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BUILDING THE ARCHITECTURE FOR THE PROMOTION OF FINANCIAL STABILITY IN THE CARIBBEAN

The need for some formal architecture for regional financial stability was brought into sharp focus by the recent problems involving CL Financial. The scale and reach of this crisis may have surprised many but the fact is that the region is no stranger to financial crisis. In the 1980s a number of finance houses failed in Trinidad and Tobago, followed by the failure of three indigenous banks which eventually led to their merger into First Citizens Bank (FCB) in 1993. The most significant financial crisis in the English speaking Caribbean, however, occurred in Jamaica in the late 1990s.



The CL Financial case in particular stands out from previous crises because of its scale and the fact that it has not been confined to a particular jurisdiction. The regional nature of this crisis is evident from the fact that a range of institutions across different areas of the financial sector and across a number of countries have been caught up in the throes of this crisis. Institutions such as Colonial Life Insurance Company, British American Insurance Company, Clico Investment Bank and CMMB encountered serious problems in Trinidad and Tobago while other affiliated companies in Barbados, Suriname, Guyana, The Bahamas and many OECS countries were also affected¹.

To their credit, the regulators of the financial sector in the region had long recognized the need for a regional approach to financial supervision and regulation, given the increasing integration of the regional financial system as institutions in different jurisdictions sought to grow by going cross-border². This has resulted in a situation where the largest financial institutions in the region now invariably operate in most jurisdictions

in the Caribbean as well as further afield. This trend has led to robust growth of the financial sector generally and increased competition, but correspondingly these developments have increased the potential for contagion.

This has been the catalyst for ongoing efforts by regulators to build a formal system to promote regional financial stability. These efforts include the ongoing work of the Caribbean Group of Bank Supervisors (CGBS) which was established as far back as 1983 to facilitate the hosting of conferences, training programmes, harmonization efforts and lately, the organization of a college of regulators for large regional financial institutions. Other regional regulatory groupings, such as the Caribbean Association of Insurance Regulators (CAIR), the Caribbean Group of Securities Regulators (CGSR) and the Caribbean Association of Pension Supervisors, are all regional, regulatory associations that were formed because the members recognized that they cannot carry out their national mandates effectively without regional collaboration. The objectives of these associations include promoting harmonization activities, training of members and eventually establishing colleges of regulators for regionally important entities.



This latest crisis has served to further galvanize those committed to developing a formal architecture to maintain regional financial stability. In this respect, a workshop on "Regional Financial Stability: A Caribbean Architecture", a joint effort of CARTAC, CCMF and CARICOM, was held at the Hyatt Regency in Trinidad and Tobago over the period March 3-5, 2010. This workshop was the latest in a series of events that have

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sought to develop a regional system to facilitate regional financial stability. The workshop sought to develop consensus amongst the various regulatory agencies on the main building blocks of a formal system for maintaining and promoting financial stability in the region and to chart a way forward in terms of making this system a reality. Additionally, CCMF has secured funding for a 3-year project on financial risk assessment in the Caribbean which



seeks to create some of the important elements of a regional architecture for maintaining and promoting financial stability. The main objectives of the project are:

1. To develop methodologies for measuring and assessing the risks posed by financial conglomerates operating within the region;
2. To assist in resolving issues such as appropriate disclosure

and reporting standards,

3. The development of appropriate financial stability indicators;
4. The identification of ownership structures and other financial links within the region;
5. Measuring the impact of financial shock and the probability of contagion and
6. Training a suitable cadre of people in the region to sustain the regional assessment of financial risk in the Caribbean on an ongoing basis.

The central output from this project is to put in place the systems necessary for the assessment and containment of risks to the regional financial system which will have as one of its mandates the production of a regional financial stability report. This emphasis on early warning systems and timely identification of financial vulnerabilities would enable the Caribbean to reduce its risk of financial crisis. Moreover, should a crisis emerge from an unexpected direction, this framework provides regional financial policy makers with the up-to-date financial information needed to take swift, decisive and appropriate action.

¹See CCMF Newsletter volume 2, No. 2, February 2009 for more information on the regional dimension of problems at CL Financial.

²See paper on "The Extent of Financial Integration in CARICOM" by Julia Jhinkoo and Delisle Worrell, presented at the 40th Annual Monetary Studies Conference, held at the Eastern Caribbean Central Bank Conference Centre, over the period November 11-14, 2008

