



THE RESILIENCE AND INNOVATION OF CARIBBEAN FINANCIAL INSTITUTIONS AFTER THE LAST GLOBAL ECONOMIC CRISIS	Pg 1
THE 4TH BIENNIAL INTERNATIONAL CONFERENCE ON BUSINESS, BANKING AND FINANCE (BBF4)	Pg 2
REGIONAL NEWS SUMMARY	Pg 3
STUDENT INTERNS – SUMMER 2011	Pg 5

## THE RESILIENCE AND INNOVATION OF CARIBBEAN FINANCIAL INSTITUTIONS AFTER THE LAST GLOBAL ECONOMIC CRISIS

It is now nearly four years since the international financial and economic crisis wrought severe damage 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 impacts 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 is expected to remain muted in the near term, creating challenges for policy makers 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 also 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 financial innovations such as securitized mortgages 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 of the central banks in the region was largely 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 of 8% 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 their toll on the

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	
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	
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	
T&T	3.4	3.4	3.5	2.7	2.5

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

balance sheet of bank clients and therefore on credit demand. In spite of this the Caribbean banking sector generally compared well internationally and improvement is expected in these areas as economic growth firms up. Indeed, in the latest IMF World Economic Outlook update in April, the global growth forecast for 2011 has remained steady at 4.5% and global financial conditions are expected to remain stable.<sup>1</sup>

In the case of other financial institutions, especially insurance companies, which may be more susceptible to market risks and the diminution in financial and other asset values, the negative fallout was more significant. Financial institutions in conglomerates were similarly affected not only because of

## THE RESILIENCE AND INNOVATION OF CARIBBEAN FINANCIAL INSTITUTIONS AFTER THE LAST GLOBAL ECONOMIC CRISIS cont'd

these factors but also because of the added contagion from their non-financial affiliates. Indicators of financial soundness on non-bank financial institutions (NBFIs) are not readily available but the information that is available suggests that the negative impact on these institutions was more significant.

The link inferred between limited financial innovation and the relative stability amongst Caribbean financial institutions during the crisis echoed a dominant strain in the global debate about the future of financial systems after the crisis. In particular, financial innovations were portrayed in a negative light since innovations such as securitized mortgages, particularly the securitization of sub-prime mortgages, was one of the main causes of the crisis and, as such, needed to be scaled back or rigidly controlled. Indeed Paul Volcker asserts that the only financial innovation that has improved social welfare in the last 30 years was the ATM. Financial innovation attempts to do creative things in finance to create liquidity and returns but they also create hazards. For example, it has also been argued that derivative markets allow investors to hedge important risks but they may tend to increase pre-existing financial market volatility. Felix Salmon of Reuters notes that "financial innovation is, by its nature, inherently and predictably dangerous. If something's innovative, it's new. And if something's new, it's untested. Meanwhile, a very large part of what we consider "financial innovation" consists of "improving" on existing securities, usually by creating a source of new supply for in-demand securities while also providing some kind of pick-up in yield. Eventually, a test comes along: the world behaves in a way that no one had expected, and the new securities prove to be less attractive than the traditional securities they replaced. When that happens, demand for them plunges, their price falls dramatically, and enormous losses ensue. This narrative has been played out many times – look at CMOs and junk bonds in the 1980s, or CDOs and money-market accounts more recently". Barry Eichengreen also commented during his remarks on the occasion of the award of the Schumpeter Prize of the International Schumpeter Society, Vienna, 20

January, 2010 that "the main purpose of financial innovation has not been to provide more efficient diversification of risk, so that a given amount of risk can be held more safely, but to shift that risk to naïve investors who don't know what they are holding (perhaps because they take the press releases of the rating agencies at face value) and to investors who are confident of being bailed out if things go wrong." In many respects, therefore, many financial innovations could be viewed as double-edged swords and, like any weapon, the impact can be good or bad depending on the use to which they are put – this implies that the critical factor determining their impact is the ways in which they can be used and therefore the regulatory framework is central to profiting from innovations while minimizing the possible negative fallout from the utilization of these instruments.

