

CCMF/CARTAC/Caricom

**The Financial Sector Supervision
in the
Caribbean:
*Strength and Weaknesses***

An Assessment

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Risks Characteristics

- Financial services market is regional and concentrated, ex: Sagicor, Clico, RBTT, Canadian Banks, Butterfield Bank
- Financial sector risks are correlated, so that disruptions in the insurance sector impacted the banking and credit union sectors; similarly, off-shore bank failures impacted domestic banks.

Risk Characteristics

- Financial institutions use regulatory arbitrage to maximize goals and profits.
- In many cases in the high public debt countries that characterize the Caribbean, financial institutions finance the public debt, tying the stability of macroeconomic policies to financial stability.

Entities in the Financial Sector

- Commercial Banks
- Insurance Companies
- Securities Firms
- Credit Unions and Building Societies
- Pension Funds
- Ponzi Schemes
- International (off-shore) banks, insurance companies, trusts, and mutual funds.
- Money Services Businesses

Overall Assessment-Banks

- Banking Supervision-Regulatory framework is relatively developed and in many respects in line with international standards.
 - Weakest areas are:
 - Consolidated Supervision.
 - Framework for handling a crisis (say with a Canadian parent bank).
 - Weak asset classification and asset reserving regulations.
 - Need to define large exposures and set limitations, including limitations to related parties
 - Variances in supervisory treatments encourage regulatory arbitrage

Overall Assessment-Insurance

- Insurance Supervision-Regulatory frameworks are highly deficient but efforts underway to improve insurance supervision.
 - Revised Insurance Acts in ECCU, The Bahamas, Belize, TT and Haiti.
 - Insurance technical assistance being provided to several countries through CARTAC, the IMF, and the World Bank.
 - Revitalized Caribbean Association of Insurance Regulators (CAIR) serves as the capacity builder for insurance supervision.
 - Noted sizeable increase in on-site examinations of insurance companies.
 - First College of Regulators held for two regional insurance companies.



Overall Assessment-Credit Unions

- Credit Unions/Building Societies-Largely unsupervised in the region with efforts to supervise sometimes met with industry resistance.
 - A black hole exists with respect to financial soundness indicators and in understanding the risks.
 - Compete with banks but without the regulatory burden; Operate under liberal asset classification and loan loss reserving rules which overstate capital; Collection efforts on problem loans are nonexistence or weak.
 - Trend in region to move credit union supervision to the Central Bank (Jamaica, TT, Belize, The Bahamas, Haiti)

Deposit Insurance Schemes

- Deposit insurance is in place in Jamaica, TT, Barbados, and The Bahamas.
 - Evidence indicates that deposit insurance served as a stabilizing force in the Caribbean during recent financial turmoil when compared to countries without insurance.

Credit Bureau Development

- Credit Bureaus provide enhanced risk management tools for financial institutions to measure and assess risks.
 - TT is the only Caribbean country with a fully functioning credit bureau
 - Development of credit bureaus underway in Jamaica, Barbados, Guyana, Belize, The Bahamas, and the ECCU.

Other Financial Stability Needs

- Supervisory entities need (1) more staffing resources, (2) better educated and motivated staff, (3) better management of staff, (4) and higher budgets to meet their supervisory needs.
- Operational independence of the supervisory agencies needs strengthening.
- Risk-focused supervision needs to be more fully understood and implemented. Focus on the risks and financial stability will follow.
- Communication between bank, credit union, insurance, securities, and pension fund supervisors to assess contagion risks needs attention.

The Financial Stability Future

- Collectively, focus on regional financial stability indicators to assess risk and risk trends.
- Collectively, discuss risks in the region, areas of cross contagion, and identify vulnerabilities.
- Establish short and long-term plans to address vulnerabilities and weaknesses.
- Educated the public about financial stability issues.

Thank you.

