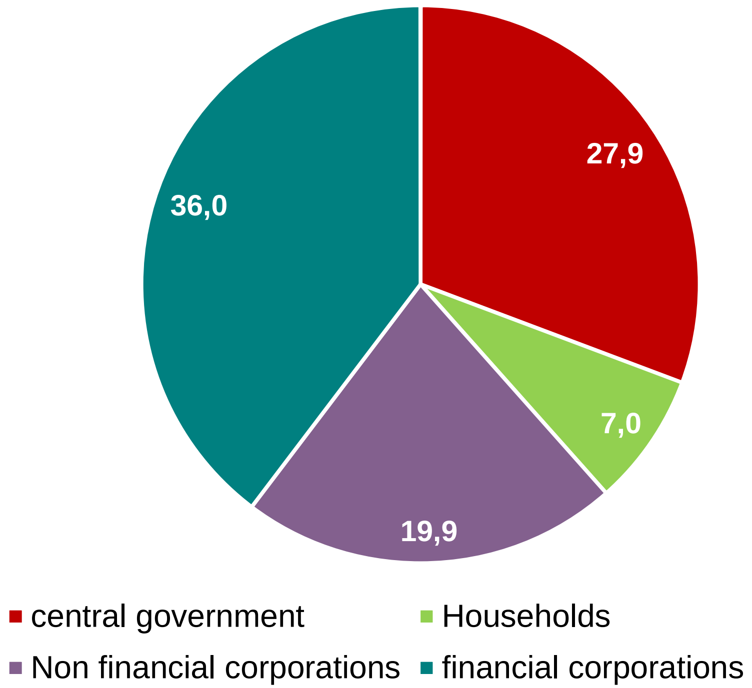
Banks and NBFI claims structure (% of total financial institutions claims)



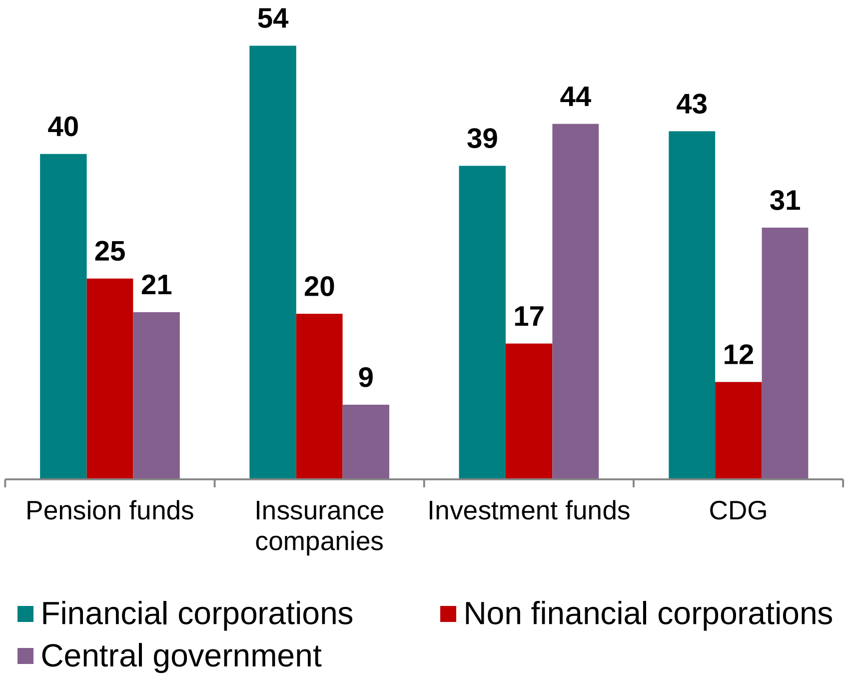
- NBFI financing in % of GDP increased from 29% to 50% and those of the banking system from 71% to 92%.
- Compared to the banking system, claims on the economy of this sector are becoming more and more important. NBFI financing's weight grow from 29% to 35% while banks financing's weight fell from 71% to 65%.

