

**AN HISTORICAL OVERVIEW
OF DEPOSIT INSURANCE IN
THE ENGLISH-SPEAKING
CARIBBEAN: 1986-2011**

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Format of Presentation

- Introduction
- Research Paper
- The Econ & Financial Environment
- Literature Review
- Methodology
- Regulatory & Supervisory Framework
- The Funding & premium Structure
- Impact on Stability & Confidence
- Conclusion
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The Research paper

An overview of the EDIS in the Caribbean with a view to:–

- ▶ Identify the key features of the EDIS
- ▶ Determine whether EDIS has impacted depositor confidence and banking stability;
- ▶ Influence policy

Introduction

- ▶ Explicit Deposit Insurance Systems (EDIS) changed the financial landscape of the English-speaking Caribbean after being introduced in Trinidad and Tobago in the 1986
- ▶ Adverse financial/economic conditions and/or bank crises seem to have preceded the establishment of EDIS—e.g. USA (1933), Nigeria (1988) and the Caribbean.
- ▶ EDIS in the English-speaking Caribbean:–
 - Trinidad & Tobago (T&T)(1986)
 - Jamaica (Ja)(1998)
 - The Bahamas (Bhs) (1999)
 - Barbados (Bds) (2006)
- ▶ EDIS role as part of the safety net mechanism

Literature Review

The Literature Review focuses on the following:–

- ▶ Definition and features of explicit DIS
- ▶ Discussions on DIS best practices, including BCBS & IADI core principles
- ▶ Discussions on moral hazard issues
- ▶ Discussions on depositor confidence
- ▶ Discussions on banking stability

Literature review

- ▶ George (1997) argues that banks are vulnerable to systemic risk.
- ▶ Mismatch created wherein banks use liquid short-term liabilities to fund long-term illiquid assets.
- ▶ Demirgüç-Kunt & Sobaci(2000) define EDIS as a formal set of arrangements to compensate depositors of a failed financial institution.
- ▶ “Implicit” DIS (the default) is a de facto insurance system

Methodology

- ▶ Primary data **questionnaires** and **interviews** with key stakeholders in the explicit DIS
- ▶ Secondary data – **Annual reports** of Deposit insurance corporations and central banks.
- ▶ **Annual Economic Reviews** from the central banks.
- ▶ **Annual Surveys** of the IADA
- ▶ **Annual surveys** of the IMF

The Economic & Financial Environment

In the 80s & 90s:

1. The Caribbean experienced adverse economic conditions;
2. Problems facing the banking sector led to a series of bank failures;
3. Barbados, however, experienced no bank failure.

The Economic & Financial Environment–T&T

- ▶ T&T–1980s saw reversals in fortune, compared to the oil boom of the 1970s.
- ▶ Negative growth rate avg. 3.3 % of real GDP.
- ▶ High unemployment 7.1%;and
- ▶ High inflation rates 17.2%
- ▶ The exogenous shocks exerted pressure on the financial system
- ▶ Closure of 1 finance house in 1983 and 4 financial institutions in 1986

The Economic & Financial Environment–Jamaica

- ▶ Ja. saw macro–environment policy changes, following upon World Bank–sponsored Structural adjustment programme (1986–1992).
- ▶ Initially, the Financial reform stimulated the Merchant banking sector (1985–1992).
- ▶ Over the period 1994–1997, there was a series of bank failures (21 failed banks).

The Economic & Financial Environment–The Bahamas

- ▶ Economic indicators were not as depressed as other territories
- ▶ Between 1995–1999:
 - GDP grew from 10.3% to 12.4%.
 - Low unemployment rates–2%–1.25%;and
 - High inflation rates,10.8% to 7.4%
 - Current account deficits, from 1% –4% of GDP
 - Closure of Gulf Union Bank (Bahamas) Ltd–a major bank in 1997

The Economic & Financial Environment–Barbados

- ▶ Economic indicators showed positive signs in the period , leading up to the DIS
- ▶ Between 2000–2006:
 - GDP grew from 3.1% to 6.2%.
 - Unemployment rates declined from 9.2%–7.6%;and
 - Inflation rates moved from 1.5% to 9.1%
 - Balance of payment deficits, from 3.1% –12.3% of GDP
 - Fiscal deficit grew from 4.1%–6.3% of GDP
 - No bank closures