The crisis has taught us many lessons in the Caribbean. In particular, we must have stronger investor protection in the retail sector, stricter disclosure requirements, more frequent disclosure of information on risk-based performance and the need for the regulatory and supervisory system to keep pace with innovations to avoid loopholes that allow institutions to exploit opportunities without necessary due diligence. Some innovations, such as securitization with appropriate regulatory changes, can help to better manage risks and improve the long run performance of the financial sector. In fact, innovations might actually emerge from the crisis that lead to better outcomes in the regional financial sector. We have to resist the complacency of returning to business as usual because the region largely avoided the worst of the crisis, but we also need to resist the tendency to regulatory overkill which can stymie the development of the financial sector.

By: Mr. Dave Seerattan (CCMF)

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

## THE 4TH BIENNIAL INTERNATIONAL CONFERENCE ON BUSINESS, BANKING AND FINANCE (BBF4)

The BBF4 was held in grand style over the period June 22-24, 2011 at The Trinidad Hilton and Conference Centre, Trinidad. The Department of Management Studies, Caribbean Centre for Money and Finance and Sir Arthur Lewis Institute of Social and Economic Studies, UWI, jointly hosted this conference under the theme "Restoring Business Confidence and Investments in the Caribbean."

BBF4 as it is affectionately called was a forum that truly facilitated the exchange of ideas on critical business, banking and financial issues facing the Caribbean region. It facilitated the exchange of the ideas and the discussions of over 120 participants. These participants were a vast cross section of leaders

from the local, regional and international business communities, governmental policy makers, international scholars and researchers.

The sessions critically explored many topics including the niche of Islamic Banking and the Prospects for Island States, Foreign Exchange Risks and Capital Flows, Lessons from the Financial Crisis, Restructuring Distressed Financial Institutions, Conglomerate Business Models, Ethics, Prudential Regulations and Systematic Risks, Micro Finance and Credit along with tools for Corporate Sustainability and Consumer and Business Confidence.

## THE 4TH BIENNIAL INTERNATIONAL CONFERENCE ON BUSINESS, BANKING AND FINANCE (BBF4) cont'd

Over the three days, there were many esteemed speakers and presenters. Dr. Warren Smith, President Caribbean Development Bank, set the precedent in the opening address as he highlighted the current economic situation that the region was facing and the need for, and the timeliness of this particular conference. Mr. Martin Pritchard, Managing Director of Goddard Enterprises Limited, Senator the Honourable Dr. Bhoendradatt Tewarie, Dr. Arnold Macintyre Programme Coordinator of the Caribbean Regional and Technical Assistance Centre, Dr. Alfred Schipke from the International Monetary Fund, Mr. Ewart Williams, Governor of the Central Bank of Trinidad and Tobago, and Mr. Derek Chin, Chairman of DaChin Group of Companies also presented on topics ranging from Strategies for Stimulating Growth and Sustainability to Offshore Financial Centres: Finding the Right Balance. The sessions on Islamic Banking were the highlight of the conference as many of the

participants sought information on this relatively new and emerging paradigm. These curious participants were able to immerse themselves in the knowledgeable words of Islamic Banking stalwarts and officials from leading Islamic banks in the UK and France.

The BBF4 also provided much more than a place to learn and posit ideas. The platinum sponsor Guardian Asset Management, silver sponsor Scotia Bank and many other sponsors ensured that the participants were well taken care of and had plenty of opportunities to network and forge linkages to facilitate discussion on the region's financial systems. Participants were treated to a number of cocktail receptions hosted by the Principal and Dean of Management Studies, UWI, which culminated in a cocktail reception hosted by His Excellency, the President of Trinidad and Tobago, Professor George Maxwell Richards.

