

CCMF/CARTAC/CARICOM
Workshop on Regional Financial Stability
A Caribbean Architecture

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POS, Trinidad and Tobago

FINANCIAL RISK
ASSESSMENT IN AN
INTEGRATING REGION:
THE CARIBBEAN

BY

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Outline of Presentation

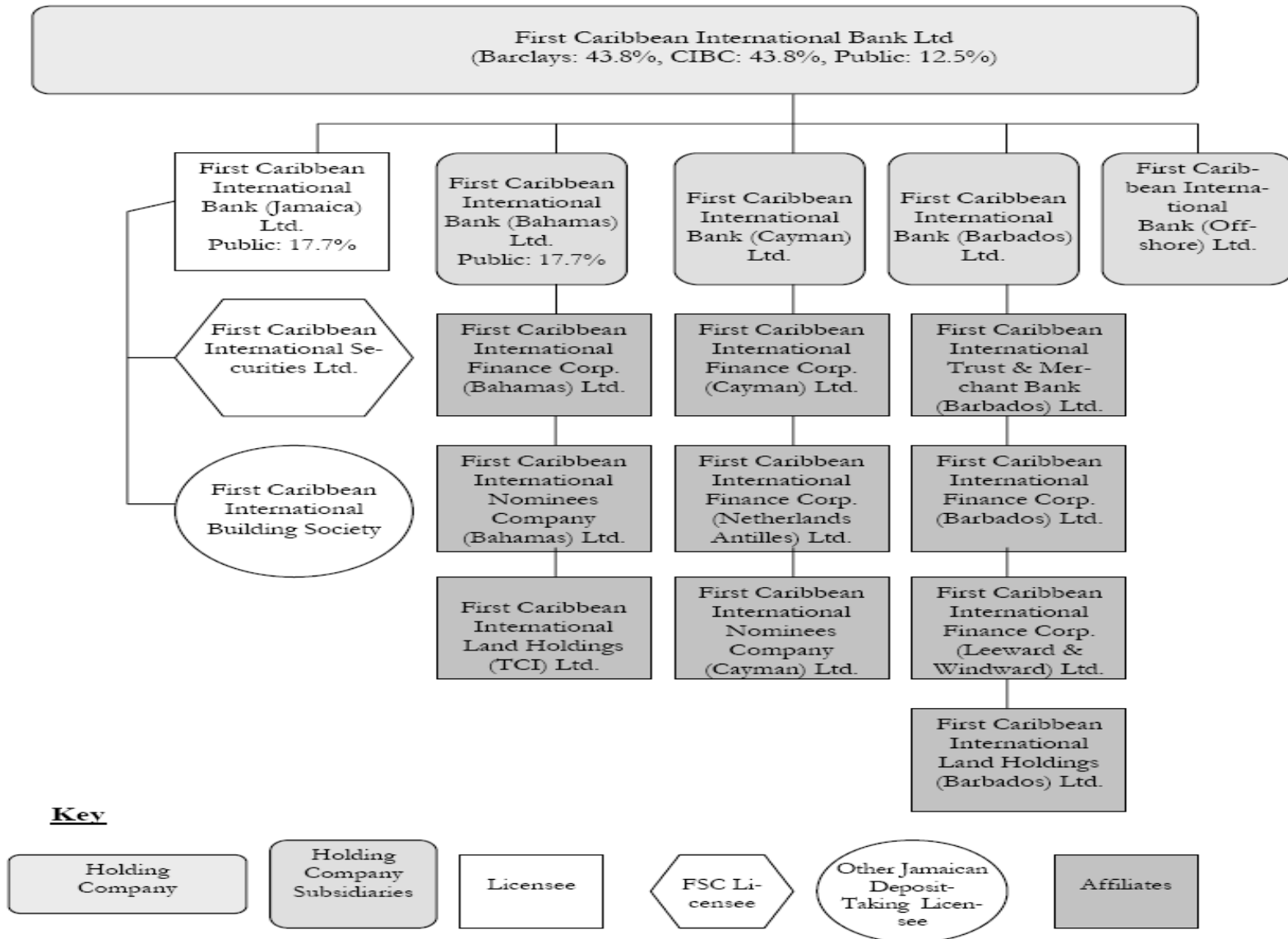
1. Justification of the Project
2. Project Description
3. The Caribbean Financial Sector
4. Project Execution
5. Benefits of the Project
6. The Enabling Environment for Success

Justification

- Financial integration has deepened significantly across the Caribbean, with many financial conglomerates spanning different types of financial institutions and spanning many countries within the region.
- The fragility in one institution or different institutions in one country can therefore pose risks to the financial stability of several countries.
- Moreover as global financial conditions have worsened integration has serious implications for market risks emanating from subsidiaries operating in different jurisdictions.
- The recent bailout of CL Financial in Trinidad and Tobago and its evolving repercussions highlight the real contagion risks faced by the region.

