REGULATION OF FINANCIAL INSTITUTIONS IN THE CARIBBEAN AND THE IMPLICATIONS FOR GROWTH AND DEVELOPMENT

Prepared for the
Regional Monetary Studies Conference
held in Trinidad & Tobago
November 16-18, 1988

Marion Williams

November 1988

REGULATION OF FINANCIAL INSTITUTIONS IN THE CARIBBEAN AND THE IMPLICATIONS FOR GROWTH AND DEVELOPMENT

Regulations governing financial institutions in the region have been slow in changing over the past 20 years and there has not been a great deal of dialogue on the direction of that change. The legislation in almost all cases in the English speaking Caribbean was British in origin except in cases where new financial institutions were introduced within the past decade. Recent financial regulation in some territories has tended to have a Canadian focus or to otherwise display characteristics of financial legislation drawn from several countries.

This paper will examine the regulations in force in the Caribbean as they impact on the growth and development of the financial system. The paper will view regulations as both preventative and supportive, fundamental and discretionary.

Most of the literature on the subject of financial institutions in the Caribbean tends to deal with discretionary type regulations, mostly monetary, which are intended to influence the macro-economic well being of the economy. Most often such regulations are based on the premise that appropriate regulatory arrangements exist, particularly those of a fundamental nature.

Prior to the 1960s changes in techniques of financial management, types of financial paper and the handling of transactions were less rapid; securitisation was not as significant and far reaching, so that there was less need to constantly review regulatory arrangements. Today we need to constantly review these arrangements and further, to examine whether certain regulations formerly thought to be fundamental, should not be made discretionary, so that greater flexibility might be built into the rapidly changing financial system.

For example, new facilities offered by commercial banks and financial institutions may now require different capitalization structures. Given the varying activities of financial institutions and specialization in certain activities by some commercial banks, capital requirements may need to be set, not in relation to the conventional aggregate deposit liabilities but in relation to the composition of each institution's portfolio and the nature of its transactions. For example, in Trinidad and Tobago prior to the collapse of 4 finance companies around 1985 and 1986 some of these companies were involved in equipment leasing. This kind of large outlay on fixed assets has implications for appropriate capitalization of the financing institution and has strong liquidity implications. Capital requirements appropriate for a finance company not engaged in

leasing might not have been appropriate for another of similar asset size which was.

One approach is to make the regulation as flexible as possible and to include omnibus clauses which permit the tutelary agency to deal at short notice with unforeseen developments. The disadvantage of this approach is that actors in financial markets are not provided with all the rules of the game up front. Another approach is to opt for a loose regulatory framework and to depend more heavily on continual vigilance. The least effective way is to regulate in as detailed a manner as possible so as to capture most eventualities. This approach discourages innovation and creativity in the development of financial instruments and techniques.

An Overview of Regulations - Commercial Banks

Caribbean countries have followed similar patterns in the regulation of financial institutions. Separate regulations exist governing commercial banks, financing companies, trusts, insurance companies, cooperatives and credit unions. In the case of commercial banks guidelines generally include minimum capital requirements on the commencement of business, maintenance of a reserve fund, and transfers from profits. In addition, guidelines relating to the transfer of assets, consolidation and amalgamation are features of the legislation in all territories.

In Barbados global capital has traditionally been deemed to meet the minimum capitalization criteria of branch operations, and the notion of introducing assigned capital criteria has not been acceptable. (Assigned capital refers to a special sum of capital assigned to domestic operations separate and apart from the global capital of banks' Head offices. It applies in some developing countries, but has not found favour in the Caribbean).

In Barbados and the East Caribbean stipulations relating to capital requirements do not apply to branch operations, so that foreign branch operations are excluded from these provisions. (In Trinidad and Tobago and Jamaica banks tend to be locally incorporated). Twenty two of the thirty eight commercial banks operating in the Eastern Caribbean area fall into this category and 5 of the 7 banks in Barbados.

