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CONSOLIDATION OF THE ECCU FINANCIAL SECTOR

The financial sector in the ECCU has been stressed by several events within recent times. The global economic crisis from which major source countries for tourism and direct foreign investment are recovering slowly continues to depress credit demands and elevate financial portfolio risks in the ECCU. Government indebtedness to domestic financial institutions is another portfolio risk factor to be taken seriously. The financial sector has also been shaken by the collapse of CL Financial Holdings, the then largest financial conglomerate in the Caribbean Community, with extensive coverage in the life and general insurance industry in the OECS.

The Eastern Caribbean Central Bank, as the monetary authority for the ECCU, has been fully engaged in designing a plan for financial sector stability, a key component of which is rationalization of the structure of the commercial banking and insurance industries.

In August 2013, there were 37 clearing banks in the ECCU. Twenty-two were foreign-owned and 15 were indigenous and locally owned. Given the small population sizes of the individual member countries (5000 at the lower end and 172,000 at the upper end), the ECCU would seem to be “over-banked” in comparison with other Caribbean Community countries where the number of banks is not larger but the sizes of population are multiples of those in ECCU member countries. One proposal is the consolidation of indigenous banks to create one large indigenous bank. However, this would not materially reduce the number of banks operating in each ECCU country, except in the case of Antigua and Barbuda where the number would decrease from 8 to 5. The reason why the number of banks would not change significantly is that individual foreign owned banks are replicated in many of the countries.

More pertinent considerations are operational deficiencies among indigenous banks and weaknesses in their competitive ability. Operational deficiencies derive in most cases from an insufficient stock of managerial resources at the enterprise level and inadequate risk management systems but there are also governance problems in a few cases. Amalgamation by increasing capital size and client base could permit deepening of expertise and justify investment in improved technologies and systems. The possibilities for risk reduction through asset portfolio diversification could also be increased

because the number of uncorrelated client accounts would be significantly larger.

Asset size is a source of advantage in commercial banking. The creation of a large indigenous bank through consolidation of the existing small entities would overcome the size disadvantage they separately experience. However, they will still be exposed to other important competitiveness factors, most important of which is probably quality of service. In this regard, they will have to be as innovative as their foreign owned competitors.

Consolidation in the insurance industry has featured among the proposals for reform in the ECCU financial sector. Using the same per capita criterion used with respect to commercial banking, attention has been drawn to the existence of 161 insurance registrants representing 61 companies and serving a total population of 630,000 persons. A few institutions have highly disproportionate shares of the market. This implies a low volume of business for many institutions with resulting inability to reap economies of scale. One approach to dealing with this problem is to establish financial thresholds for entry into the industry.

Another problem resulting in part from the multiplicity of small insurance service providers is inadequate regulatory oversight. The problem is compounded by the fragmentation of ECCU regulatory and supervisory jurisdiction into individual national jurisdictions and associated variegation of the national legal and regulatory framework. If the ECCU is to be one financial space for the insurance industry then political decisions have to be made to at least harmonize policies, including financial entry thresholds, regulations and laws. This would still leave for close consideration the issue of how best to enhance the capacity of the regulatory and supervisory systems, including the merits and demerits of a single regulatory and supervisory system for the ECCU as a whole.

**By Professor Compton Bourne
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REGIONAL NEWS SUMMARY

CL FINANCIAL

- Employees of Clico and British American staged a protest demonstration outside the Eric Williams Finance Complex in Port-of-Spain demanding answers from Finance Minister Larry Howai about the status of Atrius, the new corporate entity that will replace the two companies, as well as a time frame for payment of their severance benefits. (TG 3 Dec)
- The shareholders' agreement between the Government and CL Financial stockholders has been extended for a further six months (TE 28 Dec)

