

Guide to Licensing Application Process for Deposit Taking Entities

Introduction

Section 4 of the Banking Act and the Financial Institutions Act grants the Bank of Jamaica the responsibility for assessing all applications for a deposit-taking license to inform its recommendation to the Minister of Finance who is empowered by statute to grant and revoke such licenses.

The Bank of Jamaica's assessment occurs in two phases. In the initial phase, applicants are required to satisfy certain fundamental criteria. Once the applicant successfully completes this phase, supplemental information relevant to the second stage would be requested.

This Guide seeks to disclose:-

- A. The basic criteria that an applicant must satisfy to obtain a deposit-taking license;
- B. The information to be submitted to facilitate the assessment process;
- C. An overview of the due diligence process undertaken by the Bank of Jamaica.

Basic Assessment Criteria

The Bank of Jamaica primarily takes into account the following matters in assessing the basic criteria that an applicant for a deposit taking licence must satisfy in order to advance to the second phase of the assessment process:

1. Suitability of Applicant

- a. **Fitness and Propriety** - Section 4(3) of the Banking Act and the Financial Institutions Act requires that every person who is a significant shareholder of the proposed company (i.e. holding 20% or more of the shares), a director or is to perform corporate management functions in the company, are to be "fit and proper" persons. In that regard, reference may be made to the BOJ's *2004 Guide to Fit and Proper Assessment* which is available on the Central Bank's website, which provides more detail on the fit and proper criteria and the assessment process;
- b. **Financial Strength** – this includes a thorough assessment of the nature and sufficiency of the financial resources of the applicant or applicants as a source of continuing financial support for the proposed bank. The business record and experience of the applicant(s), including financial performance (as indicated in audited financial statements and annual reports) over the last 3-5 years is assessed; focus is also given to the soundness and feasibility of the plans of the applicant(s) for the future conduct and development of its own operations and that of the wider group of which it may be a part.

2. Ownership Structure

The Banking and Financial Institutions Acts do not allow for a deposit-taking entity to be a member of a mixed conglomerate. Where such a situation arises, the group is required to be structured such that the proposed deposit taking entity and any other financial entity(ies) be held under a financial holding company to facilitate effective regulatory oversight of the financial group. The financial group structures prescribed under law are outlined in Section 29 of the Banking and Financial Institutions Acts.

Where the applicant is part of a financial group, the Bank of Jamaica assesses the group structure to determine whether it facilitates consolidated supervision and full supervisory reach to the ultimate holding company/ beneficial owner(s). This is consistent with international requirements as espoused by bodies such as the Basel Committee of Banking Supervisors, the Joint Forum and the Financial Action Task Force (FATF). In assessing the supervise-ability of such financial groups, the Bank of Jamaica considers:-

- i. The complexity of the corporate structure of the group and impact on supervisory reach;
- ii. The nature and extent of proposed financial services activities of the major shareholders and their affiliates (other than the proposed bank) – the nature and degree of supervision applicable to the financial services activities; and the overall strategic direction of the group;
- iii. The potential for prudential concerns such as contagion, connected lending etc.

3. Supervise-ability of the Proposed Deposit-taking Licensee (DTI)

In assessing the supervise-ability of the proposed deposit-taking entity, the Bank of Jamaica assesses:

- a. The nature and extent of the proposed financial services activities to be carried out by the proposed DTI and its wider group to determine, inter alia, whether the proposed activities would be in the best interest of the Jamaican financial system and whether strategic and operational plans are based on feasible/reasonable assumptions;
- b. The Corporate Governance Framework of the proposed DTI – including an assessment of the planned organizational structure of the proposed deposit-taking entity including the proposed board of directors, senior management team and independent oversight functions. Issues examined in this regard, include independence of the board, independence of the deposit-taking entity from the operations of the wider group of which it forms a part including the extent which the management of the proposed licensee is unique to the entity itself. (During the second phase of the licensing process the Bank assesses the policies and procedures, the proposed risk management framework and other elements of the corporate governance framework in greater detail);

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- c. Financial System considerations including the stated rationale for licensing application; extent to which applicant has demonstrated that the granting of such a license would be in the best interest of the financial system; extent to which applicant has demonstrated that the banking needs of the community have been well researched and evaluated and that the applicant will appropriately serve the community's interest; as well as extent to which applicant has demonstrated a strong likelihood of successful operations.

Information Requirements

An applicant is required to provide a written formal application, along with the submissions listed below. Items (1) to (22) are submitted with the initial formal application to facilitate the first phase of the assessment process. During the second phase of the process, the Bank of Jamaica will request items listed at (23) to (30) below. This list is however not exhaustive and further information requirements may arise in the course of the assessment process.