The extent of banks involvement in the equity of commercial, industrial and agricultural activities of other enterprises is restricted. This is similar to the British system before the Big Bang of October 1986 and is not unlike the American and Canadian systems which recognise the presence of Chinese walls between one type of financial institution and another and between financial institutions and other entities. While banks are restricted in their involvement in the equity of other companies, other companies are not restricted in their involvement in banks. In several Caribbean countries, commercial concerns, particularly

insurance companies have been taking substantial equity in, and establishing banks and finance companies. In Trinidad where such companies are public companies this is handled through the Commission for mergers and takeovers. Most Caribbean territories have not yet addressed the question.

Most of the legislation in the region restricts the amount of lending to a single customer to about 25% of capital. The capital of the global operations of the large multinational banks is used as the basis for arriving at this ratio.

In Jamaica and Trinidad and Tobago deposit-taking institutions must obtain a licence to operate. In Barbados and the Eastern Caribbean Islands they may incorporate with as few as two shares. In Barbados finance companies tend to lend for shorter periods than commercial banks, while in Trinidad they tend to lend for longer periods and have engaged in long term mortgaging. In Barbados the Central Bank has no legal authority to impose reserve requirements over them but may impose regulations relating to interest rates, ceilings on credit and minimum security for advances where credit is their main activity. In Trinidad they are subject to reserve requirements, and to a liquid assets ratio. The Trinidad regulations governing capitalization of finance companies went a step beyond some others by introducing a gearing ratio of 20:1. This is unlike most other territories which stipulate initial capital

contributions on establishment but continuing capital sufficiency guidelines are not regulated but depend on moral suasion.
In Jamaica all deposit-taking institutions most obtain a licence to operate; these include commercial banks which take deposits from the public. In Barbados deposit taking commercial houses come under the umbrella of the Central Bank only so far as they are designated financial institutions for the purpose of ascertaining the nature of their business and the condition of their affairs. Since their main activity is not the extension of credit, the Bank is not empowered to go further under the present legislation.

Other Non-bank Financial Institutions

Insurance companies are regulated by the Insurance Act and report to the Supervisor of Insurance. Some aspects of the operations of insurance companies such as the taking of deposits from the public and the rate of interest charged on loans, particularly on mortgage loans, may not be critical to the soundness of insurance business but do have monetary implications. However they are not presently covered in the existing Banking legislation, but the acceptance of deposits by insurance companies has been a matter which is occupying the attention of the office of the Insurance Supervisor. In most other Caribbean territories insurance companies do not accept deposits from the public.

Credit unions and building societies tend to be regulated by the Cooperative Societies Acts and the Building Societies Acts respectively. In Barbados they report to the Registrar of Cooperatives and are now regulated by the Ministry of Trade. Where their main activity is the extension of credit the Central Bank is empowered to regulate their interest rates, ceilings on credit, minimum security for advances etc. These provisions have never been invoked. In Barbados the Central Bank may also designate them as financial institutions for purposes of inspection. To date credit unions have not been so designated, but building societies have recently sought to be so designated. These institutions tend to be a protected category in all Caribbean territories.

Unit trusts, the trust business of trust companies and the fiduciary activities of investment dealers tend to be covered under two Act, the Trustee Act and the Securities Exchange Act. The funds of the unit trusts may be managed by management companies e.g. trust companies for a fee. In this respect they are acting in a fiduciary capacity and where they are managing trust funds are subject to the fiduciary obligations of the Trustee Act. With the establishment of the Securities Exchange, Investment Companies and Investment Dealers will seek to trade with the Exchange for their own account as well as to handle the funds of others in a fiduciary capacity. This can open the door to insider trading where such companies have access to privileged

information. Such companies will be dealing with the Exchange and will be subject to the rules of the Exchange, which to some extent covers insider trading. However questions of prudential management of trust funds and the need for guidelines to ensure proper management are other areas which will need to be addressed. In Trinidad and Tobago, where the financial system is somewhat more diverse a Securities Industry Act was implemented which governs the issue of securities. Plans are afoot to establish such legislation in the Bahamas while in Jamaica Depositor Protection legislation is being reviewed. In Barbados there is no such legislation similar to a Securities Industries Act and no such body overseeing the issue of securities other than the Board of the Securities Exchange of Barbados and to some extent the Central Bank. While depositor protection legislation has been considered it is not on the statute books.