### REGIONAL NEWS SUMMARY

#### CL FINANCIAL

- The court-appointed judicial manager of BAICO in Barbados, David Holukoff, has found the insurance company's balance sheet showed approximately \$120.8 million in assets but his valuation estimated these assets to be approximately \$72.7 million. (BN 25 May)
- T&T Government has made payments to 80,000 "small" Clico depositors and the final stage, involving paying larger depositors, is coming up, Finance Minister Winston Dookeran said. (TG 2 Jun)
- Six civil suits seeking to recover more than \$47 million, brought against CLICO by the Executive Flexible Premium Annuity holders, has started in the Port of Spain High Court. (TE 7 Jun)
- The Central Bank and CLICO have sued former CL Financial chairman Lawrence Duprey, former CL executive Andre Monteil and three companies arising from the collapse of CLICO in 2009. (TE 8 Jun). Lawrence Duprey immediately started preparing his defence against this lawsuit. (TE 10 Jun)
- The Central Bank is claiming that there were two Ponzi schemes being operated in Clico, An external Ponzi scheme in which the insurance company took in new money from policyholders and mutual fund investors "without sufficient or proper regard to what was required to fund future liabilities to them", and an internal Ponzi scheme in which money was diverted or misappropriated away from Clico in order to fund Clico Investment Bank. (TG 10 Jun)
- The Central Bank alleges that Clico lost up to \$2.1 billion in a series of complicated transactions meant to benefit Clico Investment Bank, CL Financial and some of the executives. (TG 13 Jun)
- Government has confirmed that it is considering reintroducing legislation to Parliament that could prevent CLICO poli-

cyholders from recovering funds from the institution without the approval of the Central Bank. (TE 22 Jun)

- Lawrence Duprey wants to stall the Commission of Enquiry into the collapse of CL Financial, scheduled to start on Jun 27, claiming that a lawsuit filed by the Central Bank against him and other former company officials will strain his legal resources as both proceedings will overlap. (TE 24 Jun)

#### STANFORD GROUP

- Mary Kramer, a Republican appointee, sent a diplomatic cable in 2006 from Barbados to the State Department in Washington, expressing her concerns about Stanford, his bank and their activities in and outside Antigua. (BN 9 Jun)
- Allen Stanford won't be going to trial for fraud charges until next year, after a judge decided to give him additional time in treatment for addiction to anti-anxiety medication. (Carib360 22 Jun)

#### CARIBBEAN

- The Financial Services Commission (Jamaica) has ordered securities and fund management company Intertrade Finance Corporation not to undertake any new business as it is in breach of the Securities Act. (JG 25 May)
- The low demand for credit and excess liquidity have continued to have a negative impact on local interest rates in 2011. (TE 25 May)
- Emsley Tromp, president of the Central Bank of Curacao and St. Maarten said the Government of Curacao is jeopardizing work of the Central Bank for the two islands by working without a proper board, budget and without proper communication with the government. (Caribseek 25 May)
- Non-performing loans of commercial banks jumped by J\$3.7 billion, or 27.5% over the three months to March 31, 2011, according to the Bank of Jamaica. (JO 26 May)



