



FINANCIAL SYSTEMS IN THE CARIBBEAN: AN OVERVIEW

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Outline of Presentation

- ◎ Aim of Study
- ◎ The Caribbean Economy
- ◎ Financial Systems of the Caribbean
- ◎ Scope for further study

Aim of Study

- ◎ To provide a comprehensive overview of the Caribbean financial sector, using recent reports.
- ◎ To put this performance in context, using comparisons with similar economies and with benchmark economies.
 - Examining the current financial systems that exist within the Caribbean.
 - Examining the financial systems that exist in developed and developing countries : Mauritius, Seychelles , Singapore, US, Brazil and UK.

The Caribbean Economy

Country Statistics (2008)

	GDP (US\$M)	Population (millions)	Area (sq.km)
Aruba	2,724	0.105	193
Bahamas	6,935	0.338	13,943
Barbados	3,409	0.255	430
Belize	1,367	0.301	22,966
ECCU	2,435.2	0.602	
Guyana	1,158	0.763	214,969
Haiti	6,953	9.876	27,750
Jamaica	15,068	2.708	10,991
Netherland Antilles	396.6	0.195	960
Trinidad and Tobago	23,898	1.333	5,130

- ⊙ Average Growth Rate : 1.1 (June 2009)
- ⊙ Average Inflation Rate : 2.2% (June 2009)
- ⊙ Unemployment data is limited but all indicators show an increase in the region unemployment rate.

Aruba

- All commercial banks are foreign owned.
- The banking sector is the most dominant sector with an asset value of Afl 4187.5 million.

Aruba: Financial System Composition 2008	
Commercial Banks	4
Offshore Banks	2
Bank Like Institutions	3
Credit unions	1
Money Transfer Companies	4
Insurance Companies:	
Non-Life	13
Life	8
Company Pension Funds	10
Other Institutions	3
Stock Exchanges	1
Central Bank	1
Source: Central Bank of Aruba	

Aruba cont'd

Prudential Indicators : Commercial Banks (%)		
	2007	2008
Capital Adequacy :		
Risk-Weighted Capital Asset Ratio	13.0	14.8
Tier 1 Capital Ratio	7.1	8.3
Asset Quality:		
Nonperforming loans to Gross loans	6.7	6.9
Large loans to Regulatory Capital	102.8	98.0
Earnings and Profitability:		
Return on Assets (after taxes)	3.1	2.3
Return on Equity (after taxes)	38.4	25.1
Net interest margin to Gross Income	60.5	62.1
Noninterest expenses to Gross Income	65.7	70.6
Liquidity:		
Loans to Deposit Ratio	74.7	69.6
Prudential Liquidity Ratio	29.3	34.7
Liquid assets to Short-term liabilities	82.6	88.3
Sensitivity to Market Risk:		
Interest Rate Margin	6.8	7.5

Source: Central Bank of Aruba

- The commercial banking sector is sound and profitable, consisting of 4 banks.
- Risk weighted capital asset ratio was well above the required minimum of 12%.
- Non performing rose marginally.
- Return on equity (after taxes) fell by 13.3 percentage point, due to a decline in net income and an increase in capital.
- The noninterest expense to gross income ratio grew by 4.9 percentage points to 70.6 percent , mostly as a result of a contraction in gross income.
- The loans to deposit ratio fell significantly below the prudential maximum of 80%, it was 69.6%, however the prudential liquidity ratio rose by 5.4 percentage points and was above the minimum requirement of 20 percent.

Aruba cont'd

Prudential Indicators : Other Banking Institutions (end of period figures in Afl. Million)

	2007	2008
Offshore Banks: Risk Weighted Capital Asset Ratio	10.7	31.1
Bank-like Institutions:		
Capital Adequacy		
Risk-weighted capital asset ratio	41.8	47.4
Asset Quality		
Nonperforming loans to Gross loans	7.9	8.5
Nonperforming loans to Net of loan loss provisions to paid in capital plus retained earnings	8.4	7.4
Source: Central Bank of Aruba		

- The 2 offshore banks are affiliated with Citibank.
- Total assets decreased in 2008 due mainly to a decline in loans outstanding of 229.2 million Afl. (67.6%)
- Total liabilities fell as a result of a decrease in time deposits. Also capital and reserves contracted by Afl. 12.9 million (5.7%) due to a net loss of Afl.7 million in 2008.
- The risk weighted capital asset ratio rose sharply from 10.7% to 31.2% .
- Offshore banks reported a net loss in 2008 due to decline in operating income.

Aruba cont'd

Insurance Sector Indicators as at 2007 (millions of US\$)		
	Non -Life	Life
Number of Companies	13	7
Liquidity Ratio: Current Assets to Total Assets	23.7	11.9
Return on Investment Ratio: Investment income to Average invested Asset	5.5	6.9
Coverage Ratio: Weighted assets less borrowings to technical provisions	310.2	119.0
Source: Central Bank of Aruba		

- Small and caters to the domestic needs of the country.
- Contributes approx. 4.3% to GDP.
- Performance indicators suggest that the for both life and non-life liquidity fell but not substantially , while the profitably ratios increased.

The Bahamas

Core set of Financial Soundness Indicators : Domestic Banking Sector (%)

	2007	2008
Average net worth to Risk Weighted Assets	24.9	23.9
Nonperforming loans net of provisions to Capital	23.0	30.8
Nonperforming loans to Total gross loans	4.3	6.0
Return on Assets	3.6	2.4
Return on Equity	18.6	11.7
Interest margin to Gross Income	93.5	93.4
Noninterest expenses to Gross Income	58.7	67.1
Liquid assets to Total assets	12.0	12.8
Liquid Assets to Short-term liabilities	18.4	20.0
Source: Central Bank of the Bahamas and IMF		

- The domestic financial system is dominated by banks, with private sector credit and domestic deposits amounting to 86% and 75% of GDP.
- The Financial soundness indicators of domestic banking sector has fallen, but the banks still remain well capitalized.
 - Non performing loans increased and the private sector credit growth decelerated from 9.7% in 2007 to 5.1% in 2008, reflecting weaker demand and tighter lending standards by banks.

- The Offshore financial sector, comprising about 250 banks and trust companies with estimated total assets of over \$300 billion in 2007, dwarfs the domestic financial sector.