Environmental Changes and their Implications for the Financial System

In recent times there have been several developments on the local and international scene which have had important implications for the commercial banking system. These include the rapid growth of indigenous commercial banks and the withdrawal of transnational retail banks in some MDCs and the implications of this for the extent of financial and other support which overseas head offices traditionally provided; the growth in savings and investments of

credit unions and their increasing share of the market and the relatively loose supervision and control over them and more recently, the fact of the collapse of finance companies in Trinidad and Barbados.

Also their has been an observed trend toward amalgamation of economic units generally and the merging of such units into the financial system. This development has implications for the level and scope of financial intermediation and for the oligopolistic nature of these institutions, particularly where local banks are owned by large private companies. This is more evident in Jamaica, Trinidad and Tobago, but to a lesser extent Barbados.

The difficulties which world debt problems have created for large international banks have also taught us that not all large transnational banks are safe. In addition, overseas banks are also becoming involved in huge off-balance sheet activities which have implications for the soundness of local bank branches. This must also be a matter of some concern. On the international scene, a series of review of the regulatory frameworks of other financial systems has taken place or is taking place in response to the changing financial environment and to the increasing vulnerability of banks and near-banks. This has been followed by deregulation in some cases and by alterations in the system of

regulation in others and has implications for the domiciles in which these branches operate.

The unregulated involvement of companies in the business of banking and financial intermediation has been growing over the years in the area of deposit-taking of commercial houses. Also the multiple financial activities of associated financial entities has introduced new concerns for regulatory agencies. In Barbados new legislation is being implemented which will put in place a system of licensing which will serve to bring commercial houses to require permission to take deposits from the public, will place their financial standing under scrutiny and will indicate the extent of monitoring which is required by the tutelary institution or agency.

In the case of commercial banks the obligation to hold reserve requirements and the scrutiny by bank supervisors over the commercial banks have reduced the need for other means of protection. In Barbados the criteria relating to adequacy of reserves have been used as a basis for protecting depositors' funds and for supporting claims from customers in the event that banks experience financial difficulties. The requirement that commercial banks hold reserves has tended to give depositors a greater sense of security. In the case of overseas branches of foreign banks, while there is no local capital there is recourse to the extensive resources of the parent company. In the case of

indigenous banks regional Central Banks ensures that the capital sums which banks hold and maintain are adequate in the light of the level of current obligations.

Inadequate capitalization has often been cited as the cause of the limited availability of long term finance to manufacturers and industrialists who wish to set up or to expand their businesses. The low levels of capital of commercial banks has constrained their willingness to lend long. A gradual process of increasing the level of capitalization will add to the financial depth of commercial banks and enhance their ability commit long term funds. In the case of locally incorporated banks there is more scope for putting greater levels of local capital in place. While theoretically the global capital of foreign branches would suggest a larger pool of funds to bolster long term lending, in practice the existence of large sums of overseas capital has not led to an increased tendency for foreign branches to lend long.

The building up of reserve funds to adequate levels can help to improve both custodian responsibility and the depth of capital. There is a need for banks, which have greater custodian responsibilities than other corporations which do not take deposits from the public, to take greater care to build up reserves to levels consistent with the size of their portfolios. Where reserves are being built up to bolster capital adequacy, care must be exercised over the reduction in those reserves.

Such a building up in reserves could further add to the depth of capital and could improve their ability to lend for longer periods.

In the interests of the soundness; in order to encourage a reduction in the levels of over-exposure of a financial institution and in the interests of ensuring that financial intermediaries do in fact function as intermediaries, there is a need to limit the credit extended by a bank to a single customer. This is particularly important where banks and financial institutions are owned or controlled by large conglomerates. This regulation already exists but in the case of foreign banks it applies to global capital.

