



THE DOMINANCE OF CONGLOMERATES AND FINANCIAL RISK MITIGATION IN THE CARIBBEAN

A key feature of the Caribbean financial landscape is the dominance of large and entrenched conglomerates and financial groups. In spite of the presence of these large groups, the financial markets are still relatively thin and underdeveloped. This complex system of firms coupled with markets that are still relatively underdeveloped complicates the task of designing and enforcing prudential regulations.

The presence of financial institutions in Caribbean conglomerates is unsurprising given that financial sector firms have been amongst the most profitable and fastest growing business segment in the region. The factors which led to this trend include:

1. The liberalization of the financial system in the regions in the 1990s, especially the liberalization of the foreign exchange regime in Trinidad and Tobago, Guyana and Jamaica;
2. The need to diversify risks across sectors and countries;
3. High returns in the financial services sector;
4. Institutions viewed entry into the regional market as a natural progression to participation in the international financial market.

The internal capital market (the processes and management systems which govern how funds are transferred between different entities in the conglomerate) of conglomerates mentioned above, like the external capital markets, needs regulations and standards to function effectively¹. Without these controls the potential benefits of conglomerates may not be realized and abuse of this system can in fact generate instability and failure. This structural element has been recognized as a potential risk to these groups, the financial institutions in the group and the economy generally, if strict risk management protocols (rules and standards) are not observed when the financial resources of these institutions are used to finance activities of non-bank group affiliates. This has been a serious concern among regulators for some time, especially given the lessons learned from the Asian financial crisis in the 1990s.

These events in conglomerates, because of their regional, and sometimes global, reach can have catastrophic economic and financial repercussions over long periods of time. If this potential risk was not evident to many in the region the CL Financial

Limited crisis and its ongoing fallout have brought this threat into sharp focus.

Effective risk management on a group basis is therefore essential to the continued stability and success of these groups. Important risks inherent to these groups include the risk related to the variety of financial services provided, participation in different payment and settlement systems, participation in jurisdictions with different legal and regulatory systems and the limits to managerial resources in managing this large and diverse entity. Moreover, although the regulatory agencies in the Caribbean have started to share information under the umbrella of the Caribbean Group of Bank Supervisors (CGBS)², similar arrangements are not well developed among regional regulatory agencies in the insurance and securities industries. Even if these regional arrangements were in place there would still be a need for a comprehensive regional system to monitor risk, take action to prevent abuse and be able to deal with the resolution of crises when they occur.

The IMF in their Financial Sector Assessment Programmes (FSAPs), has noted weaknesses in this area. One of the main problems identified by the IMF from their FSAPs includes the fact that in complex conglomerate structures, regulators may not be able to discern the chain of command. They may therefore not be able to apply fit and proper regulations especially if the financial institutions are directed by unregulated upstream entities. The business structure of the conglomerate may also be different to the legal structure, making it difficult for regulators to get an accurate picture of the current health of the business group. Additionally, the regulatory and supervisory framework may not be aligned with the risk management of these institutions, especially when the head office may be in a different jurisdiction.

¹Stein, J. C. "Internal Capital Markets and the Competition for Corporate Resources". *Journal of Finance*, vol. 52, March 1997.

²A memorandum of understanding among most bank supervisory agencies in the Region was signed in May 2004 to facilitate the monitoring entities which had cross border operations.

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Regional central banks have been aware of the need to enhance regional financial risk analysis for some time now. To this end, a workshop for participants from regional agencies responsible for the regulation and supervision of financial institutions, the research departments at regional central banks and the coordinators of regional supervisory groups, was hosted by CARTAC, CARICOM and the Caribbean Centre for Money and Finance (CCMF) in March 2010. The workshop discussed the requirements and actions needed to develop an essential framework for regional financial stability. The CCMF also launched in 2011 an IADB-funded project on Financial Risk Assessment in an Integrating Region: The Caribbean, aimed at developing and upgrading the capacity in the region to more effectively monitor financial risk at the regional level. This project will significantly improve the region's capacity to monitor and manage regional risk exposures but significant work still needs to be done to give legislative force to these initiatives.