Justification.....

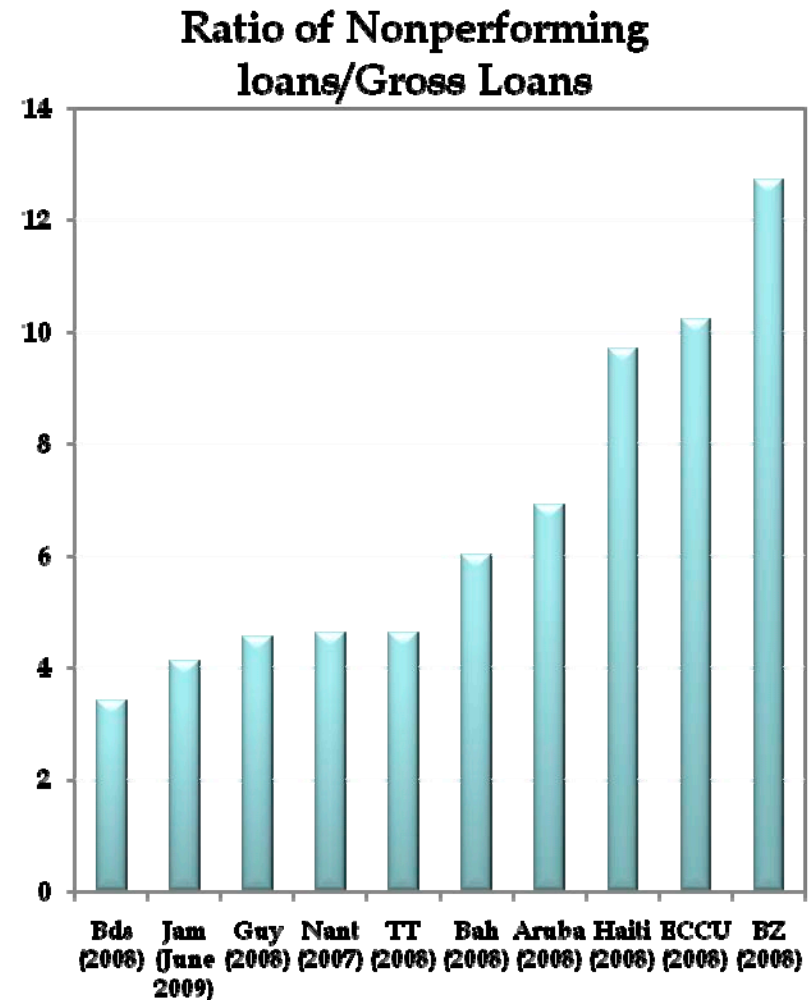
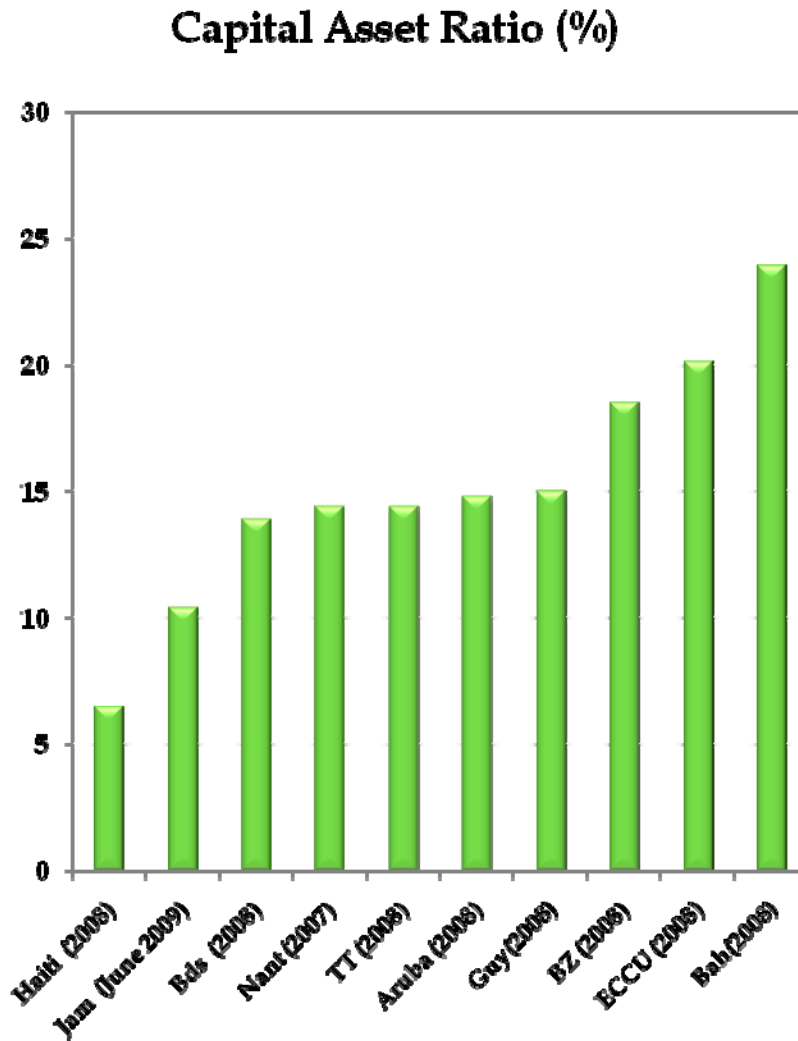
Figure 2.16. First Caribbean International Bank Group Corporate Ownership
(as of June 30, 2004)