There is however a difficulty in applying these rules to the corporate sector. While the notion of an upper limit on the ownership of equity in a corporation can be applied to banks and other financial institutions without encountering undue difficulties, the case of deposit taking commercial houses presents a problem. Many large commercial houses own either solely or partly the equity of other companies. Holding companies, which tend to be the entity which takes deposits from the public would be forced to cease acceptance of deposits if they add to limit their equity participation in other companies. The principle of a limit on the ownership of equity in a financial institution could not therefore be applied to deposit-

taking commercial houses without major modifications.

The soundness of a financial institution can be affected by the extent of borrowing by a single company, where this company is a financial institution the soundness of two financial institutions can be compromised. In the interests of protection of funds placed by the public with these institutions there seems to be a need for some surveillance over the lending by one financial institution to another affiliated financial institution.

Another major consideration which occupies the attention of regulators in the Caribbean is appropriate disclosure provisions. Neither in Barbados nor in the Eastern Caribbean is there any requirement for foreign bank branches to have their accounts audited annually or to publish a financial statement of their operations for the year. Prudential decision making by investors ought to be based on adequate information, sufficient that a reasonably knowledgeable investor would be able to make an informed decision about his investment. Bank branches claim that they are not autonomous institutions but are integrated with their global operation so that the global financial statement of their operation is the more appropriate statement to publish. Both in Barbados and in the Eastern Caribbean islands global financial statement are published by foreign bank branches. Since global capital is being used to determine lending to a single customer then it can be argued that it should be used to

determine publication of audited financial statements. A modified position on this which addresses the fiduciary nature of the bank is that accounts should be audited locally but not necessarily published. This may be an acceptable compromise.

Entry and Exit

In most territories of the Caribbean both commercial banks and financial institutions are required to obtain licenses to operate their business. In Barbados and the Eastern Caribbean islands this does not extend to finance companies. This situation is however being presently reviewed. Control of market entry is increasingly being seen as important for tutelary agencies. It permits them -

a) To vet the financial strength of the proposed company;
b) to satisfy itself that the management of these institutions have adequate understanding of financial management;
c) it prevents unsavory or unscrupulous elements from engaging in the business of banking.

This kind of vetting extends to offshore banks operating both in Barbados and in the East Caribbean islands even though their operations do not impact on domestic monetary aggregates.

Until recently the banking regulations governing most banks and non-bank financial institutions in the Caribbean failed to make

adequate provision for the orderly exiting of financial institutions. The nationalisation of many banks in the Caribbean which took place in the 1970s provided the impetus for the amendments of some of these regulations. However, for the most part in most territories, while provision has been made for voluntary exiting from the industry, adequate provision has not been made for involuntary exiting from the industry.

Satisfactory Management

Most regulations governing financial institutions specify qualities and characteristics which must not exist in the managers of financial institutions or their branches. However, they do not positively require special qualities or characteristics to be present in the managers of these institutions. For example, an undischarged bankrupt is not permitted to be a bank manager or a member of the board of a bank, however an individual who has no knowledge of banking and finance is not prevented from becoming a manager of a bank or financial institution. This seems to be another area which legislators may wish to examine.

Enforcement and Securities

A characteristic which pervades for the most part most of the financial legislation in the Caribbean is the absence of

sanctions and inadequate provisions for enforcement of regulations other than the strong measure of withdrawal of licenses. In Barbados and the East Caribbean islands there is no provision for the intermediate stage in respect of finance companies but in Trinidad there is provision for appointing persons to take over the running of such institutions where the Central Bank is dissatisfied with its manner of operations. Similar provisions are being included for Barbados both in respect of commercial banks and other financial institutions.