REGIONAL NEWS SUMMARY

CL FINANCIAL

- A government-backed special oversight committee has another 21 months to sell CLICO International Life Insurance company before a \$300 million demand on the company is due. The bulk of CLICO Life's Executive Flexible Premium Annuities - which promised high interest rates on deposits - become due in 2012. (BN 8 Mar)
- Canadian forensic investigator Robert Lindquist has handed in his report on CL Financial and insurance giant CLICO. (TE 11 Mar)
- T&T's central bank chief Ewart Williams said the financial monitoring system, which he described as rudimentary, non-existent and fragmented in many Caribbean states, missed a number of weaknesses in the operations of the over-leveraged CL Financial group, leading to collapse. (JG 18 Mar)
- Clico Holdings Barbados Limited has appealed a decision by the acting Supervisor of Insurance to stop Clico International Life from writing new business as this could result in more than 120 workers being sent home. (BN 24 Mar)
- Justice Carlton Best has hired an attorney and intends filing a lawsuit should CLICO fail to repay him close to \$57,000. (TE 24 Mar)
- CLICO clients will now have to wait longer to get their money as the company struggles with \$17 billion in debt owed to policy-

holders. (TE 25 Mar)

- First Caribbean International Bank is still owed US\$360,786 by Clico (Bahamas) Ltd (in liquidation). (TG 26 Mar)
- Clico Enterprises Ltd (Bahamas) owned the Shabisco bakery in Haiti, which has been unoccupied for two years, but which had a book value of US\$1.45 million when it was last valued in January 2008. (TG 26 Mar)

THE STANFORD GROUP

- The so-called Stanford Victims Coalition, filed an action in New York seeking at least US\$100 million in compensation "for ECCB's unlawful seizure last year of the Bank of Antigua, a crown jewel in Allen Stanford's fallen financial empire" (BN 20 Feb)
- The Antiguan liquidators, not the US receiver, should be recognized as the foreign representatives of Allen Stanford's offshore bank in the United Kingdom, an English appeals court ruled (Cnn 26 Feb)
- Victims of Bernard Madoff and accused Ponzi schemer Allen Stanford are banding together to lobby Congress for a law that could require Wall Street firms to pay billions of dollars to cover some of the losses they suffered. (Cnn 11 Mar)

REGIONAL NEWS SUMMARY cont'd

- The Stanford Victims Coalition has asked the US Secretary of the Treasury to direct the IMF and the World Bank to block funding to the government of Antigua and Barbuda. (Cnn 16 Mar)
- CARIBBEAN**
- The TT Government issued bonds valued \$3.4 billion to Clico. (TE 21 Feb)
 - The government of Jamaica and the IDB have signed a contract for three policy-based loans totaling J\$15.2 billion. The loans are to provide financial support for institutional and policy changes relevant to the government's reform programmes (Cnn 22 Feb)
 - Jamaica's finance minister has vowed that the Financial Sector Adjustment Company commission of enquiry will be completed despite attempts to derail the process. (JG 22 Feb)
 - Tourism in Barbados is not performing as predicted and as a result foreign reserves are falling, says Harold Codrington, advisor to the Governor of the Central Bank of Barbados. (BN 24 Feb). The sector is said to have lost B\$180 million last year (BN 3 Mar)
 - Petrotrin will pay more than US\$1.2 billion in interest and principal payments by 2022 for its new gas optimization project scheduled to be completed by the end of next year. (TG 24 Feb)
 - A new report claims that spending by the Cayman Islands government "is wholly out of line with its peers, having far higher levels of public spending than any other comparable jurisdiction," whether on the basis of total spending or spending per head of population. (Cnn 26 Feb)
 - The rate of inflation in T&T rose to 3.7% in January 2010. (TE 27 Feb) and again to 4.8% in February
 - FirstCaribbean International Bank Limited reported an EPS of US\$0.024 for the quarter ended January 31st, 2010, a 14.3% decline from the US\$0.028 EPS recorded in the first quarter of 2009. (TE 1 Mar)
 - Trinidad Cement Limited will not be paying dividends to shareholders following a weakened performance for financial year 2009. (Newsday 3 Mar)
 - The recession actually did Barbados a favour by slowing the pace of the overheated real estate market, said Central Bank Governor Dr Delisle Worrell (BN 2 Mar)
 - The CARICOM community must move quickly to adopt a common response to issues such as regulation of the financial sector, fiscal strategies, the marketing of the Caribbean brand and policies to support inward investment, says T&T Finance Minister Karen Nunez-Tesheira. (TG 2 Mar)
 - Sagicor Life Jamaica Limited is selling off its general insurance business in Cayman Islands to Bahamas First Holdings Limited. (JG 3 Mar)
 - Moody's upgraded Jamaica's local and foreign currency bond ratings on the Government's improved liquidity following the Jamaica Debt Exchange, which has led to lower interest cost and inflows of funds from multilateral institutions. (JG 3 Mar)
 - Edwin Carrington, CARICOM Secretary-General, has urged CARICOM Finance Ministers to pursue a "firm commitment" towards the adoption of the Financial Services Agreement which he said was critical to the movement towards an integrated financial market. (Cnn 3 Mar)
 - The West Indies Alumina Company will make its 762 permanent employees redundant on March 31. The redundancy exercise is expected to cost tens of millions of dollars. (JG 5 Mar)
 - National Commercial Bank (Jamaica) announced on Friday it will cut over 100 jobs in a move to manage costs. (JO 7 Mar)
 - According to the IMF, Barbados has been severely affected by the global economic crisis, which has curbed tourism and related activities. As a result, the fiscal deficit surged, and the public debt now stands above 100 % of GDP. (BN 8 Mar)
 - Remittances to the Caribbean region fell to a four year low last year. Jamaica's share of remittances was reported at US\$1.798 billion, or 11.6 per cent lower than 2008. (JG 8 Mar)
 - T&T Central Bank Governor Ewart Williams has said the country is not taking advantage of on-line banking. (TE 15 Mar)
 - Barbados must be globally competitive in the world of tourism, and not just standing by and waiting for subsidies, said world renowned economist, Professor Avinash Persaud. (BN 18 Mar)
 - With just under a month before the winter tourist season ends, Jamaica is experiencing a 7 % increase in stopover arrivals, Tourism Minister Edmund Bartlett said. (JG 22 Mar)
 - The IDB said Monday it has agreed to forgive US\$479 million in debts owed by quake-ravaged Haiti. (JG 23 Mar)
 - Haiti has seen its tax revenues halved since January's massive earthquake and needs urgent help to fill a gaping hole in its budget, an International Monetary Fund source said. (Cnn 23 Mar)
 - The IDB agreed to boost its capital by 70 billion dollars, almost doubling its capacity to make loans to Latin America and the Caribbean. (Cnn 23 Mar)
 - GraceKennedy Limited has decided to delist from the Barbados and Eastern Caribbean stock exchanges, citing low levels of trading in those markets. (JG 24 Mar)
 - THE country's natural gas bonanza is over and there are now key decisions that must be made with a sense of urgency, bpTT chairman Robert Riley told energy industry stakeholders yesterday. (TE 25 Mar)
 - ANSA Merchant Bank declared more than 400% increase in pre-tax profit as the company rebounded from a difficult year for the financial services sector in 2009. (TG 25 Mar)
 - The Estimates of Expenditure, tabled in Parliament (Jamaica), show the Government planning to spend J\$499 billion in the new fiscal year, down from the J\$593 billion allocated in the second Supplementary Estimates for the 2009-2010 fiscal year (JG 26 Mar)
 - St Kitts-Nevis now meets international standards on tax information exchange (Cnn 26 Mar)
 - Increased enforcement action by the authorities in Jamaica have seen 3,184 taxpayers being brought before the court for various tax matters valued at J\$8.9 billion. (JO 26 Mar)