The Bahamas cont'd

Other Selected Financial Sector Statistics		
	Unit	2008
Investment Funds Administrations: Licensed Mutual Funds Licensed Administrators	Number	867
	Number	66
Insurance Companies and Agents Domestic Companies and Agents External Insurers	Number	168
	Number	148
	Number	20
Credit Unions Total Assets	Number	20
	B \$ Mill	244.6
Bahamas International Securities Exchange (BISX) Securities Listed Shares Traded Market Capitalization	Number	23
	Thousand	4623
	B \$ Bill	3.03

Source: Central Bank of the Bahamas

- The number of active investment funds registered increased by 10.9% in 2008.
- The insurance sector has assets that are approximately 11.9% of GDP.
- Credit unions have assets of only 3% of GDP, but their membership covers about 10% of the population.
- There was a sharp downturn in the domestic equity market, a depreciation of 17.2% in the BISX.

Barbados

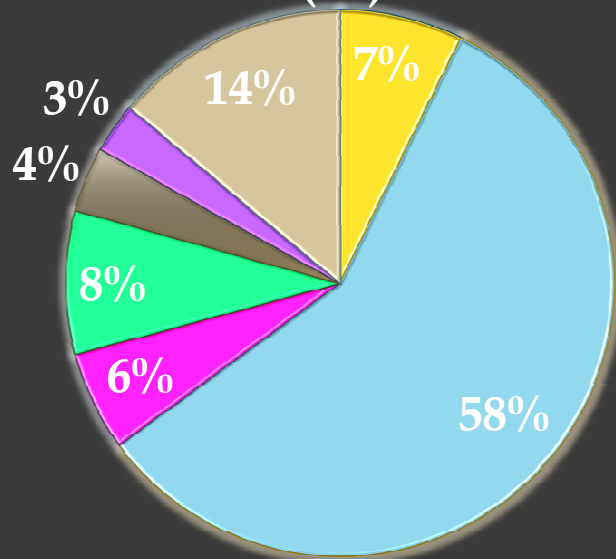
- Since the 1970's there has been a thrust to reposition the Barbadian economy as a service oriented one and measures have been implemented to encourage and develop an international financial sector.

Statistics of the Financial System (2008)

Total Financial Assets in absolute terms (\$Bds millions)	17,497
Total Financial Assets as a percentage of GDP(%)	237.7
Money Supply to GDP (%)	49.9
Private sector credit as a percentage of GDP (%)	70.7
Bank deposits as a percentage of GDP (%)	121.4
Source: Central Bank of Barbados	

Barbados cont'd

Share of Financial System
Assets (%) 2008



- Central Bank of Barbados
- Commercial Banks
- Credit Unions
- Insurance Companies
- Trust and Mortgage Finance Companies
- Finance Companies and Merchant Banks
- National Insurance Fund

- Commercial banks dominate the financial sector.
- A study conducted by Belgrave, Craigwell and Moore (2006) assessed the competition posed by other non-bank Institutions and found that they are yet to provide serious competition to the commercial banks.

Barbados cont'd

Financial Soundness Indicators of the Banking Sector (%)		
	2005	2008
Regulatory capital to risk-weighted Assets	12.7	13.9
Regulatory Tier 1 Capital to Risk-Weighted Assets	11.5	13.9
Nonperforming loans to Total Gross loans	5.5	3.4
Sectoral distribution of loans to Total loans	82.7	79.0
Return on Assets	1.9	1.4
Noninterest expenses to Gross Income	47.7	40.7
Liquid Assets to Total Assets	9.0	12.2

Source: Central Bank of Barbados

- Capital Adequacy ratio well above the stipulated minimum requirement of 8%.
- Asset quality has improved.
- Profitability maintained although not substantially high.
- Liquidity is at reasonable levels given the current global financial state.

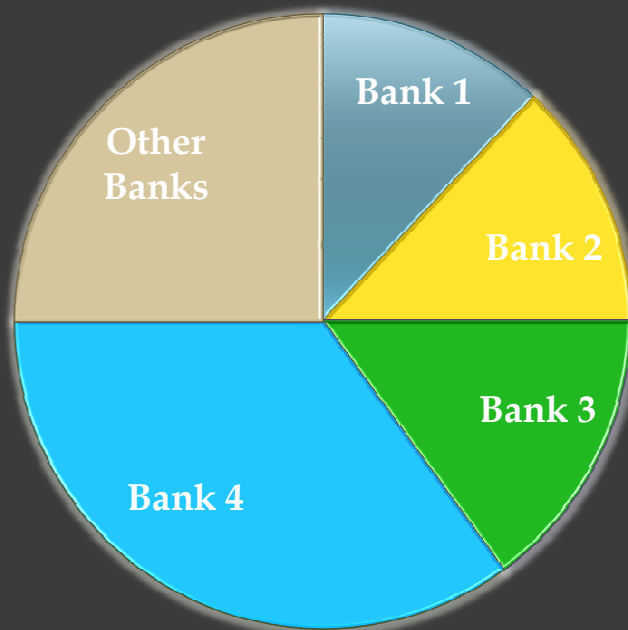
Barbados cont'd

Credit Union Indicators : 2007	
Assets (as a percent of GDP)	14.7
Assets of the 3 largest CU as a percent of GDP	11.4
Solvency Indicator: Reserves to Total Liabilities	12
Liquidity Indicators: Loan to deposit Ratio	87.0
Liquid Assets to Short Term liabilities	57.7
Credit risk Indicators: Nonperforming loans, percent of Total loans	6.0
Source: IMF	

- At the end of 2008 there was 54 credit unions
- Of which 3 dominate the market.
- Liquidity/solvency indicators suggest that the credit unions are performing at acceptable standards of the industry.

Barbados cont'd

Share of Offshore Banking System Assets (%) 2007

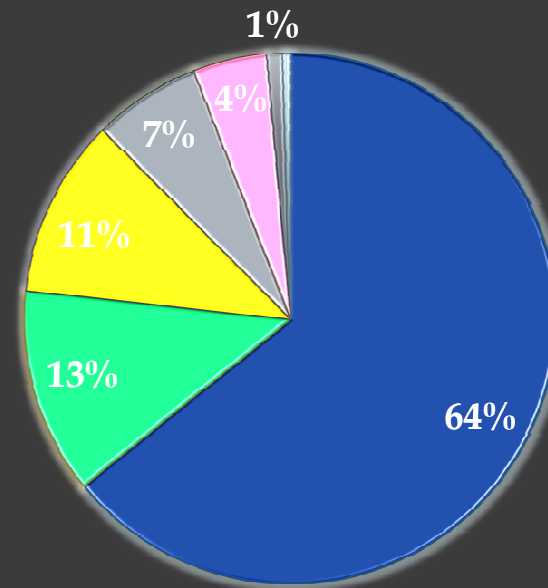


- Assets of the off shore banking system as a percent of GDP (2007) is 1,285.
- There are 54 offshore banks operating in Barbados, but there is considerable asset concentration with the 4 largest banks representing 75% of the offshore system assets.

