

# Issues Affecting the Onshore and Offshore Financial service sector in the Caribbean since the Onset of the Global Financial Crisis



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# Outline

## Fallout from the Global Financial Crisis Updates

1. Remittances
2. Tourism
3. Growth

## Challenges for the Onshore Financial Sector

- Ponzi and Other Financial schemes:
- Credit Card Fraud –
  1. The Stanford Debacle
  2. The CL Financial Debacle
  3. Regulatory Deficiencies

## Issues affecting the Offshore Sector

1. Compliance with Intl Guidelines for AML/CFT
2. Fall in business
3. Threats from OECD countries

## **Summary**

## Fallout from the Financial Crisis



- Lack of “real” Recovery in the US
  - “Green shoots” become “dry grass”
  - Some estimates have Unemployment as high as 21%
- Some positive signs in China, Korea, Japan & Germany
- Investors rushing to Australia to get 2.5-3% return!!
- Long term decline of the US dollar, Gold \$1,100
- Uncertainty over energy and food prices

# Fallout from the Crisis: Remittances

Caribbean Remittances 2004-09 (US\$mn)

	2004	2005	2006	2007	2008	2009e	RM/GDP08
ATG	21	22	23	24	26	25	2.1%
BRB	109	140	140	140	168	161	
BLZ	35	46	65	75	78	74	5.7%
DOM	23	25	25	26	30	29	8.2%
GRE	72	52	54	55	64	61	10.0%
GUY	153	201	218	283	278	266	24.0%
HAI	932	985	1,063	1,222	1,300	1,220	18.7%
JAM	1,623	1,784	1,946	2,144	2,180	1,921	14.5%
SKN	31	34	36	37	37	..	6.9%
SLU	29	29	30	31	31	..	3.1%
SVG	26	26	30	31	31	..	5.1%
TnT	87	92	91	109	109	103	0.5%

source: World Bank

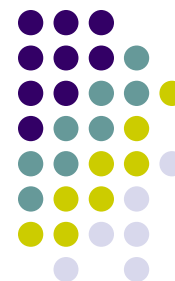


## Fallout from the Crisis: Tourism



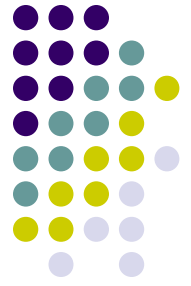
COUNTRY	PERIOD	TOURIST	% CHANGE
ANTIGUA& BARBUDA	Jan-Sep	177,318	-13.1
ST. LUCIA	Jan-Sep	210,348	-8.9
ST. VINCENT& GRENADINES	Jan-Aug	52,199	-13.2
GRENADA	Jan-Sep	87,580	-14.4
GUYANA	Jan-Sep	104,907	5.7
TnT	Jan-Apr	143,351	-10.5
JAMAICA	Jan-Aug	1,319,704	4.1
BARBADOS	Jan-Sep	379,821	-11.4
BAHAMAS	Jan-Jul	875,108	-13.7
DOMINICA	Jan-Jul	41,891	-3.5

## Fallout from the Crisis: Growth



COUNTRY	2007/2008	2009
JAMAICA	-0.5- 0.2% (2 <sup>nd</sup> Qtr.)	<b>-3.5- 4.5% (2<sup>nd</sup> Qtr.)</b>
BARBADOS	1.9% (1 <sup>st</sup> Qtr.)	-3.1% (1 <sup>ST</sup> Qtr.)
BAHAMAS	-1.7%	-4.5%
OECS		
GUYANA	3.1%	4.7% (projected)

## Ponzi and Other Financial Schemes in the Region



- **OLINT Corporation**

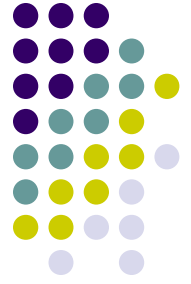
OLINT and its offshoots also operated in some Eastern Caribbean Currency Union (ECCU) countries and in the British territory of the Turks and Caicos.

- **CASH PLUS Limited**

- Cash Plus took in investor funds of J\$22 billion (US\$260 million or 2 percent of GDP) during 2004–07 from 35–45 thousand investors

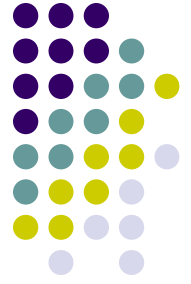
- ▶ Millennium Bank – St Vincent, Shut Down by the SEC

## Credit Card Fraud



- A Recent Upsurge in Credit Card fraud in the Region
- Public data hard to get for most Islands
- However, Jamaica recorded J\$ 3 billion in credit card fraud in 2008 (about US\$33.7 million)
- To Date this years it has been reduced to About J\$600 million