The challenge for the region is to exploit the benefits of conglomerates while meliorating the risks associated with their

operations. This would entail the development of a formal regional system for monitoring and assessing regional financial risk exposures and a regulatory system codified in law that provides effective oversight of these diverse and complex entities. It must also involve the development of formal guidelines and standards for risk management in the internal capital market that these conglomerates have created and it must be codified in law and subject to the oversight by the regulatory authorities.

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CL FINANCIAL

- Auditors of the CL Financial Group in the years leading up to its collapse came under fire from lawyers at the Colman Inquiry over apparent failures in their auditing processes, prior to the State's intervention in 2009 (Newsd 1 Mar)
- The engagement leader of the audit of Clico Investment Bank said the financial institution's accounts kept him up at night. He said CIB had some 100,000 intransit accounts "piled up", which accounted to \$5 billion in "unreconciled" funds. (TE 2 Mar)
- Former CLF chairman Lawrence Duprey wanted Government of T&T to put the initial \$5 billion bailout money directly into CLF. CLF also tried to sell its Republic Bank Ltd shares and used a Swiss escrow agent to route proceeds from the unauthorised sale of its Clico Energy subsidiary to a Swiss bank account, the enquiry also was told. (TG 7 Mar)
- High Court judge Joan Charles ruled the CLICO bailout plan presented by the People's Partnership Government was unlawful. The State has now been ordered to pay a group of policyholders all the money they invested in the failed insurance giant, plus interest. (TE 13 Mar)
- The lawyer representing former CLICO policyholders says he intends to ask the Appeal Court to grant an interim payment to his clients should the State challenge a High Court

ruling relating to the refund of their investments. (TE 18 Mar)

- Eastern Caribbean governments said they had finalised an agreement, allowing for the transfer of British-American Insurance Company Limited traditional insurance business to Sagicor. (JG 21 Mar)

STANFORD

- The battle between receivers in the United States and Antigua over the dispersal of Allen Stanford's frozen assets has seemingly reached a truce. Officials liquidating Allen Stanford's offshore bank said they have reached a settlement that would return a substantial portion of the US\$300 million in frozen assets to the victims of Stanford's fraud (TG 15 Mar)

CARIBBEAN

- Regulatory authorities are taking steps to ensure that the relevant entities in Barbados do not run afoul of new international Anti-Money Laundering and Counter-Terrorism Financing guidelines. (BN 1 Mar)
- Data from the Central Statistical Office shows headline in-