CARIBBEAN

- The Barbados government is seeking to address the issue of fiscal deficit in a more concerted and conscientious manner to ensure that the economy is kept stable, and that those gains needed for the economic growth programme are not undermined by continuing fiscal slippage. (BN 3 Dec)
- An initiative by the Barbados Investment and Development Corporation to invest in new product development is not only seeing results, but also preparing the country for more export sales. (BAAdv 4 Dec)
- Guyana scored 27 out of 100 on the Transparency International's Corruption Perceptions Index for 2013, dropping a point from the 28 it gained last year. For the Caribbean, Barbados is among the least corrupt countries. (GuyTim 4 Dec)
- Cinnamon, nutmeg, cloves and ginger are often key baking ingredients. But on the island of Grenada they are also central ingredients in a burgeoning economic revolution. (CNnow 4 Dec)
- Dominica and China have signed a new US\$300 million cooperation agreement that includes the construction of a hotel, an international airport and building a new hospital. (Carib360 5 Dec)
- Canadian gold miner, IAMGOLD, says it will develop and operate a solar plant in Suriname at a cost of US\$14 million. "The project will help meet the electricity requirements of the mine in district Brokopondo, and at the same time free up power for use by other customers in Suriname," the company said. (JG 5 Dec)
- High liquidity in the financial system and four elections over the course of the year have contributed to a lack of investment in 2013, chief executive of the Trinidad and Tobago Chamber of Industry and Commerce Catherine Kumar has said. (TE 5 Dec)
- The T&T Senate agreed to two motions to let the Government withdraw or "mop up" an extra \$25 billion from the country's financial system. (Newsd 6 Dec)
- PCS Nitrogen Trinidad Ltd, located on the Pt Lisas Industrial Estate, has fired more than a dozen long-standing employees as the company moves to reduce its workforce. The employees, some of whom have been employed for three decades, were handed termination letters, with immediate effect. (TE 6 Dec)
- T&T will minimise impacts from the lack of, or insufficient, urban drainage infrastructure in Port-of-Spain through a US\$120 million loan from the IDB. (TG 6 Dec)
- Suriname's quest to develop strong economic ties with Turkey and the Organisation of Islamic Cooperation (OIC) following intense diplomacy since the Bouterse administration took office in 2010, now seems to be bearing fruit. (CNnow 6 Dec)
- Professor Henry Lowe's dream of a multi-billion-dollar business in medical marijuana has formally taken root after the launch of Medicanja, Jamaica's first medical ganja company (JG 6 Dec)
- The IDB project will support measures to update the country's regulatory framework to maintain low rates of deforestation and forest degradation caused by mining, logging, and agriculture. Guyana, one of the best-conserved high-biodiversity countries in the world, will advance in its efforts to implement its Low-Carbon Development Strategy with US\$16.9 million in financing from the IDB. (GuyTim 6 Dec)
- IMF consultations with the Barbados Government are in full swing, as officials from the United States-based organization met Ministry of Transport and Works officials. (BN 6 Dec)
- Chinese Ambassador to Guyana Zhang Limin and Guyana's Minister of Finance Dr Ashni Singh signed a technical and economic cooperation agreement for the provision of 30 million Renminbi (\$1B). The minister and the ambassador also exchanged documentation regarding the donation of a mobile container scanner for the Guyana Revenue Authority (SN 9 Dec)
- A new World Bank report says Latin American and Caribbean entrepreneurs lack "innovation" in creating quality jobs. (JO 9 Dec)
- The Women Entrepreneurs Network of the Caribbean has been awarded a grant of US\$58,500 from the WEAmericas Grant Initiative, a fund administered by the US Department of State, Office of Global Women's Issues. The grant will assist the network in achieving its mandate of increasing the voice, visibility and viability of women-led businesses in the Caribbean (TG 9 Dec)

