



## THE RESILIENCE OF FINANCIAL INSTITUTIONS IN THE CARIBBEAN FOUR YEARS AFTER THE GLOBAL ECONOMIC CRISIS

It is now nearly four years since the international financial and economic crisis inflicted severe damages to international financial markets and the global economy. The fallout from this crisis led to a serious assessment of the systems in place for promoting and sustaining financial stability around the world. In the Caribbean, the crisis that engulfed Stanford Bank and CL Financial was in part due to the fallout from this crisis which exposed inherently vulnerable institutions. These developments have highlighted how potentially damaging and pervasive the impact of this crisis could be to financial institutions and the regional economy. It also emphasized how critical systems for promoting financial stability are for the future development of the region. These issues are attracting the attention of regional policy makers in a difficult economic environment where the worst of the crisis seemed to have passed, but where growth in most Caribbean jurisdictions, although recovering, is expected to remain muted in the near term, creating challenges for policymakers charged with maintaining the resilience of financial institutions.

Four years after the global event and over two years since the beginning of the problems at CL Financial and Stanford Bank is an opportune time to evaluate how well regional financial institutions have weathered the crisis by looking at the trend in key financial stability indicators. In the immediate aftermath of the crisis Caribbean governments and central banks were at pains to reassure markets and stakeholders that the financial systems in the region were resilient and would in large part be unaffected by the global crisis. They argued that regional financial institutions were in large part not exposed to the toxic financial instruments which were the catalyst for the global crisis and that regional financial institutions, particularly the dominant commercial banks, had for the most part stuck to the traditional banking model and would therefore be unaffected by exposure to exotic funding instruments.

This prognosis was generally correct in the case of commercial banks when one looks at indicators of financial soundness for these institutions (Table 1). Indicators such as capital adequacy ratios were above regulatory required minimum standard in all countries for which information was available. Areas of loan delinquency and profitability in commercial banks have weakened, however, as depressed economic conditions took its toll on the balance sheet of bank clients and therefore on credit demand. In spite of this, the Caribbean banking sector generally compared well internationally in terms of loan delinquency and profitability, and high levels of capital provide adequate cover for increased levels of non-performing loans. This view appears to have been vindicated by the fact that recent stress tests of

commercial banks by the central banks in a number of jurisdictions have concluded that this sector can successfully withstand

**Table 1: Prudential Indicators of Commercial Bank Soundness**

COUNTRY	2006	2007	2008	2009	2010
<b>CAPITAL ADEQUACY %</b>					
Brazil	18.9	18.7	18.3	18.8	18.5
Chile	12.5	12.2	12.5	14.3	13.9
Barbados	14.4	16.4	16.1	17.5	18.0
Belize	21.3	22.3	18.5	20.4	n/a
Guyana	15.4	15.0	14.9	18.3	19.0
Jamaica	16.1	14.5	13.9	18.3	19.0
T&T	18.0	19.1	18.8	20.5	23.3
Suriname	11.7	10.5	10.1	10.8	11.4
<b>LOAN DELINQUENCY %</b>					
Brazil	3.5	3.0	3.1	4.2	3.9
Chile	0.8	0.8	1.0	2.9	3.3
Barbados	4.5	2.9	3.4	7.2	9.9
Belize	6.2	6.8	12.7	12.2	n/a
Guyana	11.5	10.6	5.3	8.3	4.9
Jamaica	2.2	2.0	2.6	4.2	5.6
T&T	1.4	0.7	1.0	3.4	3.9
Suriname	11.9	8.7	7.9	7.9	9.3
<b>PROFITABILITY - RETURN ON ASSETS %</b>					
Brazil	2.7	2.9	1.3	1.9	2.1
Chile	1.3	1.1	1.2	1.5	1.9
Barbados	2.0	1.7	1.4	1.6	1.2
Guyana	0.5	0.5	0.5	0.7	0.1
Jamaica	3.5	3.5	4.1	3.4	n/a
T&T	3.4	3.4	3.5	2.7	2.5
Suriname	n/a	n/a	n/a	n/a	n/a

Sources: Financial Stability Report, November 2010, Central Bank of Trinidad and Tobago; Other CARICOM central banks.

