

# **REGIONAL FINANCIAL STABILITY REPORT**

**BY**

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# PRESENTATION AREAS

- ▶ **MACRO-ECONOMIC VULNERABILITIES AS CHALLENGES TO STABILITY IN THE CARIBBEAN**
- ▶ **PREVAILING FINANCIAL RISKS AND RESILIENCE IN THE CARIBBEAN**
- ▶ **PERFORMANCE AND RELATED SOUNDNESS INDICATORS IN THE BANKING AND INSURANCE SECTORS**
- ▶ **POLICY INITIATIVES FOR MITIGATING FINANCIAL INSTABILITY**
- ▶ **POSTSCRIPT AND REFLECTIONS**

# MACRO-ECONOMIC VULNERABILITIES AS CHALLENGES TO STABILITY IN THE CARIBBEAN

- ▶ ECONOMIES SUFFER FROM A SIGNIFICANT LACK OF ECONOMIC DIVERSIFICATION
- ▶ LIMITED TECHNOLOGICAL CAPABILITY, SKILLS AND RESOURCE ENDOWMENT
- ▶ EXTREME DEPENDENCE ON INTERNATIONAL TRADE
- ▶ MOST TOURISM DEPENDENT REGION IN THE WORLD
- ▶ HEAVY DEPENDENCE ON ONE OR TWO COMMODITY EXPORTS
- ▶ FISCAL DEFICIT PRONE ECONOMIES
- ▶ VERY HEAVILY INDEBTED ECONOMIES
- ▶ EXPOSURE TO NATURAL HAZARDS

# ASSESSMENT OF PREVAILING FINANCIAL RISKS

## MAJOR RISKS

- ▶ CREDIT RISKS (INCL. CONCENTRATION RISKS)
- ▶ FOREIGN EXCHANGE RISKS
- ▶ SOVEREIGN RISKS
- ▶ SYSTEMIC RISKS (INCLUDING CONTAGION RISKS)

## OTHER RISKS

- ▶ LIQUIDITY RISKS
- ▶ CAPITAL ADEQUACY RISKS
- ▶ INTEREST RATE RISKS

# PERFORMANCE AND FINANCIAL SOUNDNESS INDICATORS RELATED TO THE BANKING SECTOR

## Commercial Banks' Performance in 2013 Compared with 2012

Producer-Type Countries	Earnings and Profitability (%)				Capital Adequacy (%)				Liquidity (%)			
	2012		2013		2012		2013		2012		2013	
	ROE	ROA	ROE	ROA	REG.	TIER I	REG.	TIER I	TO ASSETS	TO LIABILITIES	TO ASSETS	TO LIABILITIES
Commodities	15.3	1.7	20.2 *	2.6 *	18.4	17.3	20.0	19.2	28.4	41.6	28.6	43.6
Services Based	11.9	1.5	9.8	1.2	20.9	19.3 *	21.0	21.3	26.2	36.8	26.7	39.7 *
Overall Average	13.6	1.6	15.0	1.9	19.7	18.3	20.5	20.3	27.3	39.2	27.7	41.7

**Source:** Calculations based on data provided by Central Banks

- Notes:**
1. Commodity producer data are for Guyana, Suriname and Trinidad and Tobago. Services-based producer data are for the Bahamas, Barbados, Belize, Haiti and Jamaica
  2. (\*) Denotes instances where data not available for the Bahamas and Suriname

# PERFORMANCE AND FINANCIAL SOUNDNESS INDICATORS RELATED TO THE BANKING SECTOR (Cont'd)

## 2013 COMPARED WITH 2012

- ▶ ROE AND ROA IN 2013 HIGHER THAN REGIONAL AVERAGE IN 2012
- ▶ RE CAPITAL ADEQUACY, BOTH RATIOS (REG. CAPITAL AND REG. TIER I CAPITAL TO RISK WEIGHTED ASSETS) IN 2013 HIGHER THAN AVERAGE IN 2012
- ▶ RE LIQUIDITY, BOTH RATIOS (LIQUID/TOTAL ASSETS AND LIQUID ASSETS/ SHORT TERM LIABILITIES) IN 2013 HIGHER THAN IN 2012
- ▶ EARNINGS AND PROFITABILITY HAVE THEREFORE INCREASED WHILE SAFETY POSITIONS HAVE BEEN BOLSTERED