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- AM Best Co has affirmed the financial strength rating of A-(Excellent) and issuer credit rating of "a-" of T&T Insurance Ltd (Trinidad). The outlook for both ratings is stable, the ratings agency said in a statement. (TG 10 Dec)
- The Jamaica government has received approximately \$6.8 billion (€48.134 million) in budgetary support from the European Union, which will assist in the implementation of various development programmes. (JO 10 Dec)
- The Barbados government will be rolling out a five-year strategic plan for the international business and financial services sector "very early" in the new year. (BN 10 Dec)
- Addressing the Regional Meeting on Financial Services, Trinidad and Tobago's Minister of State in the Ministry of Finance and the Economy Rudranath Indarsingh said the region must be committed to be at the forefront of international standards. (BAdv 11 Dec)
- The government of Saint Lucia, through the Caribbean Regional Infrastructure Programme (CARCIP), will be implementing an EC\$2.5 million grant instrument to support ICT business incubation and training. CNnow 11 Dec)
- Merchandise imports into Jamaica for the period January to August 2013 decreased by 7.4% while the trade deficit narrowed by 9%, according to the latest figures released by the Statistical Institute of Jamaica (JG 11 Dec)
- Jamaica can export up to US\$100 million in products to Venezuela under the PetroCaribe deal. What's more, the figure keeps growing as the debt accumulated from the conversion of 50-60% of oil imports from the South American country continues to rise. Under the deal, through which Jamaica has borrowed over US\$2.4 billion, exports can be used to service the loan. (JO 11 Dec)
- Guyana Goldfields has announced it is investing US\$238 million in the Aurora Gold Project, the second largest investment in the mining sector. (GuyTim 12 Dec)
- Luxury Locations in Jolly Harbour Antigua has fought off challengers across the globe to be named the best real estate agency in the region—and third best in the world—at the prestigious OPP Awards for Excellence. (TG 12 Dec)
- State-owned First Citizens Bank Ltd has been consistently profitable, Standard & Poor's credit rating agency said in its latest rating of the bank. (TG 13 Dec)
- The T&T Government's US\$500 million, ten-year benchmark bond has been heavily oversubscribed, with international investors agreeing to offer an interest rate of 4.375% for T&T's first issue on the international capital market since 2007. (TG 13 Dec)
- Pine Hill Dairy has reduced its financial losses but remains in the red. Last year Barbados Dairy Industries Limited lost \$4.27 million and by the time its latest financial year ended on August 31 this year, it had reduced that amount to \$1.56 million. (BN 13 Dec)
- The St. Kitts-Nevis government says it is pleased with the growth of the local economy despite mixed global developments that continue to take a toll on developing countries. (Carib360 13 Dec)
- Jamaica's House of Representatives has passed legislation to combat the establishment of unlawful financial organisations commonly known as Ponzi or pyramid schemes. (CNnow 13 Dec)
- The 8th census results show that the number of persons who completed an academic education since 2004 has grown by 60%. The majority of that number is female. However, this group has a harder time finding a job. Unemployment figures show a slight increase. (Die Ware Tijd 16 Dec)
- Barbadians appear to be heeding the calls to buy local and save jobs. This has been revealed by President of the Barbados Manufacturers Association, Ms. Karlene Nicholls. (BAdv 16 Dec)
- More than four in five members of the Caribbean diaspora are interested in investing in business back home. Just 13% do so today, according to a World Bank info-Dev report recently. "The biggest barrier we found was visibility," explained Qahir Dhanani, author of the report. "The money is out there, but there is a lack of awareness of investment opportunities, including what deals are there, what deals are high quality, and which entrepreneurs are receptive to angel investing." (JO 16 Dec)
- The IMF has endorsed the decision by the Barbados government to sever 3,000 public servants and implement wage cuts next year. (Carib360 17 Dec)
- A government wage bill that rose to 10.3% of Barbados' gross domestic product in 2012/2013 is one of the major factors why that country's government may need to lay off as many as 3,000 civil service workers. (TE 17 Dec)
- The union at Antino Minerals (Suriname) will start summary proceedings to fight the mass lay-off of 88 workers. (die Ware Tijd 18 Dec)
- The Caribbean's lone credit rating agency has downgraded Barbados, saying that the island's economic performance for most of this year was disappointing and the prospects for growth in the country are not apparent. (BN 18 Dec)
- The Caribbean Development Bank has admitted Suriname as a full member of the financial body. As a result, Suriname will now have easier access to subsidized