Loan Loss Provision

Because of the increasing international nature of transactions and because of the impact of changing exchange rates in the region, the adequacy of loan loss provisions may need to be reviewed. Changes in exchange rates of our trading partners can so rapidly affect the viability of some firms involved in the export or import business that operational guidelines of a number of months past due or non-performing accounts may not be sufficient to guide managers on the determination of adequate loan losses. However, any new guidelines put in place to protect financial institutions must be done in such a manner that it does not encourage bankers to avoid lending to regional exporters. Such provisions would need to be broad-based, i.e. informed by such exposure but not explicitly determined with reference to it.

Profitability

In some Caribbean countries bank profitability has been declining. In Trinidad profitability has fallen below the level of the 1970s. In Barbados Banks profits declined in the period 1983-1986. The average return on assets for the period 1978-1982 was 2.5% compared to 1.4% during 1983-1987. The economic downturn in Barbados between 1981 to 1983 may have contributed to this with some lag, though the declining profitability was more evident after the economic decline had already bottomed out. In Trinidad and Tobago where the spreads between deposits and loans are even wider than in Barbados, declining profitability has been attributed to large loan loss provisions and bad debt write offs.

For the most part, taxes on the financial system have not changed over the past decade (except for a 1/5 of 1% tax on assets in Barbados). Indeed, in some territories, in Barbados, for example, the corporate rate of tax was reduced from 45% to 35% in recent years.

Foreign branches continue to be viewed as profit centres by their head offices so that profitability is critical to their operations in the Caribbean. Although the withdrawal of some banks from retail banking in the Caribbean may have had less to do with profitability than with perceived country risk.

Investor Protection

In almost all Caribbean territories there is concern over the protection of the small depositor. Some countries have elected to deal with this through the establishment of deposit insurance, on the principle that by contributing small amounts to a fund one is protected from large catastrophes. In Trinidad where a scheme has been implemented, deposit insurance has been quite costly. (Financial institutions received a first payment of TT$ 25 million in mid 1987). Both commercial banks and finance companies contribute to the insurance fund in Trinidad.

In some systems where commercial banks have high levels of reserves requirements and non-banks low levels of reserves requirements or none at all, a difficulty arises as to the appropriate rate of premium (since these reserves themselves constitute some level protectionism, and must be valued in terms of an equivalent premium.)

Further questions arise as to whether a formal system of funding is necessary or whether Central Banks and Governments should adopt the safety net approach used in Britain for many years. In terms of banks who have an annual return on assets of under 2%, insurance protection can be costly and could absorb up to 1/4 of net income. The cost of collapse is however high in terms of the stability of the system. There is the further cost to Government

of meeting unfunded amounts in cases where collapse occurs early in the life of the Fund. Yet governments are likely to recoil from providing a safety net entirely out of the public purse. These are difficult policy choices which individual governments have to make in considering the improvement of investor protection through the establishment of deposit insurance. It is interesting to note that legislation was formed in Jamaica several years ago but has not been implemented.

Summary - Operational Laws & Regulations

The foregoing dealt with the operational or fundamental laws governing financial institutions. These operational guidelines at the level of the bank or financial institution relate principally to the financial soundness of the micro unit. Such guidelines however, do have long run implications for macroeconomic well being since the stability of the financial system can be undermined if confidence is shaken by a collapse of its financial institutions. In addition, a system in which the basic ground rules are clear and protective without being restrictive creates an environment for the development of innovative techniques. New financial instruments which can help to improve the maturity structure and the extent of support for the development effort by improving profitability, the timing of flows, and such devices are essential for the diversification of

the financial system are encouraged in a stable and growing system.

The discretionary tools of regulating the financial system are much more discussed in the literature as they are seen more directly to have macroeconomic implications. These tools form the plank of monetary policy and are principally interest rate regulation, reserve requirements and credit ceilings. This section of the paper looks briefly at these developments in terms of their regulatory importance.

In almost all Caribbean territories, central banks set the minimum rate on savings deposits; this is often intended to act as a floor to deposits and to ensure that depositors earn a reasonable return. Other considerations in setting average prime or maximum lending rates include, underlying demand and supply conditions, the relative level of foreign interest rate, perceptions of a reasonable return and competitive pricing.

