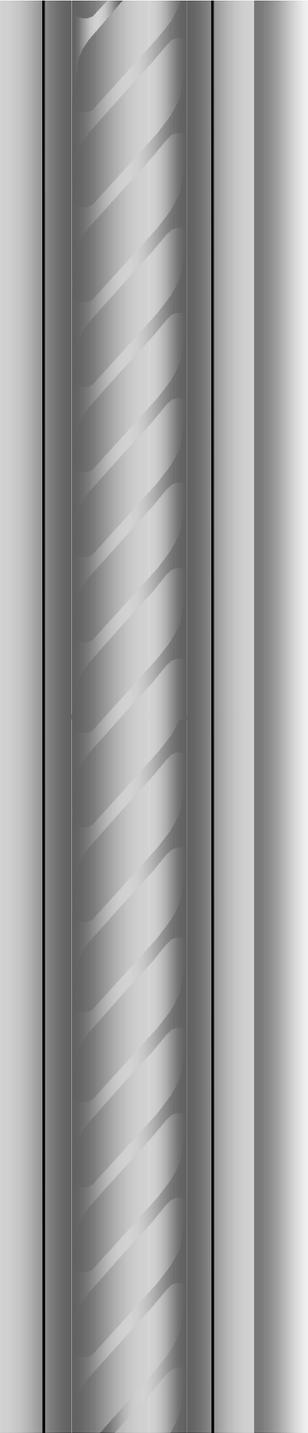


The Emerging Regulatory and Supervisory Framework for Managing Risks in the Caribbean Banking Sector

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OVERVIEW

- **The Banking System in the Caribbean;**
- **Challenges Facing Regulators;**
- **Responses to Changing Environment;**
 - **Legislative**
 - **Regulatory structures**
 - **Regulatory procedures**
- **The Way Forward**

The Banking System in the Caribbean

- Financial systems in the Caribbean are mainly bank based;
- Banks are the dominant financial institutions, accounting between 51% and 72% of financial assets;
- Provision of credit for households, working capital needs of firms and deposit taking;
- Source of finance to governments;
- Significant presence of internationally active banks, but indigenous institutions, public and privately owned have taken root;
- Historically, banking has not been very sophisticated in terms of the range of financial products and financial instruments but there is evidence of a move to increased sophistication by some institutions, including increasing use of technology;
- absence of major systemic crises except in Jamaica in the 1990s.

Overview of the Regulatory Challenges

- Inter-linkages between banking and insurance;
- The establishment of cross-border operations by indigenous institutions;
- Creation of CSME ;
- Development of the offshore financial services sector in several islands including Barbados, The Bahamas, and The Cayman Islands;
- International pressures to strengthen application of international standards.

Approaches to Regulation

- **Who should Regulate? A Single regulator?**
- **How should regulation be carried out?**
- **Should there be harmonised legislation or simply harmonised approaches across the region?**

Legislative Developments

- **Jamaica**

Amendments to the Bank of Jamaica Act, the Banking Act, the Financial Institutions Act, Building Societies Act.

- Perform Consolidated Supervision in line with Basel Principles;
- Access to all information regarding the licensed institution and the group within which it operates;
- Empower the Bank of Jamaica to require deposit-taking financial institutions to separate their banking business from their non-banking business by the transfer of the latter to a separate corporate entity .
- Transfer from the Minister of Finance to the Bank of Jamaica, the intervention power to assume Temporary Management of a distressed licensee;
- Grant to the Bank of Jamaica, the legal and administrative powers to assess and impose fines for particular breaches of regulatory statutes.

Legislative Developments

Barbados

The Offshore Banking Act was replaced with the International Financial Services Act; Amendments to the Anti Money Laundering (Prevention & Control) Act to incorporate terrorism financing. Key elements of these changes resulted in

- Onsite Inspection of offshore banks;
- Incorporation of prudential norms into statutory framework;
- Facilitation of information sharing with other regulators;
- Capture of Money transmission services under AML legislation.

Legislative Developments

Bahamas– enacted 9 laws to provide for enhanced supervision of financial institutions, corporate service providers, and international business companies.

- Increased provision for information sharing with other regulators for supervisory purposes.
- Upgrading and broadening of KYC requirements and suspicious and unusual transactions reporting
- Removal of bearer shares from International Business Companies (IBCs) shareholding structures, and granting of permission for Bahamians to own IBCs.