Belize

Belize Financial System Assets(2007)

Belize: Financial Institutions	
Commercial Banks	5
Credit Unions	13
International Banks	9
Development Bank	1
Insurance Companies	13
Mutual Funds	1
Government Savings	1
Central Bank	1
Source: Central Bank of Belize	



- Commercial Banks
- International Banks
- Insurance Companies
- Development Bank
- Mutual Funds
- Credit Unions
- Government Savings Bank



Belize cont'd

Financial Sector Indicators (%)		
	2007	2008
Regulatory Capital/Risk Weighted Assets	22.9	18.5
Excess Statutory Liquidity	16.3	20.6
Provision for loan losses/Total Loans	2.2	2.9
Nonperforming loans / Total Loans	6.8	12.7
Net Earnings/Assets	3.4	2.6
Ratio of Foreign assets to Total Assets	9.5	9.7
Ratio of Foreign Liabilities to Total Liabilities	3.1	5.8

Source: IMF

Commercial Banks:

- The banking sector remains relatively small by international standards: assets less than US\$2 billion.
- Banks lend primarily for Real Estates and Construction and Consumer loans .

Belize cont'd

Credit Unions:

- ⦿ Total Assets approx. 16.1% of GDP (2007)
- ⦿ Mirrors Commercial Banks lending behavior: 73% of its loans are for Construction and Consumer based.

Insurance Companies:

- ⦿ 15 insurance companies
- ⦿ In its early stages of development.

Belize cont'd

International Banks:

International Banks Statistics : 2007 (US\$M)	
Total Deposits	292.8
Total Loans	174.0
Total Assets	357.9
Source: Central Bank of Belize	

- At the end of 2007 there were 9 licensed International Banks.
- Dominated by Belize Bank International : holds 45% of total Assets of this sector.
- 2 banks account for over 65% of the loans extended by the sector.

ECCU

ECCU: Financial Institutions 2008

Commercial Banks	40
Offshore Banks	47
Credit Unions	64
Insurance Companies	165
Development Banks	6
National Development Foundations	7
Finance Companies	15
Building and Loan Associations	5
Central Bank	1
Stock Market	1

Source: ECCB

- Of the 40 Commercial Banks 21 are foreign owned- mainly Canadian
- Foreign Banks account for close to 50% for: Private Sector deposits and Bank loans and investments.
- Offshore banking and Credit Unions are major players in the ECCU financial system.
- Note: the collapse of CLICO and Stanford International Bank has had adverse effects on the performance of the ECCU financial system.

ECCU cont'd

**ECCU:
Financial Soundness Indicators 2008**

	Foreign Banks	Local Banks	Agg. Banking System
Capital Adequacy Ratio	-	-	20.1
Risk Weighted Assets/Total Assets	-	-	63.1
NPLs/ Total Loans	7.7	4.5	10.2
Provisions/NPLs	23.4	39.2	17.9
Gross Gov't Exposure/Total Assets	14.3	5.4	21.1
Amt. Outstanding by largest Sector/Total Loans	44.0	48.7	44.2
Source: IMF			

- ⊙ The ECCU banks have always been well capitalized and profitable but recent trends have caused :
 - Nonperforming loans to increase
 - Profitability has fallen
 - Government risk exposure has risen
 - Liquidity is decreasing which can pose a major risk to the banking system.

ECCU cont'd

ECCU: Banking System Financial Indicators (2008)

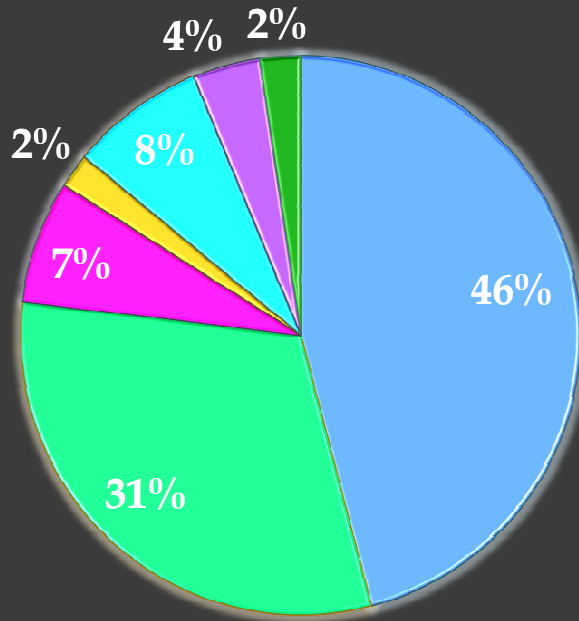
	Ang	ANB	Dom	Gre	Mont	SKN	SLu	SVG	ECCU
Capital Adequacy (local banks)	15.5	16.9	15.0	15.1	47.7	47.3	15.6	17.9	20.1
Liquid Assets/Total Assets	22.4	36.5	41.7	24.1	92.1	38.8	16.7	33.8	22.1
Pre-Tax Return on Avg Assets	1.4	2.2	0.7	1.9	1.7	4.7	3.2	2.0	2.6
NPLs/Total Loans	8.7	14.2	7.1	3.5	5.5	5.2	6.6	3.9	7.7
Loans to Households	50.7	41.6	54.6	58.4	80.0	36.1	30.5	48.9	42.3
Gross government exposure/Total Assets	7.7	11.8	11.9	12.7	9.8	28.2	9.7	18.4	14.3

Source: IMF

- Note : Data on the credit unions and insurance companies were not available at the time .