EDIS-Design Features

Country	Membership (numbers)	Administration	Coverage (Local currency)	Premium/ Rate Initial & Ann.
Trinidad & Tobago	Compulsory Cbs (6) FH (5) Ts&Mbs (12)	Board-Public & Private	125,000	M-0.2% of deposits CBTT-0.4% initial
Jamaica	Compulsory Cbs (6) Bldg. Soc (3) Mbs (2)	Board-Public & Private	600,000	M-0.10% of insured deposits
The Bahamas	Compulsory Cbs (6) Other (7)	Board-Public & Private	50,000	M-0.05% of deposits
Barbados	Compulsory Cbs (6) Ts (7)	Board-Public & Private	25,000	M-0.05% of insured deposits CBB-match initial \$

Deposit Insurance Coverage Ratio

Country	Deposit Coverage (US\$)	*Per Capita GDP (US\$)	Deposit coverage to GDP per Capita Ratio
T&T	19,685	20,610	0.96
Jamaica	5,340	5,133	1.04
The Bahamas	50,000	23,488	2.13
Barbados	12,500	15,378	0.81

Deposit Liability & Funding-T&T

Trinidad and Tobago

Year	Deposit Liability (\$M)	DIF (\$M)	Premium Income (\$M)
2007	35,724.0	1,088.4	59.7
2008	40,206.0	1,242.2	68.3
2009	45,263.0	1,412.3	77.0
2010	53,722.0	1,593.3	89.0
2011	56,484.0	1,782.3	103.6

Deposit Liability & Funding-T&T

Trinidad and Tobago



	2007	2008	2009	2010	2011
— Deposit Liability (\$M)	35,724.0	40,206.0	45,263.0	53,722.0	56,484.0
— DIF (\$M)	1,088.4	1,242.2	1,412.3	1,593.3	1,782.3
— Premium Income (\$M)	59.7	68.3	77.0	89.0	103.6