In the East Caribbean territories, the most recent to set minimum savings rates, it has been observed that increasing competition from the local banks has tended to make local banks offer higher interest rates for deposits than their foreign counterparts. Similarly, in Trinidad & Tobago, the Central Bank has indicated that competition among finance companies there prompted such companies to pay higher rates on deposits and offer lower rates

on loans than commercial banks. Similarly, in Barbados, the finance company which collapsed had also followed this pattern. While the regulation of interest rates has never been viewed as a means of protecting financial institutions from themselves perhaps this aspect of interest rate setting may need to be considered. This dimension to the question an appropriate interest rate regime as it affects the stability of the banking system is perhaps worth consideration.

Liquidity Requirements

Liquidity requirements or liquid assets ratios are applied to financial institutions in some Caribbean countries but has not been very much emphasized as an instrument of monetary policy or as a regulatory tool. In Jamaica the ratio is defined as the ratio of deposits to, bank reserves, treasury bills and other government securities.

In Trinidad this ratio can be found in the legislation governing the non-banks as well but it does not appear to have been a critical control mechanism. In Jamaica it is being phased out and the cash reserve requirement is being reemphasized. It has been deemed that it was used more as a fiscal than as a monetary instrument and that it led to interest rate distortions between the public and private sectors.
While it is implicitly there in the Barbados regulations on

reserve requirements it is not described as a liquid asset ratio and except for the cash portion, no meaningful distinction is made among the categories of assets which comprise it. With the development of capital markets in Jamaica, Trinidad and Barbados and the slower development in the East Caribbean islands, the importance of short term instruments is not as critical as before since the market is there to give liquidity to those instruments, at least potentially, so that it is quite likely that while the liquid assets ratio will continue to exist, it will be increasingly de-emphasized.

Indeed the development of a market in certificates of deposits in Jamaica as a vehicle for active open market operations is an interesting example of that declining emphasis. This CD market has the potential for influencing both credit and interest rates, apparently more effectively than was possible in the past. At mid 1987 the value of outstanding CDs in Jamaica is reported to have been approximately 25% of total deposit liabilities.

Reserve Requirements and Credit Selection

Most countries in the region have imposed some kind of reserve requirement normally for three purposes; to finance Government and to influence liquidity levels and to provide some element of protection for commercial banks. In Barbados, reserve requirements and stipulated holding of government securities

have been used less as a means of financing of the government's deficit and more as a means of mopping up and releasing liquidity in the system, mostly the latter. (In the East Caribbean islands the Central Bank imposed reserve requirements for the first time in March 1987, but some individual territories had already had 5% reserve requirements in place).

Where financing of government expenditures is significant in times of limited liquidity, small and medium sized enterprises can be forced to seek out credit from other sources e.g. finance houses and from development banks, or be led to much greater reliance on self-finance. This stymies the development of those indigenous firms and forces them to operate on inadequate funding, thus rendering them more vulnerable to economic misfortune.

Also, in times of excess demand for credit, banks select among competing projects on the basis of rates of return. In these situations, projects with a longer gestation period and projects with a grater developmental focus are sometimes declined in preference to projects offering a quick return and a short pay-back. However, a market oriented financial system has no answer to this dilemma and such projects are led towards the official development lending institutions. A challenge therefore exists for regulatory to deal with the need to encourage longer term lending. In the final analysis this tends always to revolve

around how much credit risk the financial institutions are prepared to take and how much protection will be afforded to those who take those risks. The case of finance companies in Trinidad and Tobago is instructive in that regard.

While several requirements were intended as instruments of monetary policy there has been the temptation in the Caribbean to see them as a means of financing government expenditures. As the financing burden of governments grow, governments turn to commercial banks for guidance irrespective of the liquidity situation. This very often means -

1) higher interest rates on government debt with implementation for the general level rate structure

and 2) where there is no excess liquidity the crowding out of the private sector is crowded out.