Guyana

**Guyana Financial System Assets
(2008)**



- Commercial Banks
- New Building Society
- Life Insurance Companies
- Finance Companies
- Central Bank
- Trust Companies
- Pension Schemes

**Guyana:
Financial Institutions (2008)**

Central Bank	1
Commercial banks	6
Trust Companies	3
Licensed Foreign Exchange Dealers	21
Micro Finance Companies	3
Building Society	1
Merchant Bank	1
Insurance Companies	11
Pension Schemes	28
Stock Exchange	1
National Insurance Scheme	1
Credit Unions	45
Finance Companies	3
Other Financial Institutions	2
Source: Bank of Guyana	



Guyana cont'd

Guyana: Selected performance Indicators of Commercial Banks		
	2007	2008
Capital Adequacy:		
Capital to Risk Weighted Assets	14.51	15.01
Capital to Total Assets	6.9	7.03
Asset Quality :		
Nonperforming loans to Total Assets	3.65	1.99
Nonperforming loans net of provisions to Capital and Reserves	19.79	4.53
Earnings and Profitability:		
Return on Assets	0.59	0.57
Return on Equity	6.85	6.31
Operating expense to Total Income	69.79	68.8
Liquidity:		
Liquid Assets to Total Assets	26.47	29.79
Customer Deposits to Total Loans	256.71	227.85
Source: Bank of Guyana		

- ⦿ The financial performance indicators of the commercial bank portray a positive and relatively healthy system.
 - nonperforming loans has decreased
 - Capital adequacy ratio well above the required level.
 - Return on equity and assets are positive.

Guyana cont'd

- Non-bank Financial Institutions of Guyana account for 23% of the financial systems assets, with New Building Society and Insurance Companies accounting for approx 65% of the total assets.
- **Insurance Companies:**
 - There are 11 insurance companies of which 6 are non-life., with an asset value of G\$Mn 39,254.2 at 2008. they hold the largest share of NBFIs total assets (33%)
 - Foreign owned companies control approx 60% of the Insurance sector assets.

Haiti

- ⦿ The scale of financial system in Haiti is modest.
- ⦿ The commercial banks (95% of the financial system assets) is the main institution of the system while the non bank financial institutions exist they are poorly regulated and mostly informal.
- ⦿ Asset concentration exist as 3 commercial banks account for 80% of the total banking system assets.

Haiti cont'd

Haiti: Financial Indicators of the Banking System		
	2007	2008
Capital Adequacy : Capital(net worth) to Assets	7.01	6.49
Asset Quality and Composition:		
Nonperforming Loans to Gross Loans	10	9.69
Provisions to Gross Loans	85.54	66.38
Nonperforming Loans less Provisions to Net Worth	6.37	15.6
Earnings and Profitability:		
Return on Assets	1.86	1.45
Return on Earnings	27.13	21.65
Net Interest Income to Gross Interest Income	69.22	77.44
Source: Banque de la Republique d'Haiti		

- The quality of loan portfolios slightly improved.
- Equities were more exposed as NPL accounted for 15.6% , compared to 6.4% in 2007.
- Profitability relatively modest.

Jamaica

Jamaica: Financial Institutions (2008)	
Commercial Banks	7
Building Societies	4
Credit Unions	48
Development Banks	2
National Export-Import Banks	1
Insurance Companies	17
Stock Markets	1
Central Bank	1
Source: Bank of Jamaica	

- Since the costly financial crisis of 96/97 the Jamaican Financial System has been restructured to that of international standards in terms of best practices and supervision and regulation.
- Commercial banks dominate the system as they account for approximately 37% of the financial system assets, while the NBFI account for 20%.

Jamaica cont'd

Jamaica: Prudential Indicators of the Banking System (June 2009)				
	CB	FIA	BS	TOTAL
Liquidity:				
Avg Domestic Currency Cash Reserve/Avg Prescribed Liabilities	13.7	14.0	1.0	10.4
Avg Domestic Currency Liquid Assets/Avg Domestic Prescribed Liabilities	35.8	33.1	13.1	29.3
Asset Quality:				
Provision for Loan Losses: Total Loans (gross)	3.3	3.8	1.9	3.0
NPL: Total Loans	3.6	6.7	5.4	4.1
Capital Adequacy:				
Capital Adequacy Ratio (CAR)	15.4	20.6	21.7	16.8
Profitability:				
Pre-tax Profit Margin (for the Calendar Quarter)	24.7	9.8	16.3	22.6
Return on Average Assets (for the Calendar Quarter)	0.9	0.3	0.5	0.8
Income Assets/Expense Liabilities (at 30 th June)	101.6	107.1	109.1	103.4
Source: Bank of Jamaica				
Note: CB – Commercial Banks , FIA: Licensees under the Financial Institutions Acts, BS – Building Societies				

Indicators as at June 2009 indicate that the Jamaican Banking system is stable and strong, although indicators are some what weak , they are still positive.

Netherlands Antilles

- ◎ Primary economic activities; tourism and Offshore Banking.
- ◎ Host to one of the largest offshore financial centers for about 30 years.
- ◎ The financial sector is examined :
 - Domestic Sector
 - International Sector
- ◎ The financial sector is primarily foreign owned as foreign banks account for most of the sectors assets(approximately 57%)

Netherlands Antilles cont'd

- ◎ The International Banking sector is the most capitalized of the two.

Netherlands Antilles Financial sector Assets as % of GDP (2006/2007)		
	Domestic	International
Financial Sector Assets	261	972
Banks Assets	128	1008
Non-Banks Assets	138	62
Life Insurance Companies	32	3
Non Life Insurance Companies Assets	8	59
Pension Funds Assets	98	-
Source: IMF		

Netherlands Antilles cont'd

Netherlands Antilles: Financial Indicators for the Banking Sector (2007)	
Capital Adequacy: Capital/Adj. Asset ratio	14.4
Asset Quality: NPLs/Total Loans Provisions for Loan Losses/NPLs	4.6 66.8
Earnings and Profitability: ROA ROE Noninterest Expenses to Gross Income	1.8 19.5 51.4
Liquidity: Loan/Deposit Ratio Liquid Assets/ Short Term Liabilities Total Assets/Total Liabilities	61.4 37.3 153.4
Source: IMF	