# PERFORMANCE AND FINANCIAL SOUNDNESS INDICATORS RELATED TO THE BANKING SECTOR (Cont'd)

## COMPARISON WITH 'INTERNATIONAL BEST PRACTICE'

- ▶ CARIBBEAN PERFORMANCE IN 2013 ALMOST INVARIABLY BELOW THAT OF SELECTED GROUPS OF DEVELOPING AND EMERGING (AND G20) ECONOMIES
- ▶ AVERAGE ROE AND ROA FOR DEVELOPING COUNTRIES WERE 15.8 AND 1.9 PER CENT, RESPECTIVELY; AND FOR EMERGING ECONOMIES 19.9 AND 2.0 RESPECTIVELY (12.7 AND 1.6 FOR THE CARIBBEAN)
- ▶ FOR LIQUID ASSETS TO TOTAL ASSETS, THE RATIOS FOR THE DEVELOPING AND EMERGING ECONOMIES WERE 28.6 AND 20.3, RESPECTIVELY (27.7 PER CENT FOR THE CARIBBEAN)
- ▶ FOR LIQUID ASSETS TO SHORT TERM LIABILITIES, THE RATIOS FOR THE DEVELOPING AND EMERGING ECONOMIES WERE 60.4 AND 55.9, RESPECTIVELY (41.4 PERCENT FOR THE CARIBBEAN)

# HIGH INCIDENCE OF NON-PERFORMING LOANS (NPLs) IMPAIRING EARNINGS AND PROFITABILITY

## Incidence of Non-Performing Loans in Commodity and Service-Based Caribbean Economies, 2012 and 2013

Country	Commodity-Based		Services-Based	
	2012	2013	2012	2013
A	6.8	5.4	15.7	13.0
B	6.2	5.9	11.7	10.6
C	5.4	4.3	14.8	17.2
D	-	-	2.4	2.4
E	-	-	5.4	6.8
<b>Average</b>	<b>6.1</b>	<b>5.2</b>	<b>10.0</b>	<b>10.0</b>

*Source:* Calculation based on data provided by Central Banks

*Notes:* Data available for three commodity producing countries and five services-based economies

## HIGH INCIDENCE OF NON-PERFORMING LOANS (NPLs) IMPAIRING EARNINGS AND PROFITABILITY (Cont'd)

- ▶ **THE COMMODITY-BASED ECONOMIES ARE GUYANA, SURINAME AND TRINIDAD AND TOBAGO; AND THE SERVICES-BASED ECONOMIES FOR WHICH DATA WERE AVAILABLE ARE THE BAHAMAS, BARBADOS, BELIZE, HAITI AND JAMAICA**
- ▶ **THE AVERAGE NPL OF THE TWO GROUPS DECREASED FROM 8.7 PER CENT IN 2012 TO 8.3 PER CENT IN 2013, ENTIRELY DUE TO BETTER PERFORMANCE IN THE COMMODITY-BASED ECONOMIES**
- ▶ **THE NPL OF THE COMMODITY-BASED ECONOMIES DECREASED FROM 6.1 PER CENT IN 2012 TO 5.2 PER CENT IN 2013, WHEREAS THE NPL PERCENTAGE REMAINED THE SAME AT 10.0 PER CENT FOR THE SERVICES-BASED ECONOMIES**
- ▶ **THE NPL WAS IN DOUBLE DIGITS IN THREE OF THE FIVE SERVICES-BASED ECONOMIES AND IN TWO OF THEM THE NPL ROSE, RATHER THAN FELL (WITH NPL IN 2013 RANGING FROM 2.4 TO 17.2 PER CENT FOR THE SERVICES BASED ECONOMIES)**