II- Use of financial accounts to assess the NBFI sector

NBFI financing structure (% of assets, end 2018)



NBFI financing structure by subsector (% of assets, end 2018)

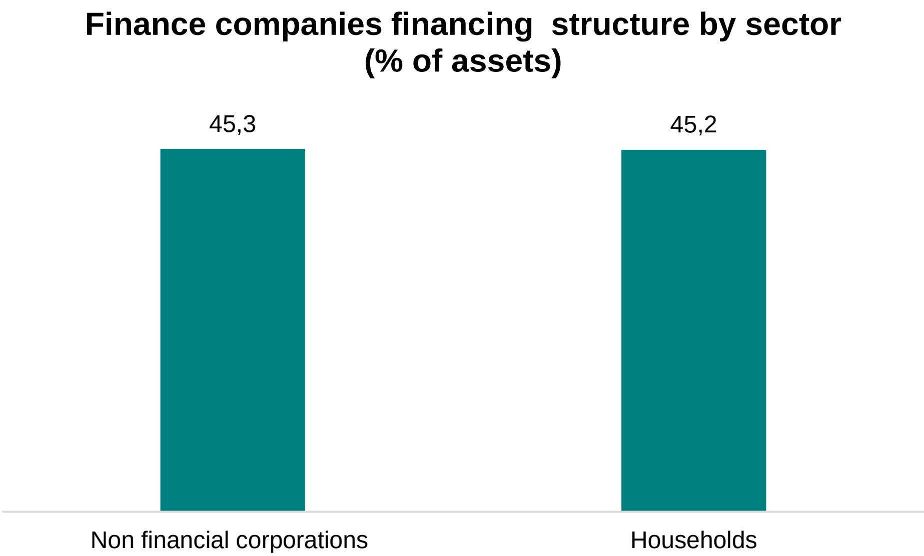


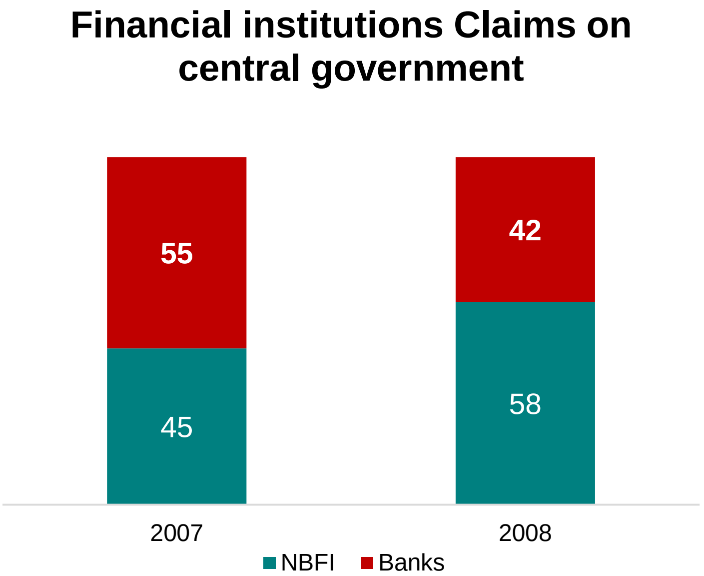
Despite the development of the sector, its implication in financing the economic activity remains below expectations :

- Financial structure of NFCs
- Weak private debt market // A deep public debt market
- Regulatory aspects