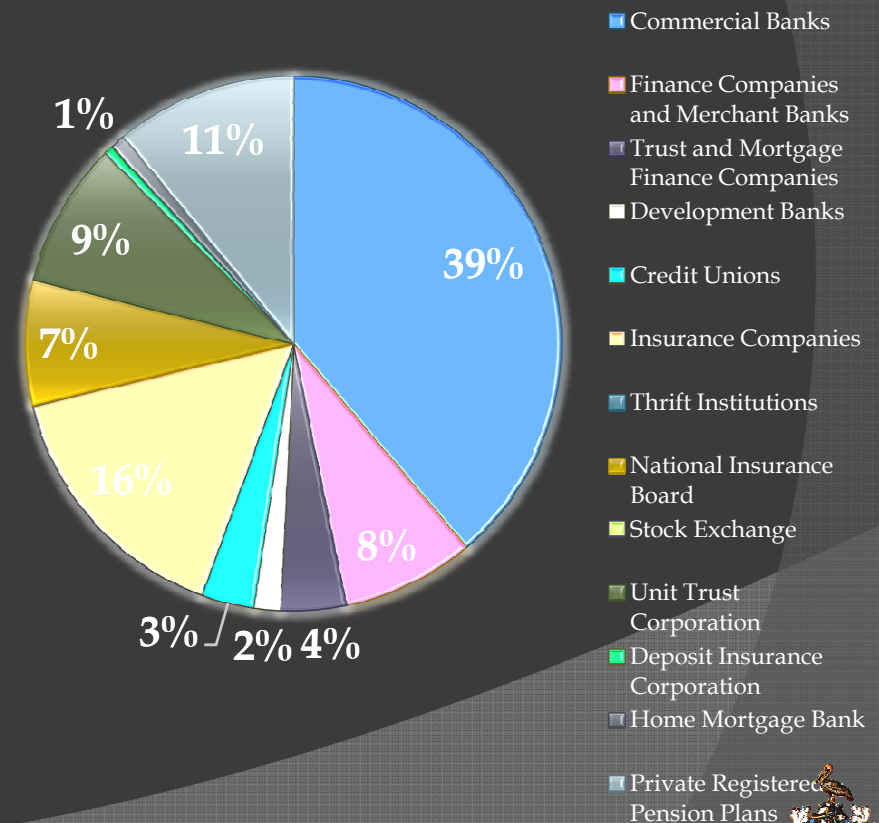
- ◎ The indicators portray a financial sector that is broad and healthy.
 - Well capitalized markets
 - Liquidity levels are relatively stable

Trinidad and Tobago

Trinidad and Tobago: Financial Institutions (2008)

Commercial Banks	8
Finance Companies and Merchant Banks	10
Trust and Mortgage Finance Companies	7
Development Banks	1
Credit Unions	130
Insurance Companies	51
Thrift Institutions	3
National Insurance Board	1
Stock Exchange	1
Unit Trust Corporation	1
Home Mortgage Bank	1
Private Registered Pension Plans	256
Source: Central Bank of Trinidad and Tobago	

Trinidad and Tobago Financial System Assest: 2008



Trinidad and Tobago cont'd

Commercial Banks

- Well capitalized banking system with ratios in excess of 18%, when the minimum requirement is 8%.
- Profitability ratios are considerably high for the banking sector.
- Excessive liquidity exist in the banking system in spite of efforts to reduce it.

TT: Commercial Banks Financial Indicators		
	2007	2008
Capital Adequacy:		
Regulatory Capital to Risk-Weighted Assets	19.1	18.8
Regulatory Capital to Total Assets	12.4	12.1
Asset Quality :		
Nonperforming Loans to Gross Loans	0.7	1.0
Nonperforming Loans to Capital	-0.3	-0.1
Earnings and Profitability:		
Return on Equity	27.3	25.9
Return on Assets	3.4	3.5
Non-Interest Expenses to Gross Income	48.3	49.7
Liquidity:		
Liquid Assets to Total Assets	17.0	22.1
Customer Deposits to Total (non-interbank) Loans	118.0	124.7
Source: Central Bank of Trinidad and Tobago		

Trinidad and Tobago cont'd

Non-Bank Financial Institutions

- The Finance Companies and Merchant Banks are almost near banks institutions .
- CLICO Investment Bank failed in early 2009 which impacted this sectors performance indicators.
 - profitability ratios were low: as operating expenses increased in 2008 while operating income fell sharply for CIB.
 - Note: If CIB is excluded ROA will be 3.5%.

Trinidad and Tobago: Performance Indicators of Finance Companies and Merchant Bank

	2007	2008
Profitability:		
Return on Assets	5.3	1.7
Return on Equity	33.4	12.0
Net Interest margin/Total Assets	0.7	-0.3
Efficiency:		
Total Operating Expenses/Total Operating Income	80.4	109.1
Asset Quality:		
Nonperforming Loans/Gross Loans	7.3	10.7
Accumulated Loan loss provisions/Gross Loans	2.1	2.3

Source: Central Bank of Trinidad and Tobago

Trinidad and Tobago cont'd

Insurance Companies:

- Asset concentration exist with 2 companies accounting for 71% of the insurance sector assets.
- Due to the deviations in investment from normal insurance products 2 companies had to be disciplined by the Central Bank.
- The Financial Indicators show that the Insurance sector is thriving although it profitably has decreased.