# INDICATORS OF FINANCIAL RESILIENCE AND RECOVERY

## Regional Financial Stability Averages for Banks Pre and Post the Advent of the Crisis

Financial Stability Indicators	Period 2006–2008	Period 2009–2012	Periods % Difference	2012	2013
Regulatory Capital to Risk Weighted Assets	18.1	19.7	+ 8.9	19.1	20.6
Liquid Assets to Total Assets	21.1	26.9	+ 27.5	27.0	27.4
Non-Performing Loans to Total Loans	5.2	8.5	+ 63.4	8.7	8.3
Return on Equity	25.6	16.7	- 34.7	13.3	12.7
Return on Assets	2.9	1.8	- 37.9	1.5	1.6
Interest Margin to Gross Income	66.7	61.6	- 7.6	65.3	58.0
Non-Interest Expenses to Gross Income	45.0	47.8	+ 6.2	50.3	48.2

## INDICATORS OF FINANCIAL RESILIENCE AND RECOVERY (Cont'd)

- ▶ **AVERAGE ROE AND ROA DURING 2009-2012 PERIOD FELL BY 34.7% AND 37.9%, RESPECTIVELY, OVER 2006-2008 ; IN THE LAST TWO YEARS (2012/2013) ROE CONTINUED TO FALL BUT ROA MARGINALLY INCREASED**
- ▶ **AVERAGE INCREASE IN NPL DURING 2009-2012 PERIOD OVER 2006- 2008 WAS AS HIGH AS 63.4 % BUT OVER THE LAST TWO YEARS (2012/2013) THERE WAS A MARGINALLY DECREASE**
- ▶ **THE AVERAGE LIQUID ASSETS TO TOTAL ASSETS RATIO DURING 2009-2012 INCREASED BY 27.5% OVER 2006-2008 ; IN THE LAST TWO YEARS (2012/2013) THERE WAS ALSO A MARGINAL INCREASE**
- ▶ **AVERAGE REGULATORY CAPITAL TO RISK WEIGHTED ASSETS RATIO DURING 2009-2012 INCREASED BY 8.9% OVER 2006-2008 ; IN THE LAST TWO YEARS (2012/2013) THERE WAS ALSO A SIGNIFICANT INCREASE**

## INDICATORS OF FINANCIAL RESILIENCE AND RECOVERY (Cont'd)

- ▶ **BOTH INTEREST AND NON-INTEREST EXPENSES REMAINED FAIRLY STEADY OVER THE PRE AND POST CRISIS PERIODS**
- ▶ **THE GLOBAL CRISIS AND RESULTING NPL SURGE CAUSED SIGNIFICANT IMPAIRMENT OF BANKS' BALANCE SHEETS BUT DEFENSIVE RESPONSES INCLUDED SIGNIFICANTLY ENHANCED LIQUIDITY AND CAPITAL POSITIONS. DATA FOR THE LAST TWO YEARS GENERALLY SHOWS CONTINUED PROGRESS TOWARDS FINANCIAL STABILITY**
- ▶ **INDIVIDUAL COUNTRY STRESS RESULTS ARE VERY ENCOURAGING BUT THERE IS NEED TO ENSURE THAT THERE ARE NO BUILT-IN BIASES**