Justification

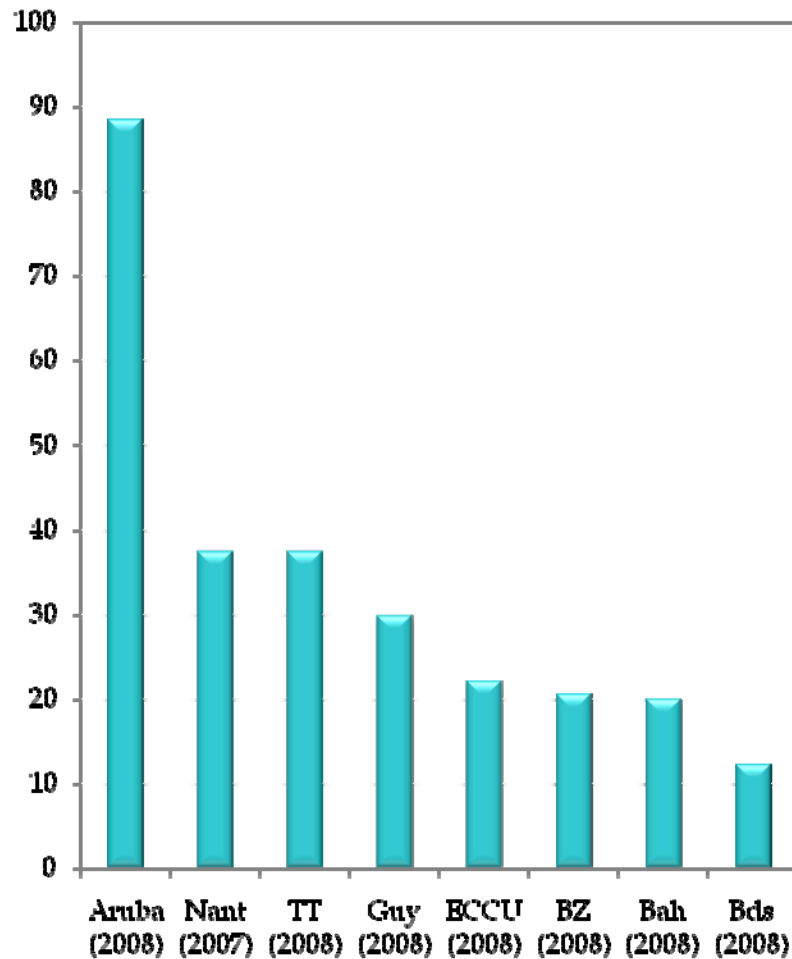
- The central banks of the region and COFAP has long recognized the need to upgrade the capacity for regional financial stability analysis.
 - CARTAC workshop on methodologies for regional risk assessment in 2006
 - Ongoing work of the CGBS
 - The CARICOM expert group on coordination of supervisory agencies has a regional risk assessment framework as a key objective
- In spite of the progress made so far the region still does not have a comprehensive and formal architecture in place for regional financial risk assessment.