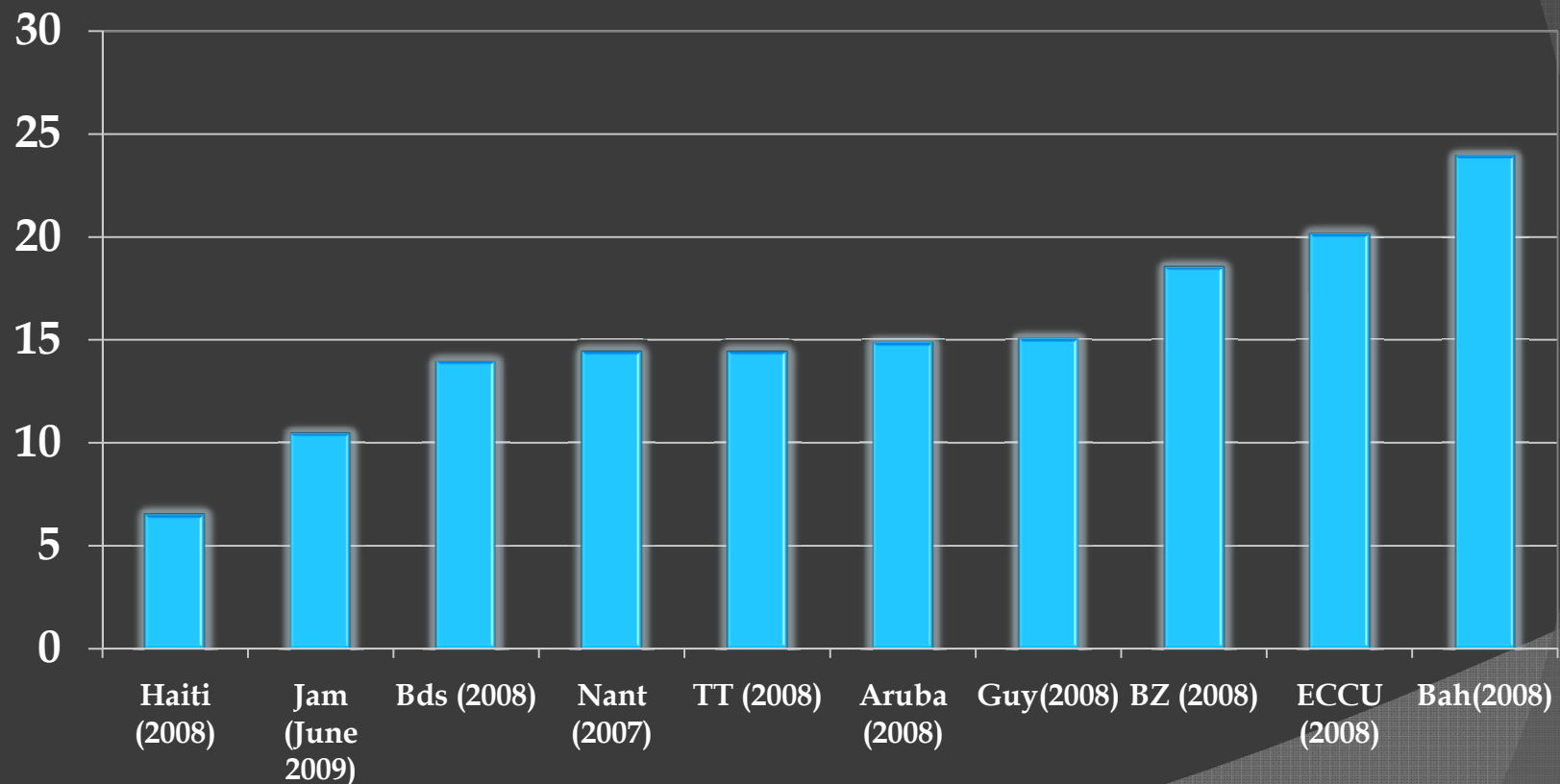
Trinidad and Tobago: Insurance Companies Financial Indicators		
	2007	2008
Increase in Premium Income (%)	50.0	10.4
Retention Ratios		
Life	98.2	98.5
Non-Life	64.6	63.7
Performance Ratios (Non-Life)		
Loss Ratio	59.4	59.9
Expense Ratio	41.2	40.3
Combined Ratio	100.5	100.2
Investment Income/Investment Assets		
Life	5.3	5.1
Non-Life	3.9	5.1
Source: Central Bank of Trinidad and Tobago		

General Trends

- ◎ For all financial systems in the Caribbean examined , the most dominant sector is the Banking sector.
 - Commercial Banks have evolved to role that is beyond its traditional role of accepting deposits and lending.
 - Technology has contribute a great deal to financial intermediation in the region: ATM, electronic banking.. etc.
- ◎ The Financial system in economies such as Barbados, Bahamas ranked second in terms of its contribution to GDP.

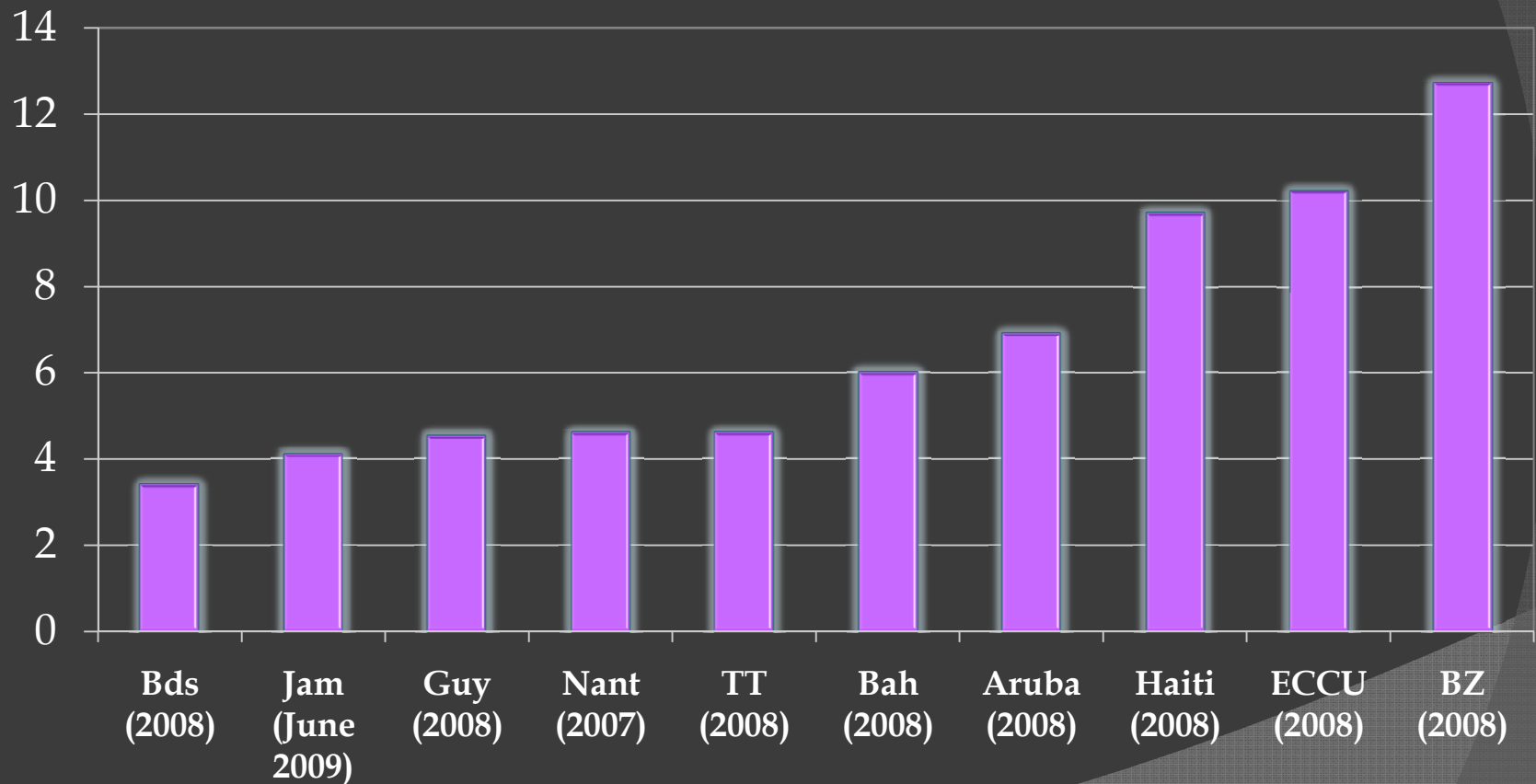
General Trends cont'd

Capital Asset Ratio (%)