Volume and Growth

The growth of financial institutions in terms of volume of assets provides opportunities resulting from increasing scale which did not exist when asset size was smaller. This is particularly so in the international dealings of regional commercial banks. The small size of assets precluded the use of some instruments which are only handled in minimum tranche by international banks. Even today minimum size of transactions exclude some banks from

dealing with international financial institutions in some instruments.

On the capital market the volume of government securities issued in the past decade particularly in Trinidad & Tobago, Jamaica and to a lesser extent, Barbados also provide an opportunity for the development of a domestic capital market in fixed income securities. Increasing size of the market afforded greater possibilities for diversification. The same obtains in the mortgage market with respect to the development of secondary mortgage markets in the region. However, increased volume does not by itself lead to financial development. In the late 70s and early 80s Trinidad' investment ratio was higher than one-third, yet the capital market never grasped the opportunity to develop. There was somewhat greater development in Jamaica in the 1970s. One reason given for the slow developmental response to increased volume in Trinidad has been put partly in the lap of the regulatory framework, i.e. the Securities Industries Act of Trinidad & Tobago. Though the regulations are being revised, the time may not be as propitious as it was in the 1970s and early 80s. The situation is reversed in Barbados. The savings ratio as measured by the national accounts declined from 27.6% in 1980 to 18.7% in 1987. This was the same year in which the Stock Exchange became operational.

Summary

The regulation of the financial system focuses on its stability and its growth. It may be argued in some quarters that stable systems do not grow. However, stability has been interpreted to mean a state in which changes take place in a manner so as to inspire confidence in the system. Regulatory bodies can help to create that confidence in the system which is necessary if the systems are to be innovative and to grow, since size is closely related to the scope for diversification and the opportunities for innovation. Other factors such as the general rate of economic growth and the rate of financial savings are also critical to the development of the financial system.

There are many areas in which financial system can be further developed. There is the possibility of bank guarantees being provided for the development of a market in commercial paper by large firms with good credit ratings; a market in Certificates of Deposits is growing in some territories; greater use of bankers acceptances could help exporters to avail themselves of early funding; use of Prepurchase Agreements could help investors to make the best use of funds while awaiting opportunities for longer term investments. In some territories mutual funds have already been set up as a means of allowing small and unskilled investors to place funds in a pool of diversified securities.

These kinds of developments are likely to increase if the

financial systems remain stable. The regulatory arrangements will need to keep pace in order to inspire the kind of confidence necessary to encourage these kinds of developments and to provide where feasible, the appropriate level of protection sufficient to inspire confidence without stifling innovation.

At the macro level we may need to reexamine the discretionary tools which we have used to influence monetary aggregates directly. In some territories these are already being reexamined and experiments with modified systems are being tried. In addition, some Caribbean territories may be joining the new era of changing exchange rates, high rates of inflation and high interest rates. In these circumstances it may be prudent to let the market lead the way and for the regulatory authorities to respond in a way that is supportive of the system and of the investor.

Marion Williams

November, 1988

Table 1

Commercial Banks Profits

(Barbados)

$ thousands

	Assets	Net Income Before Taxes	Average Assets	Rate of Return on Assets %
1973	355,334	-	-	-
1974	390,946	4,091	373,140	1.096
1975	450,861	4,484	420,904	1.065
1976	486,647	5,455	468,754	1.163
1977	538,230	7,455	512,439	1.455
1978	646,379	12,928	592,305	2.183
1979	795,386	17,684	720,883	2.453
1980	883,782	22,847	839,584	2.721
1981	1,011,037	25,349	947,409	2.676
1982	1,109,565	23,417	1,060,301	2.208
1983	1,211,348	17,394	1,160,455	1.499
1984	1,310,858	14,494	1,261,101	1.149
1985	1,410,185	12,405	1,360,522	.9117
1986	1,511,531	20,462	1,460,858	1.401
1987	1,781,343	32,360	1,646,437	1.965