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negative interest rate, credit and macroeconomic shocks of considerable magnitude. At any rate, improvements are expected in these areas as economic growth firms up in the region driven by improving global growth. Indeed, in the latest IMF World Economic Outlook update in late January, the global growth forecast for 2011 has been revised upwards to 4.5% and global financial conditions are expected to remain stable.<sup>1</sup>

In the case of non-bank financial institutions (NBFIs), indicators of financial soundness are not as readily available as they are for commercial banks but the information that is available suggests that the negative impact on these institutions was more significant. In the case of Trinidad and Tobago, asset quality of NBFIs (mostly merchant banks and finance houses) deteriorated significantly with non performing loans rising from below 2% between 2007 and 2009 to 11.7% in 2010, due mainly to problems on their real estate loan portfolio. This resulted in the need for high provisioning for bad loans which, together with lower interest rates and lower fee income driven by lower capital market activity, resulted in reduced profitability. The average return on assets (ROA) fell from 6.3% in 2006 to 2.1% in 2009 and 1.3% towards the end of 2010. In the case of Jamaica, a similar dynamic was at play - institutions such as merchant banks, finance houses and trust companies licensed under the Financial Institutions Act, faced with difficult domestic economic conditions saw their average non-performing loans to total loans ratio increase from 4.4% at the end of 2006 to 9.3% at the end of 2010. The need for higher provisioning for loan losses, lower interest rates and lower fee income from reduced capital market activity, reduced profitability with the ROA falling from 2.3% at the end of 2006 to 0.4% by the end of 2010. The fact that the capital adequacy ratio was high at 27.9% at the end of 2010 compared to 21.2% at the end of 2006 does however offer some protection against possible loan losses.

In the case of insurance companies, the economic fallout from the crisis in Jamaica did not appear to hurt this sector as most insurance companies recorded positive ROAs and insurance premiums continued to maintain historical growth patterns, with a significant jump in premium income in 2009. The capital to total assets ratio for general insurance companies also increased from

27.9% in 2008 to 29.5% in 2009 while the ratio for life insurance companies increased from 24.7% to 25%. The investment income to investment asset ratio also improved for both categories of insurance companies, increasing by 2.1 percentage points for general insurance and 3.5 percentage points in the case of life insurance companies. In contrast, premium income for life insurance companies in Trinidad and Tobago fell by 50% in 2009 driven by problems at CLICO and British American and a slowdown in the economy. If one excludes these two problem institutions, however, premium income for life insurance companies actually increased by 8.9%. The performance of the rest of the sector in the current domestic environment suggests that the potential for contagion from problems at CLICO and BA to other companies in this sector had been contained.

The dominant commercial banking sector in the region seemed to have weathered the crisis relatively easily and is well placed to exploit opportunities as growth recovers. NBFIs appear to have been more seriously affected by the negative fallout from the crisis but proved to be resilient because of strong capital buffers. The insurance sector seems to have been the most seriously affected class of financial institution in the region because of serious problems at CLICO and because of the extent of that institution's penetration of regional markets. Nevertheless, even in this case, the actions of the regulatory authorities across the Caribbean appear to have contained contagion risks. Very serious challenges remain in this regard, however, since the resolution of the CL Financial problem is far from complete and is complicated by the reach and size of CL Financial and cross border jurisdictional issues. These issues would have been more easily addressed if we had a well established system in place for the resolution of problems at regionally important financial institutions. This highlights the importance of establishing a comprehensive system for maintaining regional financial stability which would monitor and measure risks, as well as provide established protocols for the resolution of regional financial crises.

<sup>1</sup> There are still however some significant downside risks to global growth including sovereign debt problems in the Euro Area and emerging political problems in the Middle East.

## REGIONAL NEWS SUMMARY

### CL FINANCIAL

- January 29th 2011 marks the second anniversary of the historic collapse of CL Financial Ltd. A commission of enquiry into this collapse has been set up, but no date or venue has yet been given. (TE 29 Jan)
- The task of cleaning up the "mess" at CLICO (Barbados) must await the appointment of a judicial manager by the court. (BN 7 Feb)
- The 60 plantation workers recently sent home by CLICO Holdings Barbados Limited are back on the job. (BN 10 Feb)
- St Vincent and the Grenadines' Prime Minister Dr Ralph Gonsalves has repeated his call for Trinidad and Tobago to play a

lead role in resolving the difficulties arising from the demise of insurance giants CLICO and British American. He said that the collapse of CL Financial is mainly due to the colossal failures of corporate governance; reckless and excessive risk taking by CL Financial in Trinidad, and that US\$300 million was taken out of British American Insurance branches in the Eastern Caribbean and sent to Trinidad to be invested in speculative real estate transactions in Florida and elsewhere. (BN 11 Feb)

- The process to start the payout for CLICO policyholders is scheduled to begin two days after Carnival, the Finance Ministry has said. CLICO policyholders who hold deposits un-

## REGIONAL NEWS SUMMARY cont'd

der \$75,000 at the collapsed company, can start applying to be repaid from March 10. (TE 18 Feb)