II- Use of financial accounts to assess the NBFI sector

Special focus on finance companies and on NBFI claims on central government

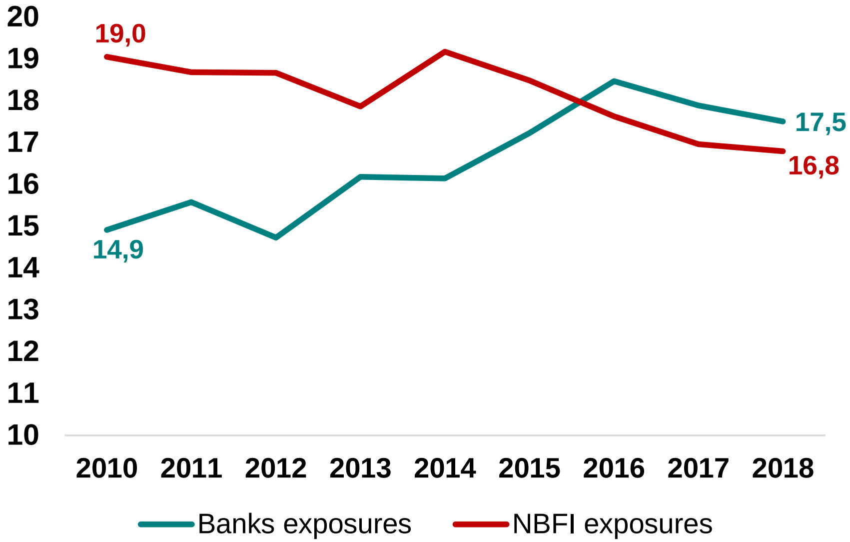




- Finance companies are an important source of funding for households and NFC. These companies are generally subsidiaries of banks and offer financing to customers who can not access to banking services.
- Loans that finance companies distribute account for 52% of households consumer credit and 36% of business equipment loans from banks.
- NBFI financing to the central government has become more important than banks financing.

II- Use of financial accounts to assess the NBFI sector

Interconnections between banks and NBFI (% of total assets)



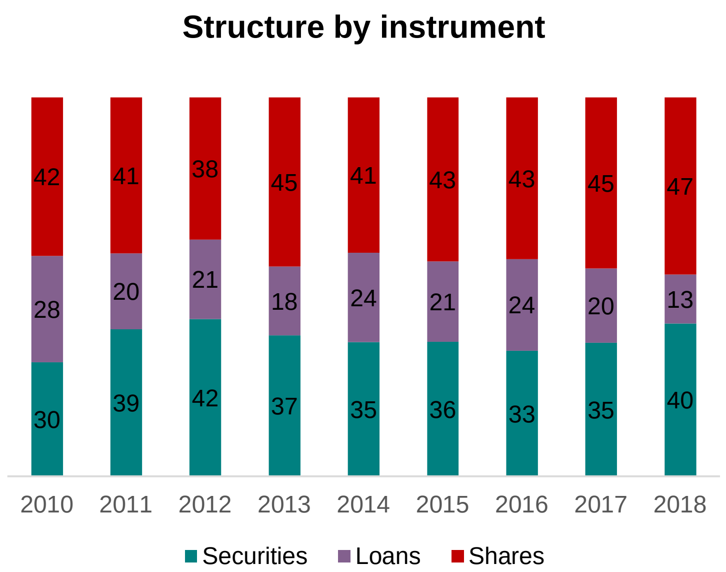
Banks claims on NBFI are made up of :

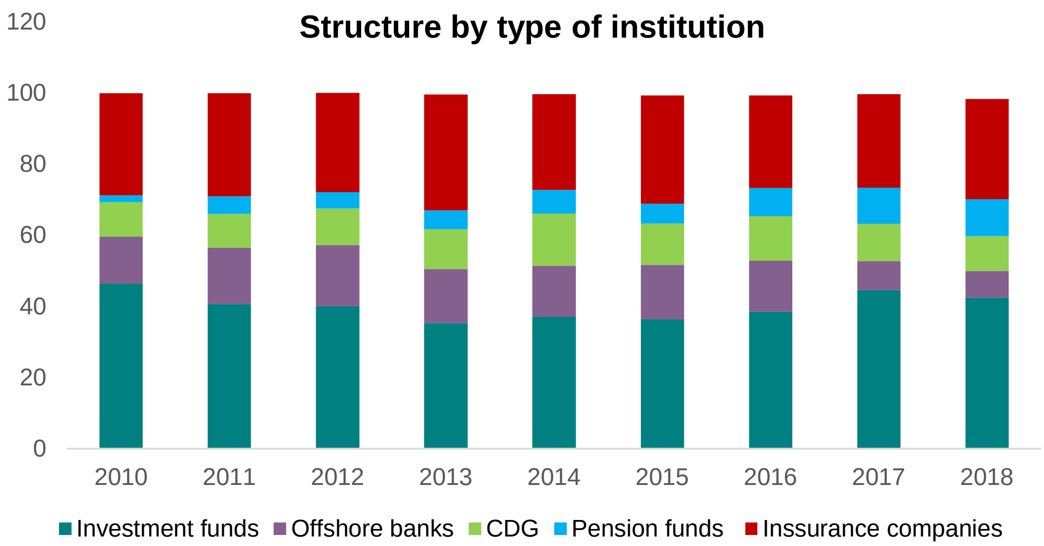
- 52% of loans to finance companies (main source of financing of these institutions) and mutual funds (short term operations, liquidity purposes)
- 26% of mutual funds shares

- In Morocco, like in other emerging and developed countries, the financial system is characterized by the existence of interconnections between banks and other financial institutions.
- This interconnections varies across institutions.