## REGIONAL NEWS SUMMARY cont'd

- About 30 FirstCaribbean Bank employees have been laid off in Barbados. (BN 27 May)
- The merger between Caribbean Airlines and Air Jamaica was sealed with the signing of the shareholder agreement which gives CAL legal access to all routes operated by Air Jamaica. (TE 27 May)
- The rate of inflation in T&T declined sharply from 9.4% in March to 6.4% in April. (TG 28 May)
- Tourism Minister Edmund Bartlett has contended that the recent US\$10 increase in the head tax paid by incoming airline passengers will facilitate bigger and better strategies to market destination Jamaica. (Carib360 30 May)
- Caribbean central banks' governors have agreed on arrangements to produce a Caribbean Financial Stability Report by December 2012, under a project financed in part by the Inter-American Development Bank and coordinated by the CCMF. (GuyTim 31 May)
- Jamaica has secured some 10,000 new airline seats out of the burgeoning South America travel market, improving the prospects for growing tourist arrivals to the island. (Carib360 1 Jun)
- Insurance companies that provide third party coverage for most of the country's maxi taxis and taxis do not have adequate cash reserves because they have been selling insurance premiums too cheaply. (TE 2 Jun)
- IN 2010, for the first time in almost ten years, the number of non-performing loans from commercial banks in T&T crossed the 5% mark and continued to increase in 2011. (TE 2 Jun)
- Central Trinidad Steel Ltd closed its factory and retrenched 250 workers, saying it could no longer make a profit because the price of raw material purchased from the ArcelorMittal steel plant was too high. (TE 3 Jun)
- The Trinidad and Tobago Stock Exchange has adopted a new method of determining the closing price of stocks. This is in keeping with international practice and will prevent the occurrences of market manipulation. (TE 3 Jun)
- Fierce competition for cruise business from countries like Australia, where major cruise lines from the Southern Caribbean are being repositioned, is forcing Barbados' tourism planners to rethink strategy to recapture cruise business. (BN 3 Jun)
- Scores of workers in Antigua and Barbuda will be losing their jobs at Antigua Brewery, Observer Media Group, Hadeed Motors and LIAT move to cut jobs. (Carib360 3 Jun)
- The Government of St Kitts and Nevis is seeking the cooperation of its creditors in the restructuring of its public debt stock, which is approximately US\$1 billion. (Caribseek 3 Jun)
- Digicel and Scotiabank won the 2011 Global Telecoms Business Innovation Award for Consumer Service Innovation for their TchoTcho Mobile Money service in Haiti. (JO 8 Jun)
- Digicel Group's operating profit neared US\$1 billion last calendar year, up from the US\$726 million EBITDA it posted for 2009. (JO 8 Jun)
- Police are investigating the theft of close to half-a-million dollars from Sagicor Life Inc. (Caribseek 8 Jun)
- Barbados recorded an 11% increase in long-stay tourist arrivals from January to April and a 10% decline in May. (BN 9 Jun)
- Antigua and Barbuda has concluded negotiations with the last of the Paris Club Creditors, with an agreement reached with Japan. (Carib360 9 Jun)
- A motion calling for Curaçao to have its own Central Bank rather than having to share one with St. Maarten was adopted with 11 votes for and none against by Parliament. (Caribseek 9 Jun)
- Low-cost regional carrier REDjet has laid off eight of its cabin crew while it waits on clearance to fly to Jamaica and Trinidad. (Newsd 10 Jun)
- Mr. Guiteau Toussaint who is credited with saving the National Credit Bank, owned by the Haitian State, from the brink of bankruptcy when he took control in March 1999, was shot and killed by intruders. (Haiti News 13 Jun)
- Acting Prime Minister of Barbados, Ronald Jones, believes that REDjet will bring many benefits to the region and therefore should be embraced by Caribbean Governments. (BAdv 14 Jun)
- The Antigua and Barbuda Tourism Authority has announced a significant increase in UK visitor arrivals for the first quarter of 2011. (Carib360 15 Jun)
- Moody's has downgraded Barbados' domestic currency rating from Baa2 to Baa3, and revised the country's outlook to negative, but has affirmed its rating on Barbados' foreign currency bonds. (BN 15 Jun)
- Jamaica's ranking among the highest taxed countries across emerging economies and the wealthiest G8 countries could be one of the reasons for the country's low standard of living and economic competitiveness. (JO 15 Jun)
- A Surinamese-based engineering and investment company has expressed interest in working on the National Athletics Stadium and Grenville Port, Guyana, as well as getting involved in housing and agricultural development. (Caribseek 16 Jun)
- Best-selling singer Rihanna has signed a multi-year deal with The Barbados Tourism Authority to exclusively promote her hometown island of Barbados as a tourist destination. (BAdv 16 Jun)
- Guyana's sawn timber export earnings fell in the first quarter from US\$ 5 million last year to US\$ 4.56 million this year. (GuyTim 22 Jun)
- Jamaican Redevelopment Foundation Inc has recovered a little more than half of the bad debts it was sold by the Financial Sector Adjustment Company almost a decade ago. (JG 22 Jun)
- Nearly 40,000 additional cruise passengers visited Aruba during the period January to May, compared to the same period in 2010. (Caribseek 22 Jun)

