



Banking Sector Issues in the Caribbean

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**CONFERENCE ON FINANCIAL STABILITY,
INTERCONNECTEDNESS AND
RISK ASSESSMENT IN THE CARIBBEAN
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- Key risks in the region
 - Credit risk
 - Operational Risk
- Reform programme to strengthen resilience of banks
 - Basel 11 implementation
 - Consolidated Supervision
 - MMOU
 - Regional Crisis Management
 - Cross border onsite inspections
- Further measures to improve resilience
 - Basel 111
 - DSIBs framework
- Key Policy issues to be considered
 - Structure of banks
 - Capital, solo capital
 - Resolution planning

Key risks in the region

□ Credit risk

➤ Increasing non-performing loans (NPLs)

Jurisdiction	2008	2009	2010	2011	2012	2013
Bahamas	6.0	9.3	12.2	13.0	13.9	15.7
Barbados	3.4	7.9	10.8	11.1	12.9	11.7
Belize	12.7	12.2	18.4	18.9	17.2	14.8
Guyana	9.5	8.3	6.5	5.4	6.0	6.0
Haiti	9.7	8.5	5.7	3.7	2.4	2.4
Jamaica	3.0	4.7	6.5	8.9	6.8	5.4
Suriname	7.9	7.9	7.9	8.0	6.2	5.9
Trinidad & Tobago	2.4	4.6	5.8	6.2	5.5	4.3

Source: Regional Financial Stability Report, December 2014, Central Bank of the Bahamas, Central Bank of Barbados



Key risks in the region

- Stagnant loan demand
- Tourism-based countries - deteriorating tourism loans
- Non-performing residential mortgage loans (Bahamas, Barbados, ECCU)
- Lack of active mortgage markets to absorb the pool of properties held by banks

Key risks in the region

- ❑ High provisioning levels
- ❑ Reduced profitability

Commercial Banks Return on Assets

Jurisdiction	2008	2009	2010	2011	2012	2013
Bahamas	2.5	2.3	2.7	2.5	2.5	n.a.
Barbados	1.5	1.6	1.2	1.0	0.9	0.8
Belize	2.0	1.7	0.7	-0.8	-0.1	0.9
Guyana	2.4	3.1	2.4	2.4	2.4	2.6
Haiti	1.4	1.4	1.5	1.5	1.5	1.2
Jamaica	3.8	2.9	2.5	3.9	2.4	2.1
Suriname	2.8	2.5	2.1	1.9	1.9	n.a.
Trinidad & Tobago	3.5	2.6	2.3	2.8	3.0	2.5

Source: Regional Financial Stability Report, December 2014

❑ Operational Risk

➤ AML risk

- Region considered high risk
- Perceived increased risk of ML and related fines

➤ IT risk, cyber security, fraud at ATMs

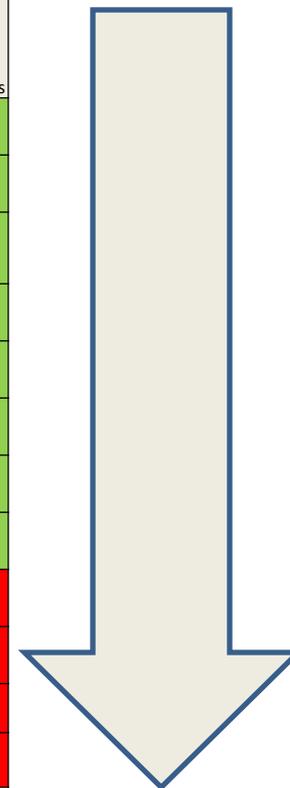


Reform Programme to strengthen resilience of banks

- ❑ Regional roll out of Basel 11 framework, in conjunction with CARTAC
 - To improve capital and risk coverage (Pillar 1)
 - Strengthen risk management and supervision (Pillar 2) and
 - Instill market discipline (Pillar 3)
 - 8 jurisdictions are well advanced in the process, (Barbados (Chair), Bahamas, ECCU, Jamaica, Trinidad & Tobago, BVI, Cayman Islands and Turks and Caicos Islands)

Basel 11 implementation in Caribbean

Basel II Implementation in the Caribbean								
Progress to Date, End February, 2015								
Chair of Regional Technical Working Group - Barbados								
Regional Basel II Work Packages	Barbados	British Virgin Islands	Cayman Islands	ECCU/ ECCB	Jamaica	The Bahamas	Trinidad and Tobago	Turks and Caicos Islands
Decision to Implement Basel II	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Active Participation in CGBS TWG (Barbados Chair)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Participation in Basel II Train-the-Trainer Workshop	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Participation in Basel II Training Workshop	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Development of Basel II Guidance	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Facilitate Review of Basel II Guidance by Experts	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Review Final Basel II Guidance and Provide Feedback to TWG	In Progress	In Progress	Yes	Yes	In Progress	In Progress	In Progress	Yes
Industry Sensitization /Awareness	Yes	Yes	Yes	No	No	Yes	Yes	Yes
Industry Consultation/Draft Basel II Guidelines and Prudential Forms	Yes	Yes	Yes	No	No	In Progress	In Progress	No
Full Implementation - Pillar I	No	No	Yes	No	No	No	No	No
Full Implementation - Pillar II	No	No	No	No	No	No	No	No
Full Implementation - Pillar III	No	No	No	No	No	No	No	No



Source: CARTAC, February 2015



Reform Programme to strengthen resilience of banks

- ❑ Consolidated supervision
- ❑ Regulatory colleges
- ❑ MMOU
- ❑ Regional crisis management plan
 - sharing of normal times ratios on an ongoing basis (an element of the RCMP)
 - National crisis management plans
- ❑ Cross border onsite inspections



Further measures to strengthen resilience of banks

- ❑ Full roll out of Basel 111
 - Raising the quality and level of capital
 - Incorporated a review of the quality of capital into our Basel 11 project
 - Capital conservation buffer
 - Leverage ratio
 - Liquidity coverage ratio
 - Build up of capital buffers in good times
- ❑ Determination of DSIBs in the region, higher minimum capital standards



Key policy issues to be considered

- ❑ Implications of structure
 - Branch vs subsidiary
 - Subsidiary with own capital, legal lending limits must be observed (25% of capital & reserves to one individual or group)

- ❑ DSIBs framework

- ❑ Application of solo capital framework

- ❑ Resolution of branch/subsidiary in event of crisis
 - Resolution plans
 - Stance of head office/parent re resolution
 - Subsidiaries to handle resolution themselves



Solo capital

- Movement toward a world where more attention is being placed on how capital and liquidity are allocated within a banking group:
 - New DSIBs framework provides incentives for host jurisdictions to require banks that are systemically important in their jurisdictions to hold more capital **locally**, a potential drain of capital away from home jurisdictions
 - UK is encouraging overseas banks to operate through locally incorporated subsidiaries with their own capital.
 - Federal Reserve announced in 2013 new draft rules to tighten capital and liquidity requirements on foreign banks operating in the USA



The End