II- Use of financial accounts to assess the NBFI sector

NBFI exposure to the banking system : The structure by instrument and by NBFI sub-sector has not changed



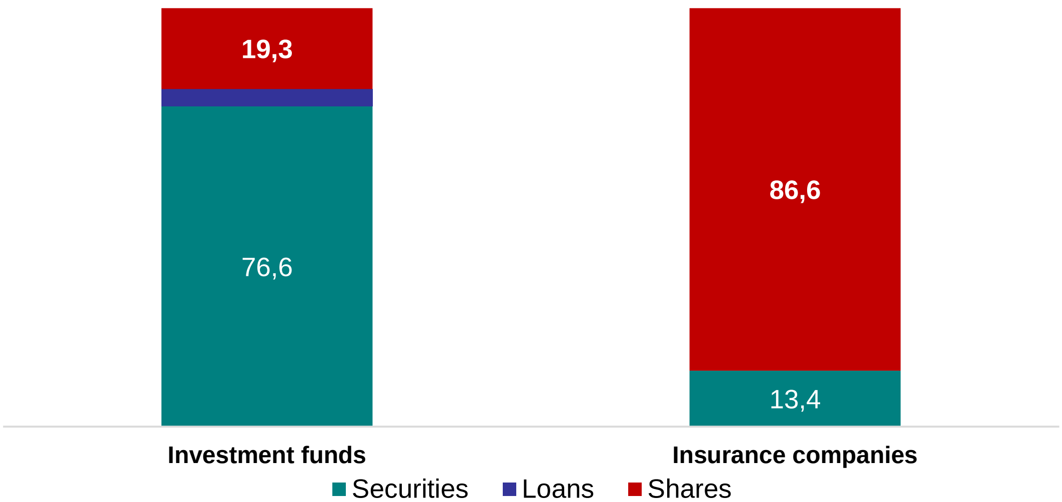


- NBFI exposures to banks are made up, at the end of 2018, of 47% as shares, 40% as securities and 13% as of loans.
- Mutual funds and insurance companies are the two main sectors with the most important exposures, ie 42,5% and 28,2%

II- Use of financial accounts to assess the NBFI sector

Focus on investment funds and insurance companies exposure to banks

Investment funds and insurance companies exposure's structure by type of instrument (in %, end of 2018)



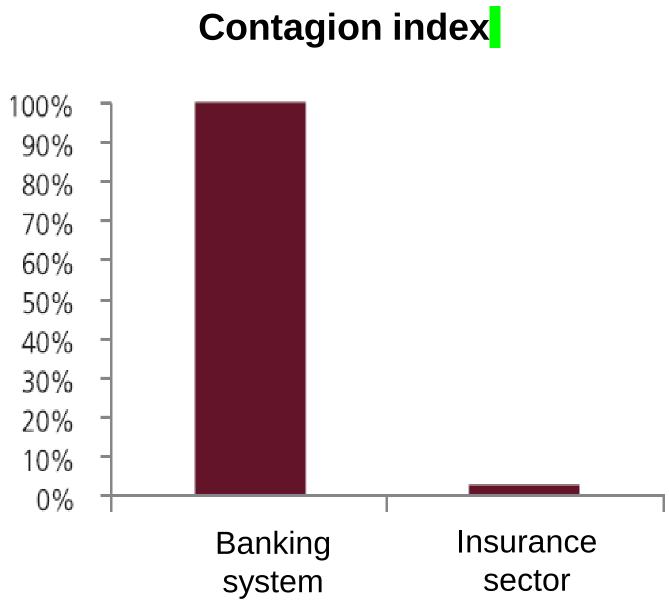
- The investment funds, due the weakness of securities issuance by non financial corporations, invest 11% of their funds in securities issued by banks (which represent 76,6% of their claims on banks). Banks exposure to this sector is estimated at 6% of their assets.
- The insurance sector has large holdings of banks. These holdings account for 14% of the insurance sector (which represent 86,6% of their claims on banks). However, banks' exposure to insurance remain very low and under 1% of banks' total assets.