### THE STANFORD GROUP

- The High Court in Antigua has ordered that 400 former employees of the Stanford Financial Group be paid their retirement funds by the Eastern Caribbean Amalgamated Bank, which was formerly owned by Allen Stanford under the name Bank of Antigua. (JG 8 Feb)
- Allen Stanford, ruled incompetent to stand trial because of addiction to drugs he received while in federal custody, is being moved from Houston to a different detention facility. (CNnow 16 Feb)
- Allen Stanford has filed a countersuit against US prosecutors, accusing them of depriving him of his constitutional rights. He is seeking \$7.2bn in damages from the SEC and FBI. He has pleaded not guilty to fraud, conspiracy and obstruction. (BBC News 18 Feb)
- The Antigua Labour Party has learned that Dr Errol Cort, Minister of National Security, has been sued by a group of Stanford investors for more than US\$1 million. The lawsuit claims restitution of a monthly retainer of approximately US\$30,000, reportedly paid to his law firm Cort & Cort between 2006 and 2009 while he (Cort) was finance minister. (CNnow 19 Feb)

### CARIBBEAN

- Chinese companies are getting ready to invest some US\$1 billion in various projects in Guyana. (CNnow 31 Jan)
- The Committee for Financial Supervision (St Maarten) has branded the 2011 budget approved by Parliament on December 23 as unbalanced and instructed government to trim another NAf. 30 million. (Caribseek Feb 1)
- Barbados is among four Caribbean Development Bank member countries whose fiscal deficit narrowed in 2010. The others are Grenada, Guyana and Jamaica. (Caribseek 2 Feb)
- Jamaica's investment bankers believe that conditions are ripe for the revival of the private bond market, but say that the pace of resuscitation would likely be hampered by regulatory rules and the high taxes charged by the Government for settling such instruments. (JG 2 Feb)
- The Barbados Stock Exchange (BSE) is being affected by a number of factors resulting in particularly low trading activity. BSE's manager of registry services attributed this to the "state of the economy", and added that the BSE was currently doing more to "better educate" the public on investing through various methods such as literature and meetings. (BN 2 Feb)
- THE Guyana Bank for Trade and Industry (GBTI) has launched its International Finance Corporation (IFC) Trade Finance Facility, designed to lower the cost of external trade through 'Triple A' backing allowing numerous banks to facilitate letters of credit to businesses. GBTI will now be able to offer IFC-backed letters of credit good for numerous banks across continents, allowing importers to have access to finance for their imports at rates more competitive than ever before. The IFC is the private sector arm of the World Bank. (GCO 3 Feb)
- The Republic Bank Group has recorded a profit attributable to shareholders of \$265 million for the first quarter ended December 31, 2010; this represents an increase of 12.4% over the corresponding period last year. (TE 3 Feb)
- The chairman of the Private Sector Commission in Guyana disclosed that the organisation has signed a memorandum of understanding (MOU) with stakeholders to exploit opportunities in the Lethem/Rupununi/Brazil region. Included in the MOU as an area of priority focus is that of the Linden-Lethem road which will greatly facilitate trade. (GCO 4 Feb)
- Prime Minister and Minister for Finance, Honourable Stephenson King, says he is very excited about the dividends Saint Lucia will derive from the multi-million dollar Hewanorra International Airport redevelopment project. The Prime Minister says the timing of the redevelopment is critical as it will spur much needed economic activity in the country in the wake of the recent hurricane and the global financial meltdown. (Caribseek 4 Feb)
- The Bank of Jamaica has officially launched its real time clearing and settlement system, Jamlclear, which allows commercial banks and securities dealers to transact and make settlement immediately. (JG 4 Feb)
- In Guyana, the 2011 National Budget, standing at a historic G\$161.4billion, was approved in the National Assembly after almost two weeks of debate and scrutiny. The Appropriation Bill was passed clearing the way for the withdrawal of some \$ 146.8 billion from the Consolidated Fund to cover government expenditure for this year. (GuyTimes 4 Feb)
- The Development Bank of Jamaica has embarked on a three-pronged initiative to promote its small and medium-sized enterprises energy-loan facility, which is financed by the PetroCaribe Fund. (JG 7 Feb)
- Central Bank of Curaçao and St. Maarten President Emsley Tromp recognises that the Netherlands Antillean guilder has been stable for the past forty years, but made a case for the two countries to move to the use of the US dollar - dollarization. (Caribseek 8 Feb)
- The St. Maarten Hospitality and Trade Association has called for an "impartial study" regarding dollarization to determine what the best option is for St. Maarten. (Caribseek Feb 9)
- A local engineering company has commenced work to reactivate the Tumatumari (Guyana) hydroelectricity station in Region Eight (Potaro/Siparuni) as part of a wider plan for industrial development in the area. (SN 8 Feb)
- Central Bank Governor Ewart Williams is proposing the idea of a junior stock exchange as a mechanism to raise capital for the energy sector. A junior stock market is a mechanism whereby enterprises that find difficulty in raising capital can source the required financing. (TG 9 Feb)
- The IMF says Caribbean countries, saddled with high debt levels and badly affected by the global economic crisis, need to reduce debt and develop new sources of growth to enhance their prospects. (JG 9 Feb)
- The new car market in Barbados, like other business sectors, is taking a major hit as the economy struggles through a two-year-long recession. The market has shrunk by 40 % over the two years. (BN 14 Feb)