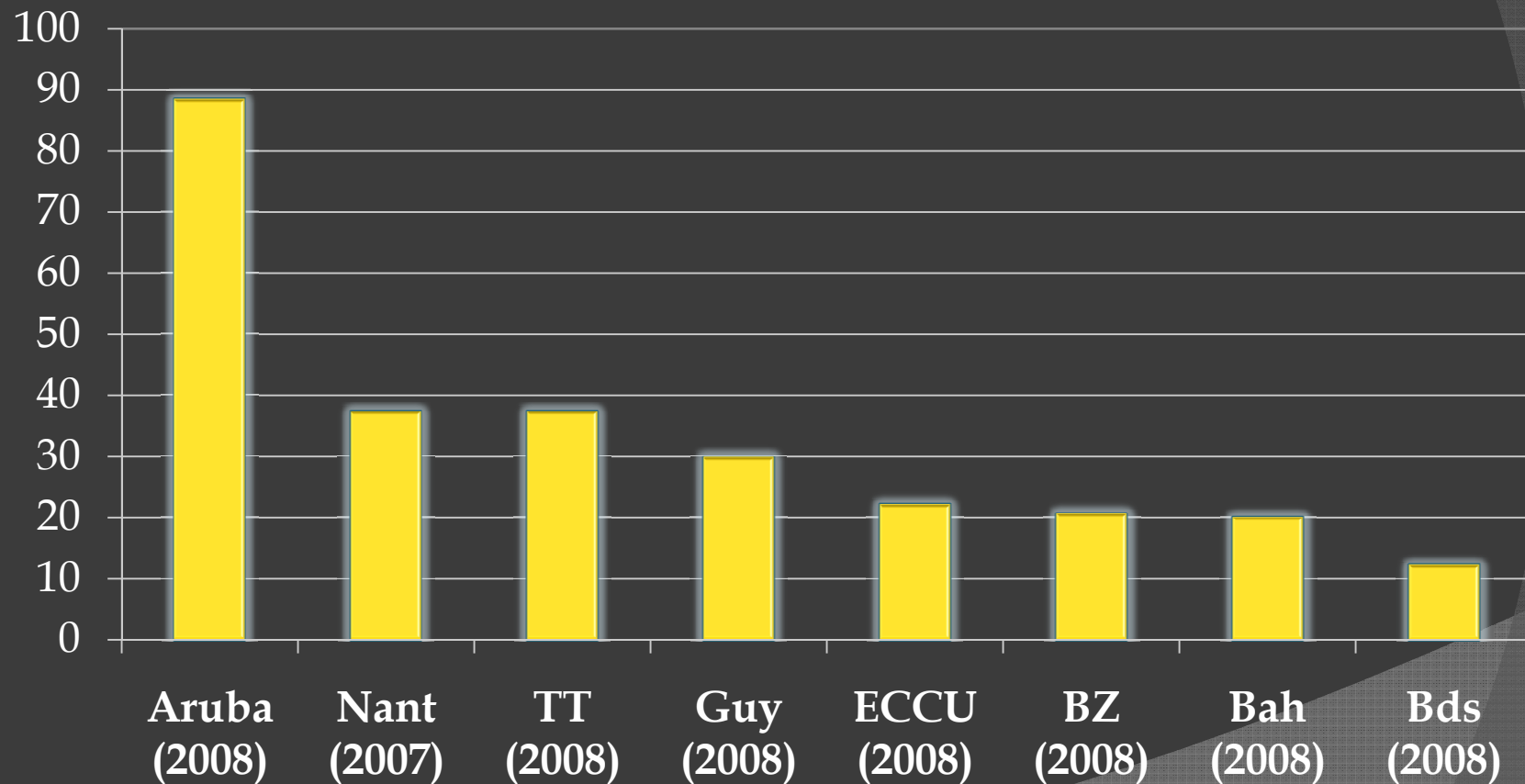
General Trends cont'd

Ratio of Nonperforming loans/Gross Loans



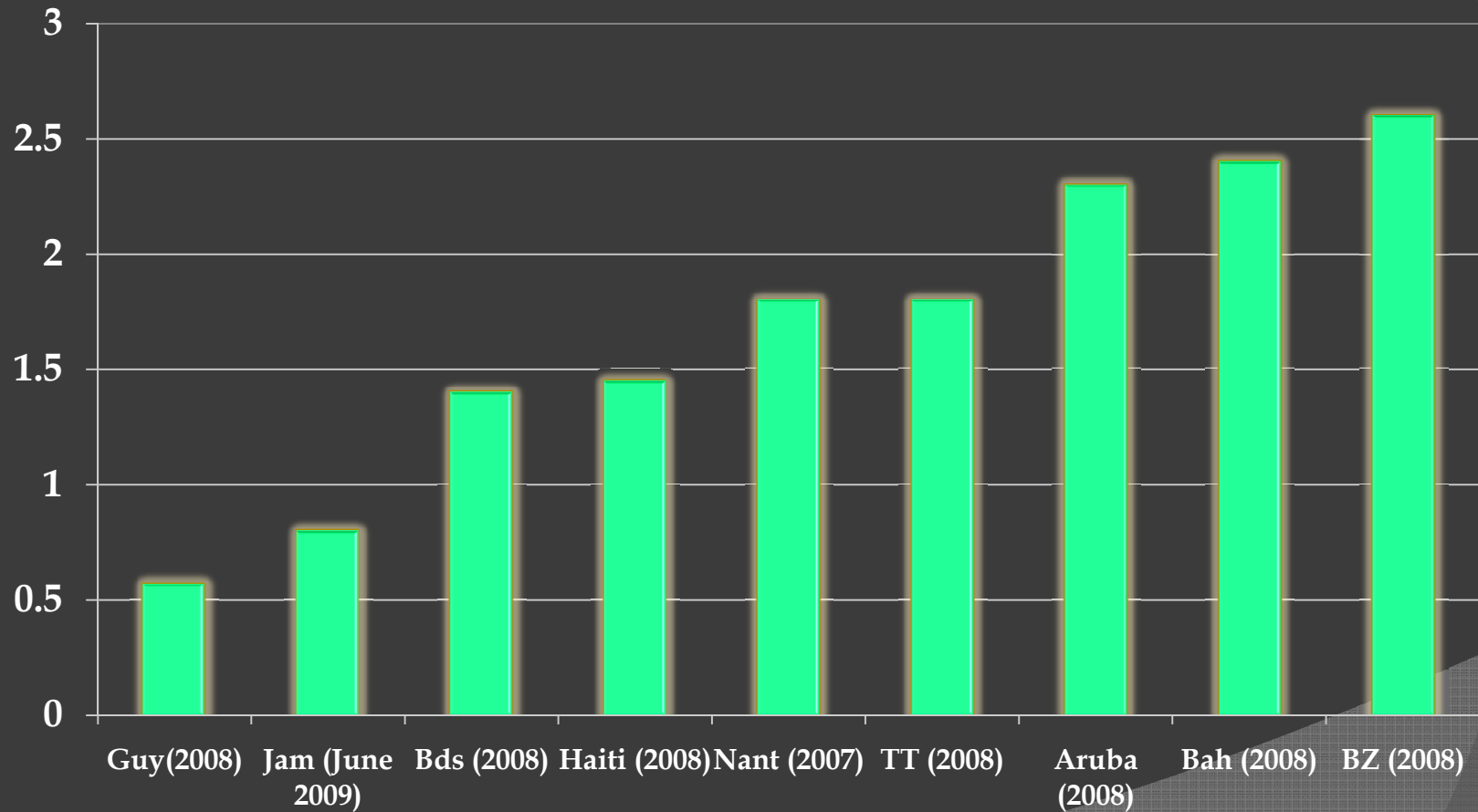
General Trends cont'd

Liquidity Ratio (%)



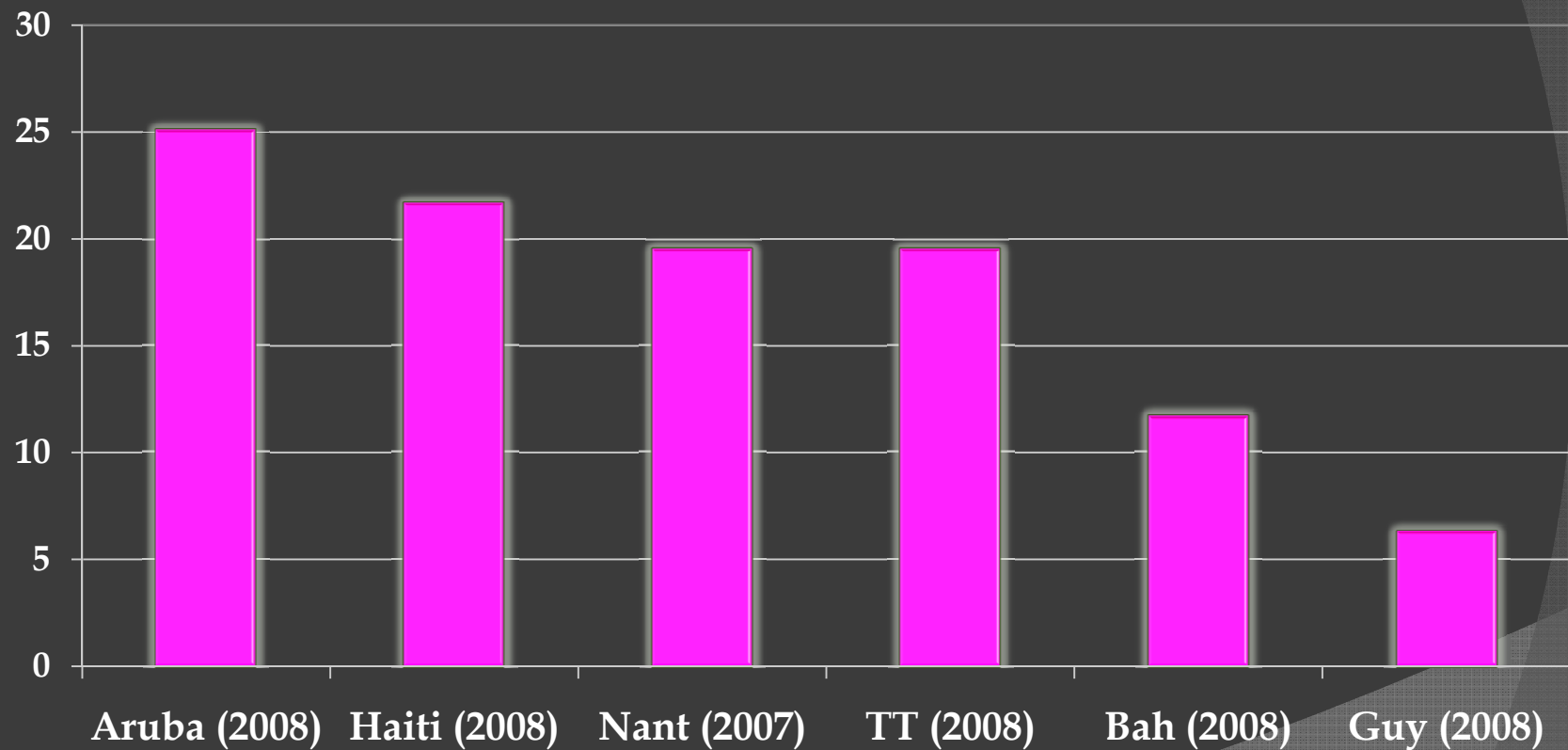
General Trends cont'd

Return on Assets (%)



General Trends cont'd

Return on Equity (%)



Plans for further work.....

- ⦿ Examine the financial systems of other developing economies: Mauritius, Seychelles and Singapore
- ⦿ Examine the financial systems of the developed economies: US, Brazil and UK
- ⦿ Compare them to the Caribbean and try to establish where we are on the continuum of financial development .

Thank You