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- flation in T&T stood at 7.3% in January, slightly up from 7.2% in December 2012, the Central Bank said in its repo rate statement (TE 1 Mar)
- A Nature Foundation Report, on the basis of surveys of dive operators and tourist divers in St Maarten, concluded that a single live shark is worth up to US \$884,000 to the economy of the island, as is opposed to just a few dollars dead. (Carib360 1 Mar)
 - CGX Energy Inc, a Canadian energy company searching for oil and gas in Guyana, has suspended the five-year effort after the last of its three onshore wells came up dry (Carib360 1 Mar) but will soon be taking another shot in the Guyana basin, through a joint venture with its major shareholder Pacific Rubiales. (CNnow 1 Mar)
 - World Bank Director for Latin America and the Caribbean Region, Francoise Clottes, praised the Federal Government of St. Kitts and Nevis for its tremendous effort to address the international financial and economic crisis. (Caribseek 1 Mar)
 - Jamaica's cocoa farmers are laying the groundwork to increase production to meet untapped demand from large chocolate companies overseas. (JG 1 Mar)
 - A US\$5 million IDB grant will support the Guyanese government's strategy to reduce carbon emissions by re-orienting the economy onto a low carbon path, through the creation of the necessary incentives for the beneficiaries to invest in the low carbon sectors (GuyTim 1 Mar)
 - Caribbean conglomerate GraceKennedy Group posted solid earnings in the 2012 financial year, growing annual net profits by 28% to J\$3.8 billion. Total revenues were 5% higher in 2012 at \$61.3 billion, with sales up across all the group's major segments – food trading, retail and trading, banking and investments, insurance, and money services. (JO 1 Mar)
 - Guyana's Minister of Natural Resources and the Environment, Robert Persaud, and the Minister of Energy and Energy Affairs of Trinidad & Tobago, Kevin Ramnarine, signed a Memorandum of Understanding between the two countries to foster greater cooperation in energy and energy-related matters (KN 4 Mar)
 - Following completion of the national debt exchange, Fitch Ratings has upgraded Jamaica's sovereign ratings to 'CCC' (CNnow 4 Mar)
 - Energy Minister Kevin Ramnarine has said a failure to agree on the price of natural gas for the proposed US\$5.3 billion methanol complex was a key factor that led to the T&T Government and Saudi Basic Industries Corporation not arriving at a deal for the project (TE 4 Mar)
 - The Ministry of Trade, Industry and Investment recently collaborated with the World Bank, IDB, the European Union and key government ministries and agencies to host an awareness session entitled *Improving the ease of doing business in T&T* (TG 4 Mar)
 - The Cove in Eleuthera (The Bahamas) was officially opened, ushering in a "renaissance in tourism" on the island and creating scores of much needed jobs. (Caribseek 5 Mar)
 - The Jamaica Civil Service Association has reportedly agreed not to seek a wage increase for public sector workers until 2016. (JG 5 Mar)
 - The much-heralded Jamaica Employ programme has been slow in providing jobs to Jamaicans as local businesses wilt under the pressure of a sagging economy. (JG 5 Mar)
 - A new certificate has been launched to support finance professionals in understanding the new International Financial Reporting Standard for small and medium-sized entities (TG 6 Mar)
 - A draft CARICOM Energy Policy was ratified during the 41st Special Meeting of the Council for Trade and Economic Development on energy in Port-of-Spain and will now be submitted to the respective governments for Cabinet approval. (TG 6 Mar)
 - Jamaican listed companies plan to issue more than J\$5 billion in dividend payouts in the month of March prior to the new dividend tax. This will result in Government forgoing about J\$500 million due to the lag effect of its announced tax rise, which becomes effective April 1. (JG 6 Mar)
 - Following Chávez's passing, Dr Wesley Hughes, the newly appointed chief executive officer of the PetroCaribe Development Fund, acknowledged that Jamaica has benefited significantly from the arrangement. (JG 6 Mar)
 - The immediate focus of the Barbados Government is to address the deficit on the fiscal current account. In short, there must be significant reduction in the current expenditure while also focusing on generating growth in the economy from which tax revenue will be collected. (BN 6 Mar)
 - The IMF says Antigua and Barbuda has made "significant progress" towards meeting the goals of its fiscal consolidation programme and reducing debt and that it expects the economic recovery to continue in 2013. (Carib360 6 Mar)
 - The fallout from Jamaica's recently approved debt exchange arrangement has hit at least one of Barbados' biggest financial institutions. Sagcor Financial Corporation, which has hundreds of millions of dollars in investments in Jamaica, had some of its companies placed "under review with negative implications" for its financial strength rating by international insurance rating company A.M. Best Co. (BN 7 Mar)
 - Suriname wants to raise US\$ 500 million on the international capital market by issuing bonds. The Central Bank and the Finance Ministry stated that in this way, the State wants to obtain funds to participate in the gold deals with Newmont and Iamgold. (de Ware Tijd 7 Mar)
 - The Suriname's Hakrinbank and Landbouwbank are to be privatized before the end of this year. The government will sell its shares on the Suriname Stock Exchange, and private Surinamese investors are preferred. (de Ware Tijd 7 Mar)
 - A senior economist with the IMF is warning member countries of the Eastern Caribbean Currency Union that they face similar challenges now confronting the Eurozone countries. (Carib360 8 Mar)
 - Funds saved with Jamaica's banks and credit unions earn just above 2% interest per year, and are unlikely to perform any better over the next three to five years given the current low

