

Financial Sector Assessment

A HANDBOOK



THE WORLD BANK



International
Monetary Fund

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**International
Monetary Fund**

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Abbreviations and Acronyms

A&A	Accounting and auditing
AML–CFT	Anti-Money Laundering and Combating the Financing of Terrorism
ARIC	Asia Regional Information Center
ATM	Automated teller machine
BAAC	Bank for Agriculture and Agricultural Cooperatives [Thailand]
BCBS	Basel Committee on Banking Supervision
BCP	Basel Core Principles (for Effective Banking Supervision)
BIS	Bank for International Settlements
BRI	Bank Rakyat Indonesia
CAMEL	Capital adequacy, Asset quality, Management soundness, Earnings and profitability, Liquidity, and Sensitivity to market risk
CARMELS	Capital adequacy, Asset quality, Reinsurance, Adequacy of claims and actuarial, Management soundness, Earnings and profitability, Liquidity, and Sensitivity to market risk
CGAP	Consultative Group to Assist the Poorest
CIDA	Canadian International Development Agency
CPSIPS	Core Principles of Systemically Important Payment Systems
CPSS	Committee on Payment Settlement Systems or Committee on Payments and Settlements Systems
CSD	Central securities depository
CSFB	Credit Suisse First Boston
DB	Defined Benefit
DC	Defined Contribution
DCP	Domestic credit to the private sector
DFI	Development finance institution
DFID	UK Department for International Development
DIS	Deposit insurance system
ECB	European Central Bank
EMDB	Emerging Markets Database

EWS	Early warning systems
FAO	Food and Agriculture Organization of the United Nations
FASB	Financial Accounting Standards Board
FATF	Financial Action Task Force on Money Laundering
FCRA	Fair Credit Reporting Act
FIRST	Financial Sector Reform and Strengthening Initiative
FIU	Financial Intelligence Units
FSAP	Financial Sector Assessment Program
FSIs	Financial soundness indicators
FSLC	Financial Sector Liaison Committee
FSRB	FATF-Style Regional Body
FSSA	Financial System Stability Assessment
FX	foreign exchange
GAAP	Generally Accepted Accounting Principles
GDDS	General Data Dissemination System
GDP	Gross domestic product
GNP	Gross national product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HI	Herfindahl Index
IAASB	International Auditing and Assurance Board
IAIS	International Association of Insurance Supervisors
IASs	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
ICP	Insurance Core Principle
ICR	Insolvency and creditor rights
IDA	International Development Association
IFAC	International Federation of Accountants
IFC	International Finance Corporation
IFCs	International Financial Centers
IFRSs	International Financial Reporting Standards
IFS	International financial statistics
IFSB	Islamic Financial Services Board
IIFS	Institutions offering Islamic Financial Services
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IPSAS	International Public Sector Accounting Standards
ISA	International Standards for Auditing
KYC	Know-your-customer
LCFI	Large and complex financial institution
LGD	Loss given default
LIBOR	London interbank offer rate
LOLR	Lender of last resort
LSMS	Living Standards Measurement Survey
MFI	Microfinance institution

MFP	Monetary and financial policies
MIX	Microfinance Information eXchange
NBFI	Non-bank financial institution
NCD	Negotiable certificate of deposits
NGO	Non-governmental organization
NPL	Non-performing loans
OECD	Organisation for Economic Co-operation and Development
OFC	Offshore Financial Center
OFI	Other Financial Intermediary
OMO	Open market operations
OTC	Over-the-counter
PAYG	Pay-as-you-go
POS	Point of sale
PSB	Postal savings bank
ROA	Return on assets
ROE	Return on equity
ROSCs	Reports on Observance of Standards and Codes
RSSS	Recommendations for Securities Settlement Systems
SACCOs	Savings and credit cooperative organizations
SDDS	Special Data Dissemination Standard
SIC	Standard Industrial Classification
SIDA	Swedish International Development Co-Operation Agency
SME	Small and medium enterprise
SOE	State-owned enterprise
SRO	self-regulatory organization
TRWA	Total risk-weighted assets
UNCITRAL	United Nations Commission on International Trade Law
UNDP	United Nations Development Programme
USD	U.S. dollars
VAR	Value-at-risk
VAT	Value-added tax
WOCCU	World Council of Credit Unions

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Preface

The experience of many countries around the world clearly shows that while financial sector development can spur economic growth, financial fragility and instability can seriously harm growth. Following the financial crises of the late 1990s, there has been increasing interest in the systematic assessment of the strengths and weaknesses of financial systems, with the ultimate goal of formulating appropriate policies to foster financial stability and stimulate financial sector development. The Financial Sector Assessment Program (FSAP), a joint World Bank–IMF program introduced in 1999, represents a response to this demand for systematic assessments. The emergence of various financial sector Standards and Codes and the associated Reports on Observance of Standards and Codes (ROSCs) are further examples of the increased focus on financial sector assessments.

Consequently, there has been an increased demand from financial sector authorities in many countries, as well as from World Bank and IMF staff for information on key issues and sound practices in the assessment of financial systems and in the design of policy responses. This Handbook of Financial Sector Assessment is a response to this demand. The Handbook presents an overall analytical framework for assessing financial system stability and developmental needs, providing broad guidance on approaches, methodologies, and techniques of assessing financial systems.

Although the Handbook draws substantially on World Bank and IMF experience with the FSAPs and from the broader policy and operational work in both institutions, it is designed for generic use in financial sector assessments, whether conducted by country authorities themselves, or by World Bank and IMF teams. It is, therefore, our hope that the Handbook will serve as an authoritative source on the objectives, analytical framework and methodologies of financial sector assessments as well as a comprehensive reference book for training on the techniques of such assessments.

The Handbook was prepared under the general oversight of Messrs. Alexander E. Fleming (Sector Manager, Finance and Private Sector Division, World Bank Institute), Tomás J. T. Baliño (Deputy Director, Monetary and Financial Systems Department, IMF), and Larry Promisel (former Director, Financial Sector Global Partnership, World Bank).

It is the product of intense collaboration among a large number of staff and experts from both the World Bank and the IMF (primary contributors are listed on the next page). The design, drafting, and editing of the Handbook was coordinated by a team consisting of Mr. V. Sundararajan (Lead Project Consultant, Centennial Group Holdings and former Deputy Director, IMF), Mr. Abayomi A. Alawode (Senior Financial Sector Specialist, World Bank Institute), Mr. Mathew Jones (Senior Economist, IMF), and Mr. Martin Čihák (Economist, IMF).

We wish to thank the entire team for their valuable efforts in bringing this project to fruition.



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