Phase (1) Information Requirements

1. Name of Applicant
2. Tax Registration Number of applicant
3. Date and country of Incorporation or establishment
4. Address of principal place of business and head office of the applicant
5. Copy of Memorandum and Articles of Association
6. If incorporated outside of Jamaica, give Head Office, Principal office in Jamaica, Authorized Agent in Jamaica;
7. Name, nationality occupation and address of directors of the applicant and being considered for the proposed DTI. Please indicate whether it is intended, if not currently the case, to appoint external, unconnected non-executive directors to the proposed DTI.
8. Name, nationality, occupation, address and shareholding (number and type of shares held and J\$ value) of shareholders of the applicant;
9. Name, nationality, occupation and address of Directors of the applicant and/or proposed DTI;
10. Name, nationality, occupation and address of Principal Officers of the applicant and/or proposed DTI, along with brief description of duties, qualifications and number of years experience in banking/finance/business/building society services.
11. Capital (Authorized; Subscribed; Paid-up and Type of Shares) of the applicant and/or the proposed DTI
12. Precise of Nature of Business transacted by the applicant as well as nature of business proposed to be transacted by the proposed DTI;
13. Details of number of persons likely to be employed in management and staff positions within the proposed DTI
14. Name and Address of Auditors of the applicant and/or the proposed DTI
15. Name and Address of Attorney-at-law of the applicant and/or the proposed DTI
16. Name and Address of Bankers of the applicant and/or the proposed DTI

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17. If the applicant is a subsidiary of another Company, give the name, address and nature of business of Parent Company;
18. State whether the Parent company is regulated or supervised and the name and address of the relevant Supervisory Authority/(ies);
19. Give the name and address of subsidiaries, if any, of the applicant, or any enterprise in which it has a shareholding or similar interest, giving details and nature of business pursued;
20. Give the name and address of other bodies, partnerships and unincorporated associations if any, that have a relationship with the applicant of a financial, trust or custodial nature;
21. Provide a Corporate Chart, which should show clearly, the relationship of the proposed DTI licensee to Parent Company, Subsidiary, and other connected Companies, where applicable. (For definition of connected company, please refer to the definition of “connected person” in Section 2(1) and 2(2) of the Banking Act and Financial Institution Act).
22. Submission of supporting documentation viz, -
 - i) Business Plan and Feasibility study addressing inter alia, rationale on which the application for licence is based; the identified economic needs which the company intends to meet, or which have been identified as not now being met by existing financial intermediaries; growth prospects over the next five years; specific source of fund details; proof of the ability to meet the statutory capital requirements for minimum paid-up capital to ensure start-up and on-going viability and sustainability of operations, including meeting the required capital maintenance ratios; management staffing and operational structure proposed for the company.
 - ii) Financial Statements – Audited statements of the applicant for the last 5 consecutive years in the case of existing businesses or Audited opening balance sheet where the former is not the case; Operating projections for the next 5 years (including balance sheets, income statement; cash flow projections) along with detailed underlying assumptions;
 - iii) Personal and business history of each of the owners, directors and of the Secretary and Senior Corporate officer from the rank of Manager of the applicant and/or Parent company and/or proposed DTI. The foregoing is inclusive of professional and/or academic qualifications; experience in banking and/or related undertakings; and information as to possible participation in any prior or current litigation or administrative proceedings;
 - iv) Completion of the requisite “Personal Questionnaire” (attached) for “Connected persons” in relation to (iii) above;
 - v) Similar information outlined at (iv) above is required along with a certified copy of current financial statement or statement of affairs, of any person/(s) who will directly or indirectly possess or control 5% or more of the voting

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power of the proposed DTI, or 10% or more of the non-voting shares of the Company.

- vi) Last three (3) audited financial statements of parent company and all connected companies on both a consolidated and individual entity basis:

Phase (2) Information Requirements

- 23. Provide an overview of each line of business to be conducted by the applicant and the product and services to be offered as well as a summary of operations of the group as a whole and how those operations interrelate;
- 24. Provide an overview of the investment and lending policies, standards and procedures in respect of the proposed DTI;
- 25. Provide draft policies and procedures for the management of all major risk areas including but not limited to credit (including provisioning policies), market (interest rate and foreign exchange), liquidity, money laundering and terrorist financing, operational, legal and reputation risks;
- 26. Provide detailed Business Continuity and Disaster Recovery Plans;
- 27. Provide Capital Management Policy which should indicate policy and procedures for ensuring that statutory capital requirements as well as internal targets are met and maintained;
- 28. Description of Board composition; list of board committees, membership and mandates;
- 29. Comprehensive description of system of internal controls, risk management and compliance systems and procedures to ensure safety and soundness of proposed licensee's operations and compliance with deposit-taking statutes (including Proceeds of Crime Act and its subsidiary Money Laundering Regulations);
- 30. Provide overview of the proposed licensee's information technology governance structure; overview of technology systems and platforms to be used, including type of hardware, type of application software and risk assessment of information technology operations.

Application Process

As noted above, the Bank of Jamaica requires that a formal written application be submitted, along with the initial accompanying documentation listed as items (1) to (22) above. The application must also be accompanied by a certified copy of resolution of the Board of Directors of the applicant, approving the application.

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During the first phase of the application, the Bank of Jamaica may request additional information to facilitate its due diligence process. It is during this phase that the Bank conducts its fit and proper assessment of proposed shareholders, directors and management. This assessment involves interactions with external bodies as outlined in the *BOJ 2004 Fit and Proper Guidelines*, which is available on Bank's website.

On completion of the first phase of the assessment process, the Bank will proceed with the second and final phase of the application process with request of the more detailed information outlined at items (24) to (30) above, once the applicant satisfies the requirements as set out in phase (1).

The evaluation process will not proceed if the applicant does not satisfy phase (1) requirements and a recommendation will be made to the Minister to deny the application for licence.

The Bank of Jamaica will make a positive recommendation to the Minister of Finance once an applicant satisfies both phase (1) and phase (2) requirements. The Minister will then communicate his determination to the applicant.

There is no specific time limit on assessing applications, as the time required to review each assessment depends heavily on the specifics of each application, the timeliness of responses required from various external bodies, and the timeliness of the applicant's submission of the required information.