ANNOUNCEMENTS

CARIBBEAN BUSINESS EXECUTIVE SEMINAR The Future of the Financial Industry after the Crisis April 30th, 2010, Port of Spain, Trinidad

The CCMF announces the 14th in its series of seminars for top Caribbean executives, on the above theme. The seminar will feature a roster of international and regional financial experts, who will speak on the following:

- Should there be a return to traditional banking?
- The new financial order: Strategies for growth after the crisis
- The future of financial conglomerates
- Financing growth in emerging markets in the new environment
- A new model for financial regulations
- Should there be new guidelines for investment strategies for insurance?
- Regulation of under-regulated and unregulated institutions in the financial sector

In addition to the featured speakers, there will be a panel comprising representatives of each type of financial institution, drawn from different countries in the region. Reports and presentations from our past seminars can also be found at this website.

The most recent executive seminar hosted by the CCMF took place in Kingston, Jamaica on September 4, 2009, on the topic "Strategies to cope with global uncertainty – choices for Caribbean business and finance".

A report and presentations from this seminar, and presentations from previous seminars, may be found at www.ccmf-uwi.org. Updates and registration information for the 14th Caribbean Business Executive Seminar 2010 will also be posted at this address.

Queries can be addressed to: Caribbean Centre for Money and Finance, The University of the West Indies, St. Augustine Campus, Trinidad and Tobago, Tel: (868) 645 1174; (868) 645 1610, Fax: (868) 645 6017, Email: ccmf@sta.uwi.edu

EMPLOYMENT OPPORTUNITY: CONSULTANT FOR PROJECT ON FINANCIAL RISK ASSESSMENT IN AN INTEGRATING REGION: THE CARIBBEAN

Objectives of Project: To develop and upgrade methodologies for the overall assessment of the financial stability of the Caribbean region, including financial soundness indicators and early warning systems; to contribute to upgrading national financial stability reports; and to publish a regional financial stability report.

Duration: 36 months

Experience and qualifications: The candidate must have at least a graduate degree in economics or finance and must have at least 10 years senior management experience in financial regulation, especially expertise in early warning systems, financial stress testing and financial risk analysis. The candidate must also be familiar with the financial systems in the Caribbean.

For more information please see our website: www.ccmf-uwi.org.

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