The Caribbean Financial Sector

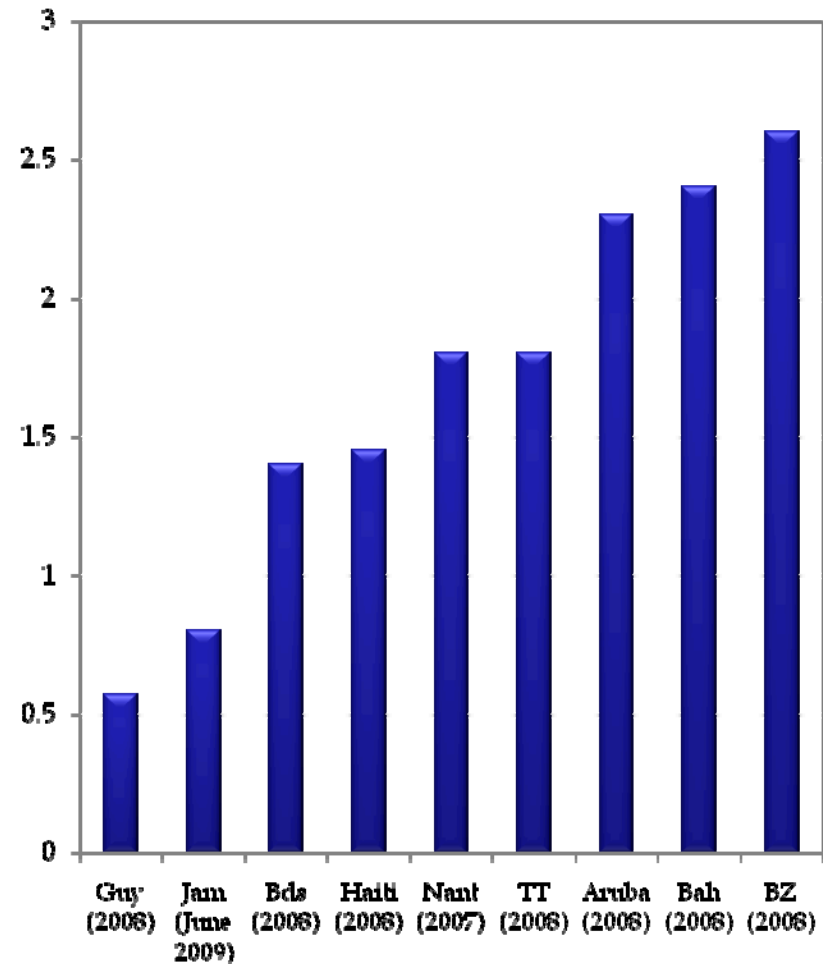


The Caribbean Financial Sector

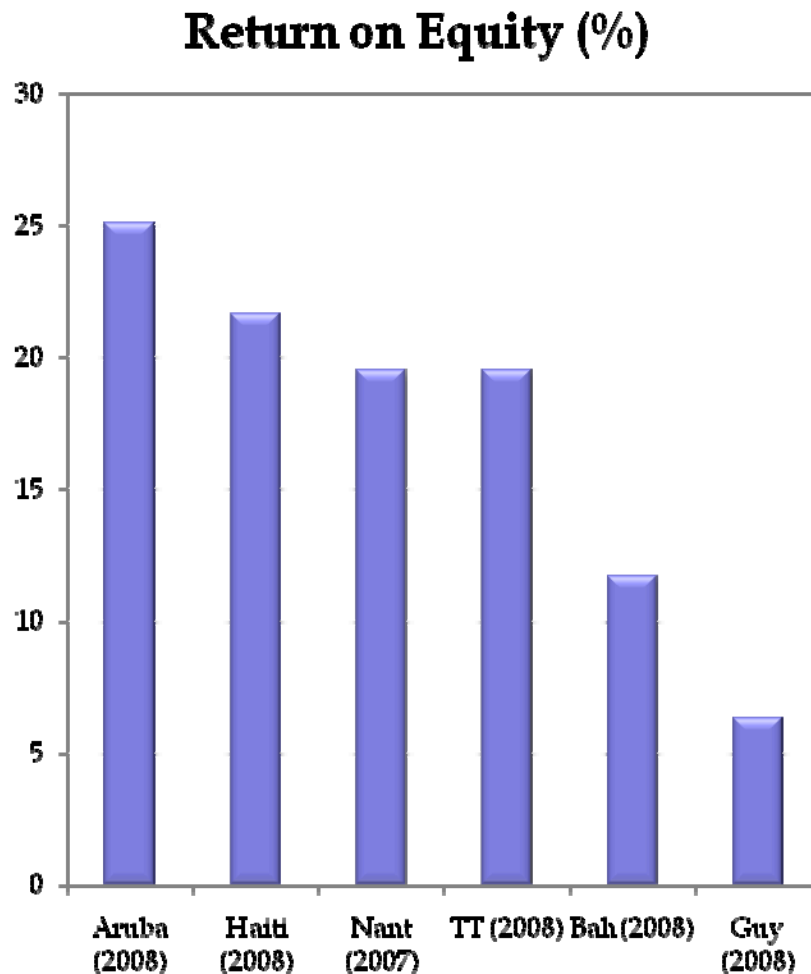
Liquidity Ratio (%)