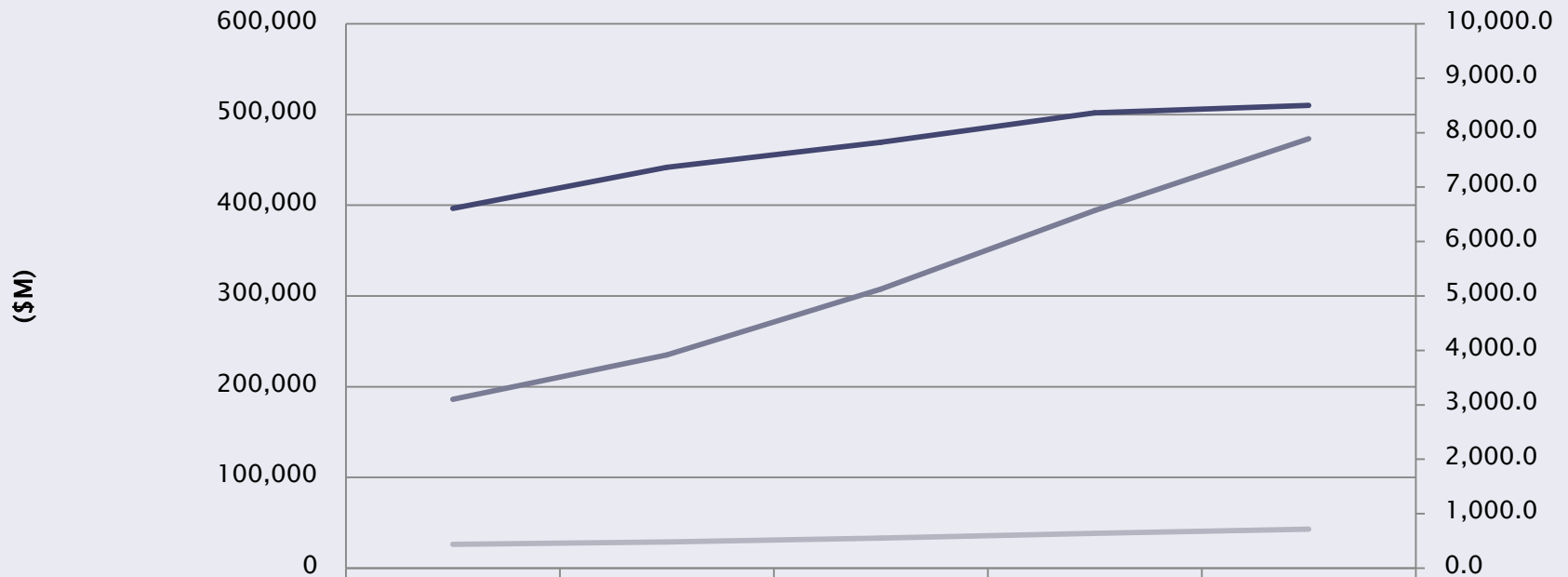
Deposit Liability & Funding–Ja

Jamaica

Year	Deposit Liability (\$M)	DIF (\$M)	Premium Income (\$M)
2007	396,413	3,104.0	437.1
2008	441,687	3,920.0	484.1
2009	469,366	5,129.0	553.4
2010	501,938	6,573.0	643.0
2011	510,210	7,889.0	720.9

Deposit Liability & Funding-Ja

Jamaica



	2007	2008	2009	2010	2011
— Deposit Liability (\$M)	396,413	441,687	469,366	501,938	510,210
— DIF (\$M)	3,104.0	3,920.0	5,129.0	6,573.0	7,889.0
— Premium Income (\$M)	437.1	484.1	553.4	643.0	720.9