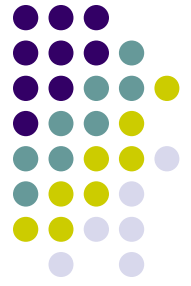




## The Stanford Debacle

- An US\$8 Billion Ponzi Scheme based in Antigua
- Fleeced over 30,000 depositors mainly in LA
- Stanford was initially run out of Montserrat after setting up Guardian Int'l Bank – was under investigation for ML for Columbian drug dealers
- This Conman was able to be Knighted in Antigua and take control of WI Cricket

## The CL Financial Debacle



- OECS- US\$500Million (according to Ralph Gonzales, SVG)
  - BAICO's total deficiency is EC\$775 million (ECCU)
  - ANTIGUA AND BARBUDA- EC\$ 266.22 Million (US\$102)
  - St Kitts/Nevis – EC\$300 million mainly in Annuities
- GUYANA- US\$34M (6.8billion Guyana Dollars)
- TRINIDAD AND TOBAGO- US\$2billion (TT\$12.6 billion)
- 
- Undisclosed potential losses in other Islands- Barbados, the Bahamas etc.
- Was it a Ponzi Scheme?
- A Case of Financial Liberalization gone sour?

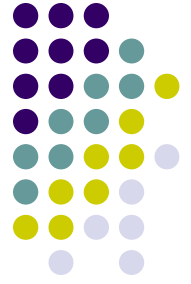
## CL Financial and Other Scandal cont...



- CL Financial debacle as a consequence of FL
- Effects in TnT masked by the availability of Reserves
- Could have been worse than the Jamaican financial crisis of the mid to late 1990s.
- However, financial Legislation remains in a fairly backward state
- Financial Laws/Regulations are frequently found to be: weak, nonexistent, unenforceable and have limited application
- Financial Institutions not supervised by the CB can basically do whatever they want!!!
- These include: Money Transfer Operators etc

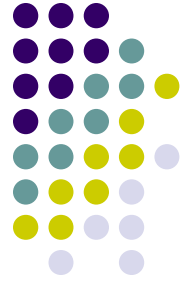
# Regulatory Deficiencies: Trinidad and Tobago

(According to CB Governor, October 2009)



- New provisions relating to:
  - credit union legislation to govern the prudential regulations of these institutions
  - Central Bank's the ability to issue an immediate compliance direction in cases of urgency, without giving prior notification to the insurer
  - suspension of operations of any insurer or take control of a troubled company and suspend its operations.
  - the supervision of consolidated companies
  - the establishment of Financial Holding companies
  - the application of credit exposure limits
  - the Central Bank's ability to respond to non-compliance
  - the establishment of audit committees,
  - the certification of the internal financial controls and the development of policy to guide related party transactions.

## Regulatory Deficiencies: Cross Caribbean



- Lack of Cross Border Supervision
- Relatively weak CARICOM financial Services Agreement
- Lack of Compliance with AML/CFT

# T & T Compliance with AML/CFT (CFATF 2007)

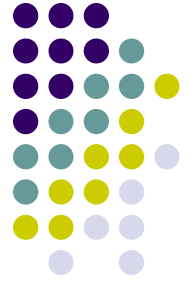


## Ratings of Compliance with FATF Recommendations

<b>Forty Recommendations</b>	<b>NC</b>	<b>PC</b>	<b>LC</b>	<b>C</b>						
Legal Systems	1	2	0	0		C in non regarding LS				
Preventive Measures	15	6	1	0		NC in 15 of 22 Recms				
Institutional and other measures	3	4	1	1						
International Co-operation	1	1	4	0						
Eight Special Recommendations	8	0	0	0						
<b>Contribution in %</b>	58.33	27.08	12.5	2.08						

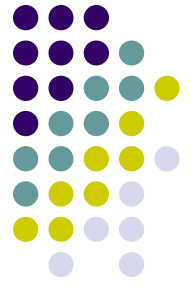
**NC- NON COMPLIANT, PC- PARTIALLY COMPLIANT, LC- LARGELY COMPLIANT, C- COMPLIANT**

## OFFSHORE CENTRE DECLINE: Nevis



Year	Total New Registrations	Total Annual Revenues
2004	2,826	9,309,027
2005	3,208	10,590,068
2006	3,213	11,327,143
2007	3,471	12,388,648
2008	2,709	11,540,777
2009	1,317	6,681,826

## Summary and Lessons from Recent Experiences



- All of the above emphasizes that there has been serious damage to the region's reputational risk
- the urgent need for cross border regulation
- No one firm should be allowed to account for significant share of GDP while remaining strictly a private entity
- Regulatory loopholes and cracks will always invite shady operators to establish pyramid schemes and other fraud
  
- Such operators should not be allowed to go “jurisdiction shopping” pitting one island against the other
- Damages Jamaica's and TnT hopes of becoming IFCs
- Pyramid Schemes flourish in times of uncertainty and low interest rates and attracts the middle class





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- GINA (Guyana News and Information Agency) (2009) “Awaiting the CLICO Probe”, April 8<sup>th</sup>.
- Trinidad Guardian (2009) “Central bank Plans to Overhaul Financial Sector”, Sept. 28<sup>th</sup>.



● Thank You!!