Return on Assets (%)



The Caribbean Financial Sector



- The Caribbean appears to be somewhat resilient to the financial crisis in 2008.
- Capital adequacy is all above the regulatory minimum of 8% but profitability and loan quality has weakened slightly.
- Data was extremely difficult to locate highlighting the need for this project.

Project Description....

The Goals:

- To develop improved methodologies for measuring and assessing the risks posed by financial conglomerates operating within the region.
- Assist in resolving issues such as appropriate disclosure and reporting standards
- The appropriate measurement of capital adequacy and liquidity
- The development of appropriate financial stability indicators
- the identification of ownership structures and other financial links within the region
- Measuring the impact of financial shock and the probability of contagion



Project Description....

Expected Output:

- A set of financial stability indicators at the national and regional level.
- Papers by participating regulatory agencies using those indicators and appropriate methodologies of financial stability in their respective countries as inputs in the upgrade and/or production of national financial stability reports.
- Publications by the CCMF employing the national and regional indicators and the output of the participating regulatory agencies to analyze financial stability at the regional level with a view to producing a regional financial stability report.



Project Description....

Components:

- **Publications**

1. **Review Paper:** A review financial risk assessment comparing existing practices with best practices and making recommendations especially in view of integration towards standardization and information sharing.
2. **Papers Central Banks.** A short paper from each RA/CB on their current policies and plans for developing financial soundness indicators and stability analyses.
3. **Regional Financial Stability Report (RFSR).** CCMF would start to produce a pilot preliminary RFSR using the inputs from RA/CBs.



Project Description....

Components:

- **Conferences and Meetings**

1. A 1st conference would be held with the participating central banks, CCMF, IDB and other institutions to draft an action plan for the implementation of a suitably upgraded financial stability framework. Decisions will be made with respect to timetables and on the papers to be written on particular methodological or other issues.
2. A 2nd conference would be convened to review progress on the implementation of the recommendations, and to agree on the scheduling of financial stability reports to be published by CCMF and regional central banks.

Project Description....

Components:

- **Training**

1. Training in the various empirical methodologies for risk assessment.
2. A further component of the project would be the **training of a sufficient cadre of staff of CCMF and RA/CBs** in the region in the generation and manipulation of financial risk indicators with a view to developing national and regional financial stability reports.

Project Execution....

Execution Calendar	
Conference to prepare draft action plan for the upgrade of the financial stability framework	6 th - 8 th month
Action plan for the upgrade	End of 8 th month
Completion of studies on methodological and related issues	End of 14 th month
Conference on progress report and to schedule FSRs	15 th – 18 th month
Agreement on data, methodologies and publication schedules for FSRs	End of 18 th month
First regional FSR published by CCMF	End of 24 th month
FSRs published by national authorities using upgraded methodology	24 th to 36 th months
Final report of the project	End of 36 th month

Benefits ...

Benefits

- Given the presence of large regional financial conglomerates, the absence of a regional FSR is a source of uncertainty. The publication of a regional FSR would close this gap providing for more certainty, transparency and confidence.
- The regional FSR is also an essential element in the regional architecture for financial stability oversight which is currently being planned.
- The emphasis on early warning systems and timely identification of financial vulnerabilities, the FSR would enable the Caribbean to reduce its risk of financial crisis. Moreover, should a crisis emerge from an unexpected direction, the FSR framework provides regional financial policy makers with the up-to-date financial information needed to take swift, decisive and appropriate action.

The Enabling Environment...

- ✓ Buy-in from the regional central banks and other regulatory agencies.
- ✓ Development of the statistical systems for financial data in the region to support the regional FSR.
- ✓ Continuing financial support for the ongoing work of financial data development and analysis via the national and regional FSRs.
- ✓ Periodic review and upgrade of the empirical methodologies for risk assessment.
- ✓ Continuation dissemination of the FSR to relevant stakeholders.

END

✓ Thank You