## REGIONAL NEWS SUMMARY cont'd

- A Natural Resource Management and Training Programme is being implemented in 18 communities of Region Nine (Upper Takutu/Upper Essequibo, Guyana), in an effort to facilitate local development initiatives for the promotion of economic activities in the hinterland. (GCO 15 Feb)
- IAMGOLD Corporation announced that at the Rosebel Gold Mine in Suriname, attributable measured and indicated mineral resources (inclusive of mineral reserves and depletion replacement) increased by 0.7 million ounces to 7.5 million attributable ounces compared to a year ago. (Internet 16 Feb)
- The Prime Minister of Haiti, Jean Max Bellerive, estimates that Haiti must find a billion dollars of aid in the next 8 months (February to October 2011) in order to realize the projects approved by the Interim Commission for the Reconstruction of Haiti. (Caribseek 16 Feb)
- The United Kingdom will help create more than 10,000 jobs and protect dozens of communities from crime as it increases its development commitment to the Caribbean over the next four years. (Caribseek 16 Feb)
- Lydford Mining secured a joint-venture agreement with New York-based TBS Shipping to supply high-purity limestone to the US over the next 10 years. The St Ann-based company aims to grow its mineral export business eightfold to two million tonnes a year. (JO 16 Feb)
- The property recession in Barbados has been marked by a reduction in transactions and not a fall in prices, says managing director of Terra Caribbean Andrew Mallalieu. He said an improvement in the local real estate market depended on improvement in the local economy but the amendments to the VAT rate and the removal of investment incentives and deductions for tax purposes would cause the economy to contract. (BN 18 Feb)
- With Jamaicans overseas topping up the 'Christmas money' sent home to relatives last December, remittance inflows to the island increased by 11.5% for the month, pushing up the total for 2010 to over US\$1.9 billion. (JG 19 Feb)
- Effective February 23, the interest rate payable on Bank of Jamaica 30-day Certificates of Deposit will be reduced by 50 basis points, to 6.75%. (JG 23 Feb)
- The plan to set up a new company to take over the majority of the financially troubled British American Insurance Company's businesses has been abandoned because the new Trinidad and Tobago government has failed to commit the financial resources needed to make it a reality. (Carib360 23 Feb)
- The Planning Institute of Jamaica is reporting that the economy continued to decline in the last quarter of 2010. Declines were recorded in all sectors except Mining and Quarrying. (JG 24 Feb)
- Work on a multi-billion dollar resort on Cable Beach in the Bahamian capital, Nassau, has started after several financial and other challenges. (TG 24 Feb)
- Caribbean private sector firms are eligible to access a special US\$1 billion fund mobilized through contributions by international funding agencies under the auspices of Caricom to ensure regional participation in the rebuilding exercise currently underway in Haiti. (SN 25 Feb)
- Head of the Presidential Secretariat, Dr Roger Luncheon, said staff cuts at the Georgetown based Caribbean Community Secretariat are unavoidable. (GuyTimes 25 Feb)
- Local cambio and remittance service providers are peeved by a policy decision by RBTT Bank Jamaica to terminate their accounts due to what the bank deems as business practices outside of its risk tolerance. (JO 25 Feb)
- Gross domestic product in Jamaica contracted 0.6 % in the October-December period. The goods sector lost 0.7 % of value, while services declined 0.9 %. This is the 13th consecutive quarterly decline. Jamaica lost 21,200 jobs in October with the construction and agricultural sectors accounting for most of the unemployed. (JG 25 Feb)
- India's Bank of Baroda has recorded a 120% growth in credit in its Trinidad and Tobago operations. The bank also recorded a 75% growth in total business in a matter of ten months of the current financial year. (TE 25 Feb)
- The NGC maintained its profitability for the first six months of 2010 with sales turnover of \$6.7 billion and after tax profits of \$1.5 billion. (TE 25 Feb)

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