## REGIONAL NEWS SUMMARY cont'd

- With Barbados' unemployment level just above 10%, school leavers will face a "double challenge" when they try to enter the workforce. (BN 24 Jun)
- The World Bank, in its Country Economic Memorandum on Jamaica dismisses claims by Jamaican firms that access to financing, or crowding out, is a major hindrance to business development, pointing instead to crime, the high cost of electricity and low workers' skills as the top three major constraints. (JO 24 Jun)
- The prevalence of serious crime in the Caribbean is stunting economic growth in the region and is deterring investors from coming to this part of the world, said the president of the Caribbean Development Bank. (TE 24 Jun)
- The registration of new businesses in T&T has increased by an average of 10% since the global financial meltdown in 2008, while company registration has increased by more than 20%. (TE 24 Jun)
- The Caribbean Development Bank increased the amount approved for loans to its borrowing member countries by almost 80% in 2010. The two largest loan approvals were to Barbados and Anguilla, which received US\$62.1 million and US\$55 million respectively. (BN 27 Jun)
- Headline inflation continued its decline for the fifth consecutive month to 3.9% in May from 6.4% in the previous month. It is now at the lowest level since January 2010 when the rate measured 3.7%. (Newsd 27 Jun)

## STUDENT INTERNS - SUMMER 2011



Wayne Elliott is a 21-year old Barbadian who recently completed a B. Sc. at the University of the West Indies (Cave Hill). Wayne was awarded the Central Bank of Barbados' Scholarship 2010 and as a result, he completed an internship at the Bank. There he was given the opportunity to observe the Bank's operations and to present his research paper at the

Research Department's Annual Review Seminar. Due to this exposure, Wayne plans to continue to seek opportunities to increase his knowledge on issues pertaining to world economies especially those in the Caribbean. It is his desire to further his knowledge through work experience and the pursuit of post-graduate level education. Wayne is currently an intern at the Centre and is supervised by Mr. Anthony Birchwood. Together they will be working on a study of liquidity in the banking systems of CARICOM states.



Stevonne Nugent is a 23-year old Jamaican M. Sc. Economics student at the University of the West Indies, Mona who enjoys teaching, planning and marketing events, listening to music, entertainment and the performing arts. In 2010 she completed a B. Sc. degree in Statistics and Economics at the aforementioned institution. It

is her intention to specialize in the areas of Industrial Organization, Game Theory and Financial Economics. Her aim is to one day be a well achieved and recognised lecturer for her contributions to the development of the region. She is currently researching the relationship between fiscal capital expenditure and economic growth in CARICOM countries under the supervision of Research Fellow, Mr Anthony Birchwood.



Akeem Rahaman is a research intern at the Caribbean Centre for Money and Finance. Mr. Rahaman obtained a B. Sc. Economics Major and Management Studies Major (First Class Honours) at the University of the West Indies, St. Augustine in 2010 where he graduated as the most outstanding student. Currently, he is pursuing his M. Sc. Economics with specializations in Econometrics and Monetary Economics. He previously served as a Research Assistant at the Department of Economics, where he tutored Econometrics, Economic Statistics and Mathematics. Mr. Rahaman is currently working on a paper entitled "Credit Demand: The Impact of Low Interest Rates and Expectations in Trinidad and Tobago" under the supervision of Mr. Dave Seerattan.

### STAFF OF THE CARIBBEAN CENTRE FOR MONEY & FINANCE

#### Officer-in-Charge :

**Mr. Dave Seerattan**

(868) 662-2002 ext 2552

[Dave.Seerattan@sta.uwi.edu](mailto:Dave.Seerattan@sta.uwi.edu)

#### Research Fellow :

**Ms. Tracy Polius**

(868) 662-2002 ext 2553

[Tracy.Polius@sta.uwi.edu](mailto:Tracy.Polius@sta.uwi.edu)

#### Research Fellow :

**Mr. Anthony Birchwood**

(868) 662-2002 ext 2545

[Anthony.Birchwood@sta.uwi.edu](mailto:Anthony.Birchwood@sta.uwi.edu)

#### Junior Research Fellow :

**Ms. Julia Jhinkoo**

(868) 662-2002 ext 2546

[Julia.Jhinkoo@sta.uwi.edu](mailto:Julia.Jhinkoo@sta.uwi.edu)



### CARIBBEAN CENTRE FOR MONEY & FINANCE

The University of the West Indies  
St. Augustine, Trinidad and Tobago

Phone: 868-645-1174, Fax: 868-645-6017

E-mail: [ccmf@sta.uwi.edu](mailto:ccmf@sta.uwi.edu)

Website : [www.ccmf-uwi.org](http://www.ccmf-uwi.org)