Who Should Regulate?

- **Barbados**

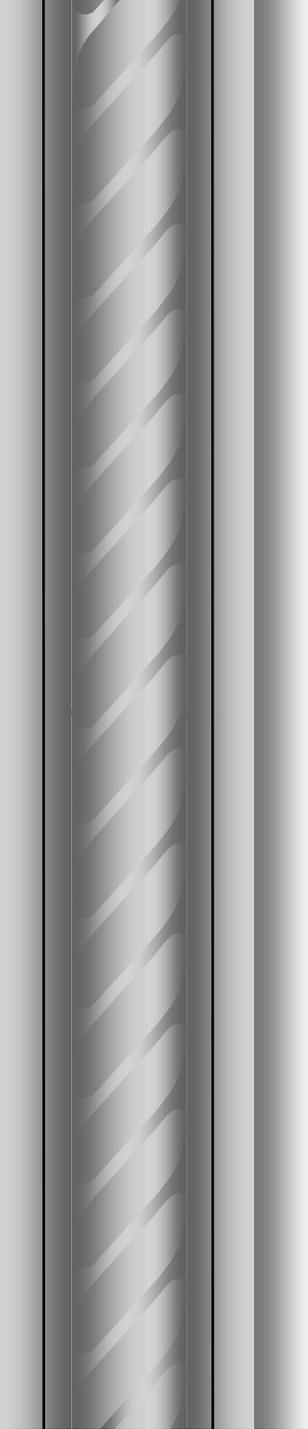
- **Central Bank undertakes joint inspections of credit unions with the Registrar of Co-operatives.**
- **Informal regulators forum.**

- **Jamaican**

- **Regulation of deposit taking institutions undertaken by BOJ.**
- **Establishment of a regulatory agency to look at financial system wide issues.**

- **Trinidad & Tobago**

- **Regulation of Banking and Insurance to be undertaken by CBTT.**



Risk Focused Supervision

- **To provide flexible and responsive supervision;**
- **To foster consistency, coordination and communication among the appropriate supervisors;**
- **To provide comprehensive assessment of the institution.**

Risk Focused Supervision

- **Greater testing if significant deficiencies are noted in the management process;**
- **Identification of potential risks a bank faces along functional and product lines;**
- **Scope of the examination is a core analysis of management and its ability to identify, measure, monitor and control risks associated with the bank's activities.**

Risk Focused Supervision

- **Shifting of resources to several new areas or activities where the perceived risks are growing. Examples: off balance sheet credit exposures, capital market instruments and trading activities;**
- **Thorough reviews of high risk areas;**
- **Management's inability to correct noted deficiencies, weaknesses, or any signs of material risks warrant deeper analysis to determine the degree of regulatory enforcement actions;**
- **Increased reliance on the activities and work of the internal and external auditors;**
- **Develop a level of comfort with internal controls, risk management systems and management.**

Key Areas of Risk

- **Credit Risk;**
- **Corporate Governance;**
- **Market Risk;**
- **Operational Risk;**
- **Anti Money Laundering.**

Anti-Money Laundering

- **Money laundering provides reputational risk to jurisdictions and regulators have increased their surveillance to ensure that banks**
 - Develop and implement a customer acceptance policy;
 - Have ongoing monitoring of high risk accounts;
 - Maintain internal control procedures in line with AML/CFT legislation;
 - Maintain adequate records;
 - Implement mechanisms to identify and report suspicious transactions;
 - Provide adequate training for staff.

The Future

- **Creation of the CARICOM Single Market and Economy (CSME)**
 - **Increased cross-border activities by regional banks;**
 - **Greater harmonisation and cooperation among regional regulators to promote a common ground in the management of risks in the banking sector;**
 - **Embrace international standards that are applicable to the Caribbean environment.**

The Way Forward

- **Recruitment of more technical and analytically skilled examiners;**
- **More training needed for bank supervisory staff;**
- **Increased Costs (Compliance & Supervisory);**
- **Increased Sovereign Risk (Extraterritorial Laws imposed on sovereign states);**
- **Further legislative reforms;**
- **Harmonization of Supervisory Standards Applicable to the Caribbean;**
- **Super Regulators?**