# PERFORMANCE IN THE INSURANCE SECTOR

## ▶ Performance Indicators for the Insurance Sector, 2012–2013

Indicator	Commodity-Based Economies		Services-Based Economies	
	2012	2013	2012	2013
<b>Rate of Return</b>				
Life	14.1	12.3	13.9	-2.2
Non-Life	16.4	24.6	21.3	14.9
<b>Net Premium/Capital</b>				
Life	89.8	88.1	53.8	72.9
Non-Life	85.2	97.5	81.3	79.2
<b>Capital/Total Assets</b>				
Life	23.0	23.7	28.5	20.1
Non-Life	45.4	44.4	36.3	34.8
<b>Capital/Technical reserves</b>				
Life	41.7	43.2	83.4	55.5
Non-Life	168.9	157.1	102.8	100.8
<b>Risk Retention</b>				
Life	93.4	91.6	60.0	62.3
Non-Life	95.2	94.0	44.9	44.5

*Source:* Calculations based on data supplied by the Central Banks/CCMF for the three commodity-based economies and two (ECCU and Jamaica) services-based economies

# PERFORMANCE IN THE INSURANCE SECTOR (Cont'd)

- ▶ **RETURN ON EQUITY (ROE) RATHER ERRATIC**
- ▶ **ROE FELL (2013/2012) FELL FOR BOTH LIFE AND NON-LIFE COMPANIES IN THE SERVICES-BASED ECONOMIES. DECREASED FOR LIFE BUT INCREASED FOR NON-LIFE IN CASE OF COMMODITY-BASED ECONOMIES**
- ▶ **RE THE CAPITAL ADEQUACY RATIOS, THE 2013/2012 OUTCOMES TEND TO REFLECT A CERTAIN DEGREE OF STABILITY FOR THE LIFE COMPANIES**
- ▶ **FOR THE NON-LIFE COMPANIES, THERE IS A CONSIDERABLE AMOUNT OF MOVEMENT IN THE THREE CAPITAL ADEQUACY RATIOS**
- ▶ **THERE IS UNCERTAINTY ABOUT THE UNDERLYING TRENDS**

# RECENT POLICY INITIATIVES

## A. LEGISLATIVE, REGULATORY AND SUPERVISORY DEVELOPMENTS

- ▶ ENSURING COMPLIANCE WITH BASEL II AND III
- ▶ INTENSIFYING SUPERVISION AND MONITORING OF ASSET QUALITY
- ▶ MODERNIZING CREDIT UNION POLICY
- ▶ STRENGTHENING REGULATION AND OVERSIGHT OF INSURANCE
- ▶ ADHERING TO ANTI TAX HAVEN AND MONEY LAUNDERING OBLIGATIONS

## B. ENHANCING REGIONAL STRUCTURES AND MECHANISMS

- ▶ ESTABLISHING GROWTH AND STABILITY FUNDS
- ▶ IMPROVING FINANCIAL GOVERNANCE
- ▶ DEEPENING CONSOLIDATED SUPERVISION
- ▶ STREAMLINING CRISIS MANAGEMENT AND RESOLUTION FRAMEWORK

# POSTSCRIPT AND REFLECTIONS

- ▶ FUTURE RFSRs WOULD BE SPARED THE NEED TO SPEND AS MUCH TIME ON IMMEDIATE PRE AND POST CRISIS HISTORY AND STRUCTURAL FACTORS
- ▶ OTHER SECTORS (EG. SHADOW BANKING) AND ISSUES (EG. PAYMENT SYSTEMS) MAY CONSTITUTE THE FOCUS OF FUTURE ANNUAL RFSRs.
- ▶ GREATER EFFORT IS NEEDED RE GENERATING FINANCIAL DATA (EG. RE INSURANCE; PENSION FUNDS AND CREDIT UNIONS)
- ▶ MORE TIMELY DATA REPORTING IS ALSO NECESSARY
- ▶ REGIONAL AVERAGES MAY BE DISTORTING AND MISLEADING AT TIMES BECAUSE OF AN OUTLIER PROBLEM AND PAUCITY OF COUNTRIES REPORTING, *INTER ALIA*
- ▶ MICRO DATA ARE ALSO NECESSARY FOR POLICY MAKING PURPOSES

**THANK YOU**