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- loans that will boost development projects. (Carib360 18 Dec)
- Guyana has recorded the highest ever gold declaration of 458,105 ounces as at December 16, 2013 surpassing the previous highest level of 455, 918 ounces in 2001; which included the declarations of both Omai and small scale operators. (GCO 18 Dec)
 - While buying and selling rates at local cambios have remained somewhat constant, Guyanese using their debit or credit cards and bank drafts for United States dollar transactions will notice what appears to be a further depreciation of the Guyana dollar. (SN 18 Dec)
 - The Bank of Jamaica has put in place a new standing liquidity facility for deposit-taking institutions to meet their overnight cash needs. (JG 18 Dec)
 - The Barbados economy may have contracted by an estimated 0.6% in the first half of this year, following limited growth in 2012, but President & Group CEO Neal and Massy Holdings Limited, Gervase Warner, says now is the time to invest in that country. (Newsd 19 Dec)
 - Just two weeks before the New Year, the Central Bank of T&T has revised its overall economic growth projection for 2013 to 1.5%, down from the 2.5% it had maintained in May. The Trinidad and Tobago economy grew 1.% in the first nine months of 2013, compared to 0.3% for the same period last year. The overall projection for 2013 is 1.5% economic growth. (TE 19 Dec)
 - A \$4.9 billion bond earned on the international capital market will be used to offset the costs associated with the Point Fortin Highway and payments to the Brazilian contractor, OAS Construction. Finance Minister Larry Howai said (TG 19 Dec)
 - Some Barbados companies are not performing as well as they should because of an insufficient focus on risk management, says Gregory Rose, chief executive officer of Lynch Insurance Brokers, one of Barbados' oldest companies. (BN 19 Dec)
 - The Executive Board of the (IM) has approved a disbursement of US\$30.8 million (SDR 19.97 million) for Jamaica. The allocation followed the completion of the second review of Jamaica's economic performance (JO 19 Dec)
 - General Secretary of the People's Progressive Party, Clement Rohee, lauded the 5% growth recorded by Guyana and commended the Ministry of Finance for its stewardship of the economy (GCO 19 Dec)
 - Ansa Merchant Bank will arrange and fully underwrite a 17-year fixed rate bond for \$495,937,500 to be issued by the Sports Company of T&T to partially finance development of nine regional recreational facilities. (TG 20 Dec)
 - Guyana's strong macroeconomic performance has contributed to a reduction in public debt levels and sustained poverty reduction during the last decade, according to the IMF. (GuyTim 20 Dec)
 - Barbados Prime Minister Freundel Stuart has called on The UWI to graduate intellectuals with good ideas to ensure the Caribbean's future development. (Carib360 21 Dec)
 - Moody's downgraded the Barbados government bond rating from Ba1 to Ba3, citing poor economic growth and rising fiscal deficits. (TE 22 Dec)
 - T&T has been ranked second among the top ten wealthy Caribbean nations based on Gross National Income (GNI), according to a report by the World Bank; The Bahamas is the richest. (TG 22 Dec)
 - The availability of jobs in some sectors in T&T, albeit at the lower income levels, has rendered the twin-island republic a great lure for Jamaicans as well as nationals of other CARICOM states. (JG 23 Dec)
 - Sharon Saunders, Jamaica's high commissioner to T&T, told The Gleaner she was pursuing an initiative that could allow Jamaicans to work in what is being informally referred to as a guest-worker programme. (JG 23 Dec)
 - Jamaica could soon be given a much-needed opportunity to export labour to its CARICOM neighbour, Trinidad and Tobago, in an exchange programme aimed at easing the disconcerting trade imbalance between the two countries. (JG 23 Dec)
 - The Central Bank of Barbados reported that it has secured a five year US\$150 million loan from regional and international lenders. This loan provides the planned foreign financing for the current fiscal year and serves to augment the stock of international reserves, while the recently announced fiscal measures take effect. (BA dv 23 Dec)
 - A new Caribbean Economic Performance Report issued by the Caribbean Centre for Money and Finance concluded that the island was worst off in context of the region's economic performance. The CCMF said Barbados "is the only country projected to decline in 2013, with a 0.8% fall in GDP". (BN 23 Dec)
 - Barbados-based insurance group Sagicor Financial has received approval from regulatory authorities in the United Kingdom and Cayman Islands to sell Sagicor Europe Ltd and its subsidiaries for £86 million. (TE 24 Dec)
 - Publicly traded company National Enterprises Ltd has confirmed that it closed an agreement with United

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- Kingdom-based energy giant BP effective December 18 to purchase BP's 10% shareholding in power company PowerGen. (TE 26 Dec)
- T&T's minister of finance Larry Howai has confirmed that Standard & Poor's has affirmed its A/A-1 long and short-term foreign and local currency sovereign credit ratings on Trinidad and Tobago. (Newsd 26 Dec)
 - Barbados' economy has been anchored on a fixed exchange parity with the US dollar of 2:1 since the early 1970s and that situation has allowed the country, including its private sector, Government and citizens, to plan with some certainty based on the stability of the Barbados dollar. (BN 27 Dec)
 - "We have the money, but it's just not that easy to find the deals back home." These words, from a Barbadian entrepreneur in Silicon Valley tell the story of a successful tech entrepreneur whose family left the Caribbean almost a generation ago. They moved to the USA and over the years he was able to build a successful business based in Northern California. Today, he looks back home in search for talent that could benefit from the financing and advice he can provide as a business angel investor. (TG 29 Dec)
 - Two major postings, legal advisers and financial analysts, have been advertised by Guyana's Financial Intelligence Unit, as it seeks to improve its staff complement. (GCO 30 Dec)
 - A leading Jamaican researcher believes that the country could earn up to seven billion US dollars annually by increasing the production of limestone and its value added products. (Carib360 31 Dec)

FINANCIAL STABILITY WORKSHOP

The Caribbean Centre for Money and Finance has organised a training workshop in Guyana, 15-16 January 2014. It will be hosted by the Bank of Guyana. It will be the second training workshop as part of an IDB-financed projected entitled Financial Risk Assessment in an Integrating Region: The Caribbean in which the central banks of the Caribbean region are full participants.

The theme of the second workshop is "Role of Financial Soundness Indicators in Assessing Risk and in Identifying Vulnerabilities". The institutional focus is on life and non-life insurance companies, credit unions and private pension funds. The workshop will review experiences with respect to data generation and financial soundness indicators and then deal with strategic issues related to the role of financial soundness indicators such as criteria for determining systemically important institutions and interactions between macro-prudential policies and monetary and fiscal policies. A session will be devoted to stress testing for vulnerabilities and resilience.

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