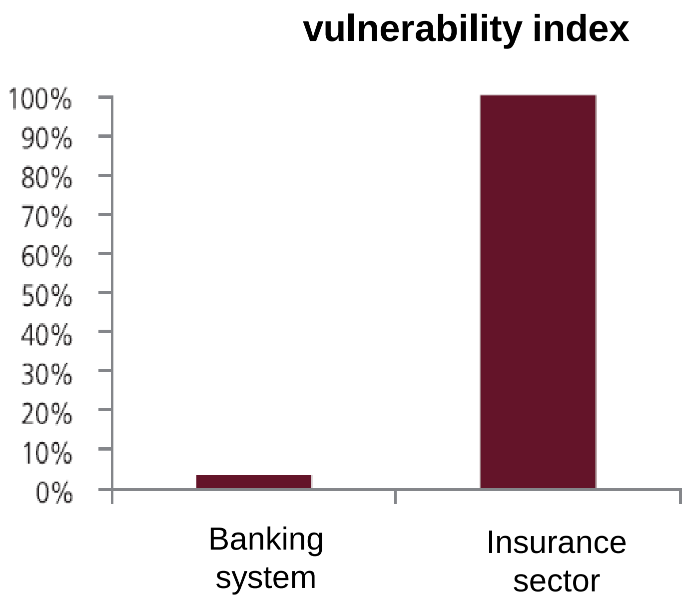
II- Use of financial accounts to assess the NBFI sector

Assessing the interconnections between banks and NBFI

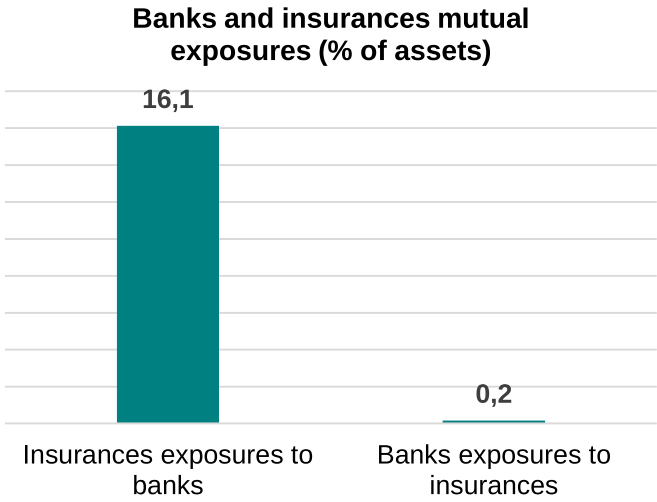
- The interconnections between banks and NBFI are analyzed by the Systemic Risks Coordination and Monitoring Committee (SRCMC).
- The SRCMC was established by banking law and chaired by the Governor of Bank Al-Maghrib and is composed of representatives of the ACAPS, the AMMC and the Ministry of Economy and Finance. On of his missions, is to analyze the situation of the financial sector, assess and prevent systemic risks.
- An assessment of the interconnections between financial institutions is carried out through the conduct of stress tests.
- Among these stress tests, the interconnections between banks and insurance institutions.

Use of financial accounts to assess the NBFI sector





- Insurers are vulnerable to large banks failures, mainly due to their large holdings of bank equity, (the reverse is not true)
- The contagion risks to banks from large insurers are limited
- The stress testing exercise conducted by the Financial Stability Committee and also under the FSAP confirms the conclusions drawn from the financial accounts.



CONCLUSION

For an effective analysis of the financial stability, and closer monitoring of the NBFI :

- granular and micro data are an important pillar to develop
- Cooperation between national producers of data is necessary
- Enlarge the network exercises of stress tests conducted to other NBFI like mutual funds.

THANK YOU