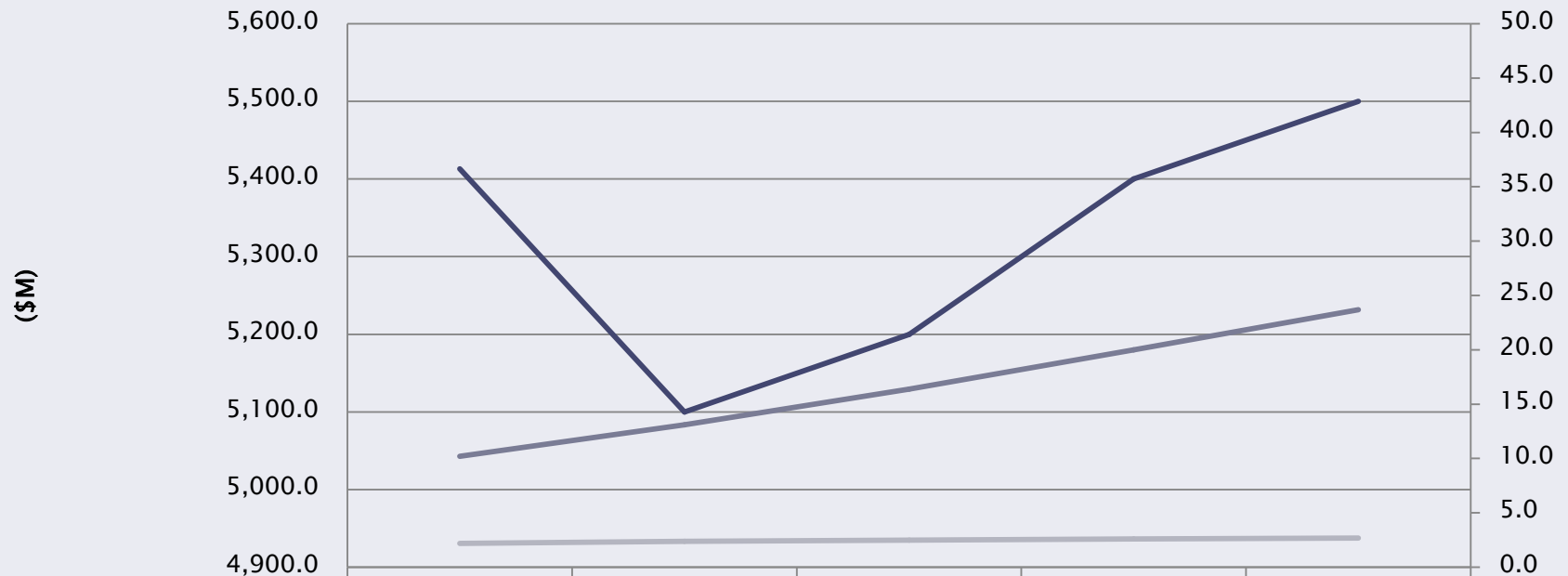
Deposit Liability & Funding–BHS

The Bahamas

Year	Deposit Liability (\$M)	DIF (\$M)	Premium Income (\$M)
2007	5,413.0	10.2	2.2
2008	5,100.0	13.1	2.4
2009	5,200.0	16.4	2.5
2010	5,400.0	20.0	2.6
2011	5,500.0	23.7	2.7

Deposit Liability & Funding-BHS

The Bahamas



	2007	2008	2009	2010	2011
— Deposit Liability (\$M)	5,413.0	5,100.0	5,200.0	5,400.0	5,500.0
— DIF (\$M)	10.2	13.1	16.4	20.0	23.7
— Premium Income (\$M)	2.2	2.4	2.5	2.6	2.7

Deposit Liability & Funding–BDS

Barbados

Year	Deposit Liability (\$M)	DIF (\$M)	Premium Income (\$M)
2007	10,032.0	8.514	1.731
2008	9,811.0	12.318	3.690
2009	8,577.0	17.047	4.183
2010	8,350.0	22.069	4.174
2011	8,565.8	27.320	4.176

Deposit Liability & Funding-BDS

Barbados



	2007	2008	2009	2010	2011
— Deposit Liability (\$M)	10,032.0	9,811.0	8,577.0	8,350.0	8,565.8
— DIF (\$M)	8.514	12.318	17.047	22.069	27.320
— Premium Income (\$M)	1.731	3.690	4.183	4.174	4.176

Bank Closures

Trinidad		Jamaica		Barbados		The Bahamas	
Year	Number	Year	Number	Year	Number	Year	Number
1983	1	1994	1	N/A	Nil	1997	1
1986	4	1996	2				
1988	1	1997	5				
1991	2	1998	13				
1993	1						
2009	1						
	10		21		0		1

Deposit Insurance Payouts

Trinidad				
Bank	Depositors	Deposit value TT \$ (M)	Deposit Insurance Paid TT\$(M)	Payout Ratio (%)
CFC	7,452	182.0	100.1	55
SUMMIT	2,097	36.6	28.8	79
TCL	23,647	114.3	55.7	49
SWAIT	350	18.8	6.7	36
MAT	366	28.9	8.0	28
BCCI	377	39.0	43.0	110
CM&F	162	4.1	3.9	95
PFC	179	6.1	5.3	87
CLICO	128	4.3	4.3	100

Deposit Insurance Payouts

The Bahamas				
Bank	Depositors	Deposit value BHS \$ (M)	Deposit Insurance Paid BHS\$(M)	Payout Ratio (%)
GULF UNION	N/A	25.3	7.5	30

ANALYSIS

- ▶ The legal framework for the EDIS show similarity in all territories.
- ▶ Prescriptive as regard design features of EDIS.
- ▶ Administrative framework–Public & Private sectors involvement.
- ▶ Coverage levels trend toward GDP per capita.
- ▶ Bank failures tend to decline in all territories.
- ▶ Growth in deposits in the banking sectors.
 Cbs' deposit growth > Non-banks'
- ▶ The liquidation process is protracted > 10 yrs.
- ▶ Payout ratios very small–improved post EDIS > 50%

Conclusions

- ▶ Preliminary evidence suggests that adverse economic conditions may have led to the establishment of EDIS in the Caribbean.
- ▶ While a number of bank failures were experienced in T&T, Jamaica and the Bahamas, only T&T and Bahamas had the experience of treating with deposit insurance payouts under an EDIS.
- ▶ Further work needed (i) to determine to what extent best practices have been followed; and (ii) to ascertain whether EDIS is the panacea to assure depositor confidence and to avert threat to bank failures and banking stability.

References

See detailed Handouts

THE END

THANK YOU