

CCMF/CARTAC/Caricom Workshop on Regional Financial Stability

Achieving Regional Financial Stability: *A Model for Success*

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Introduction

- Presentations over the past 2 days have served to illustrate the magnitude, and the urgency, of the task of putting in place a minimally adequate system for regional financial sector surveillance.
- It is the responsibility of the regional central banks, monetary authorities, and financial regulators here gathered to devise and recommend such a system that we can ourselves put in place.
- This paper makes suggestions as to how we might do that, building on existing initiatives (discussed earlier in this workshop) and proceeding in practical ways to implement a regional action plan.

The scope of financial stability analysis

- It involves both the economic and the prudential, to capture the impact that domestic and external economic effects may have on financial risk.
- It is regional in scope, to take account of cross border exposures, contagion, and the effects of the operations of regional financial conglomerates.
- It is an ongoing exercise, with monthly data collection, analysis and reporting.

Elements of the regional framework

- Collection and publication of regional FSIs, monthly
- Monthly financial stability assessment memorandum to highlight new sources of risk, vulnerabilities, and to track remedial actions
- Monthly meeting of central bank governors to review the report, to take action to strengthen regional financial system resilience and to monitor implementation (video conference)
- Publication of regional FSR, annually
- Trigger mechanism for response to impending financial failure built-in



THE COLLECTION AND DISSEMINATION OF FSI'S, MONTHLY



Data

Data we collect currently at the required frequency (at least monthly):

- Real sector and monetary data
 - Commercial bank balance sheet and income data
 - Regional financial soundness indicators (Jamaica, Trinidad-Tobago, ...)

Data we need monthly

- Insurance and credit union balance sheet and income data;
- Balance Sheet and Income data for other non bank financial institutions e.g. – mutual funds, mortgage companies, other deposit taking institutions, investment companies & clubs and financial conglomerates;
- FSIs for nonbanks;
- Intra-regional transactions balances;
- Regional interbank market transactions; interbank loans and deposits.

Other Information/data Required

- Ownership structure of regional financial conglomerates
- Foreign asset/exchange exposure of large financial institutions
- Market information – equity prices, housing prices, commodity prices, financing arrangements for major investment projects
- Capital flows – regional and extra regional flows (higher frequency)

MONTHLY FINANCIAL STABILITY ASSESSMENT



Monthly financial system assessment is essential

- Some body needs to be maintaining vigilance over the regional financial sector at all times.
- Since regional central banks have financial stability responsibility in their countries, a regional conference of central bank governors and heads of monetary authorities is the obvious choice.
- May be via teleconferencing

Monthly Confidential FSR memo

- The monthly meeting would need to be informed by a memo, indicating the strengths and vulnerabilities revealed by an analysis of the monthly FSIs;
- This memo would be short, focusing on crucial issues, and supported by appropriate tables and charts, and might be in the form of a Powerpoint presentation.

Measurement and Modeling

The analysis which informs the report would use the following techniques as appropriate:

- **Analysis of prudential indicators and ratios;**
- Financial Soundness Indicators;
- Early Warning Systems (EWS), signaling and discrete dependent variable approaches.
- Vector Auto regression (VAR) frameworks
- Stress testing frameworks
- Judgmental analysis

Institutional Arrangements

- The CCMF is currently implementing a project on Financial Risk Assessment in the Caribbean which is funded by the IDB.
- The project is a collaboration with CARICOM central banks.
- The project is designed to produce financial soundness indicators for the region and develop appropriate methodologies for monitoring financial stability.
- This project will provide the CCMF with the capability to prepare confidential brief, focused FSR memos, in addition to the annual published FSR envisaged in the IDB project.



Institutional Arrangements - 2

- The CCMF is in discussion with the CDB on the need for financing for a second project, to build the financial statistical data base needed, in collaboration with regional central banks;
- In order to implement both projects, CCMF will need additional staff and funding.

Monthly regional central bank meeting ...

- Would review main sources of vulnerability in the regional financial system;
- Would identify measures to strengthen the resilience of the financial sector, and the lead central bank to undertake remedial action. The convening of ***colleges of regulators*** could be a vehicle for such remedial action;
- Would monitor progress;
- Would serve to reduce the risk of systemic financial failure.

Crisis Management

- In the event a crisis did emerge, an emergency meeting of the governors would be triggered, to discuss the appropriate response;
- CCMF would provide this emergency meeting with the most recent information relating to the affected institutions and sub-sectors of the financial system;
- The crisis meeting would designate the lead actor, depending on the nature of the crisis

Recommendation

- Regional central banks and monetary authorities join CCMF or increase their contributions to finance the recruitment of financial risk analysts, to implement the reporting system, under the guidance of experts to be recruited under the IDB and CDB projects;
- Regional central banks and monetary authorities set up a schedule of monthly meetings on financial stability issues, beginning when CCMF acquires the ability to prepare the envisaged FSR memo;
- The monthly financial stability meeting would determine actions to increase regional financial resilience, and would monitor implementation;
- The central bank group would also act as regional financial crisis manager.



Is there any practical alternative?

- Extending the existing colleges of regulators does not address the need for preventative measures, and it does not address the deficiencies of data and analysis.
- We do not want to wait until the next crisis erupts to have to take remedial action in a data vacuum, as was the case with CL Financial.
- The recommended action helps to avert crises, by policy action to increase resilience.
- In the event of a crisis, central banks and monetary authorities will have up to date data and analysis to inform their response, and to reassure the public that they have the measure of the crisis and its implications.