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- interest rate policy being pushed by the central bank. (JG 8 Mar)
- Mayberry is mainly eyeing companies that are export-driven to invest the J\$1 billion that it has set aside to inject in businesses that want to go public. The company has established the fund for new equity offers on the Jamaica Stock Exchange Junior Market. (JO 8 Mar)
 - Russian steel company Severstal has suspended plans to build a US\$600 million direct reduced iron facility in T&T, citing a drop in profits and weak global demand (TG 9 Mar)
 - Ingeborg Geduld, director of Supervision on Credit Institutions in Suriname, a Central Bank affiliate, says that no new banks will be established in Suriname for now, as the market is saturated. (de Ware Tijd 10 Mar)
 - According to reports in the New York Post, China's Export-Import Bank has filed a lawsuit in a New York federal court to recover outstanding monies from an unpaid judgment worth US\$32 million against Grenada, which the Chinese state-controlled bank is still trying to recover. (TG 11 Mar)
 - Government has received a disbursement of approximately TT\$80.4m (€9.8m) in the form of grant funding through the European Development Assistance Programme. The funding, provided through Sector Budget Support, will be deposited into the Consolidated Fund under the Central Bank and is part of the Accompanying Measures for Sugar Protocol Countries with its use defined by the Cabinet-approved and European Union-accepted National Adaptation Strategy for the Sugar Industry. (TG 11 Mar)
 - High loan loss provisions continued to be a problem for CIBC FirstCaribbean International Bank in 2012 despite an otherwise satisfactory operating performance. (BN 11 Mar)
 - The government of Grenada said that circumstances have forced it to undertake a comprehensive and collaborative restructuring of its public debt, including its United States and Eastern Caribbean Dollar Bonds due in 2025. (CNnow 11 Mar)
 - Money transfers and bill payments using cell phones are now possibilities in Guyana. The Guyana Telephone and Telegraph Company launched its Mobile Money Guyana service and is promising to introduce the use of cell phones to shop at supermarkets and even receiving international transfers. (KN 13 Mar)
 - It's unlikely Barbados' 28 000 public servants will get an increase of wages and salaries this year. (BN 14 Mar)
 - London-based oil and gas exploration company Tullow Oil has signalled its continued interest in Guyana's offshore oil even in the midst of a decision not to continue the pursuit under the joint venture Georgetown licence. (CNnow 14 Mar)
 - The executive board of the IMF completed the fifth review of Haiti's performance under the extended credit facility arrangement, enabling an immediate disbursement of SDR 4.914 million (about US\$7.4 million), bringing total disbursements under the programme to date to SDR 36.036 million (about US\$54.1 million). (CNnow 14 Mar)
 - The Bahamas welcomed a record 5.9 million visitors last year, with Tourism Minister Obie Wilchcombe projecting the country is on track to welcome seven million visitors in a single year by 2015. (CNnow 15 Mar)
 - Jamaica National Building Society says it stands to lose J\$1.2 billion from its participation in the National Debt Exchange. (JG 15 Mar)
 - Trinidad and Tobago has been named among the top ten least tourist-friendly nations in the world, according to the World Economic Forum's "Travel and Tourism Competitiveness Report" for 2013. (TE 15 Mar)
 - Eight years after its last debt swap, Grenada is still struggling with its debt repayments and it has asked creditors to give it leeway to restructure US\$193 million in debt that it says it cannot afford to repay. (TG 15 Mar)
 - Sagcor Life Jamaica will initially invest US\$6 million to enter the Costa Rican market, according to its financial report for the year ended December 2012. Concurrently, the group stated that it exchanged J\$57.7 billion worth of bonds in the debt exchange last month, which will cut its interest on bonds by about one percentage point. (JG 15 Mar)
 - The construction of a number of sporting and health facilities with a \$1.8 billion loan from China will employ at least 50% local labour and materials in most aspects, T&T Housing Minister Dr Roodal Moonilal said (TE 16 Mar)
 - Caribbean Information and Credit Rating Services Ltd, the Caribbean regional credit rating agency, has reaffirmed the ratings of CariAA+ (foreign currency rating) and CariAA+ (local currency rating) on the regional rating scale, and ttAA+ on the Trinidad and Tobago national scale to the debt issue of the size of \$1 billion of Republic Bank Ltd (TE 16 Mar)
 - Pension funds are among the casualties of the National Debt Exchange in Jamaica, resulting in smaller pension payouts, say financial advisors. The NDX aims to lower the annual finance costs of Government by \$17 billion, by shaving an average of two percentage points off interest rates on \$860 billion of its domestic debt. (JO 17 Mar)
 - The IDB and the People's Bank of China have approved the China Co-financing Fund for Latin America and the Caribbean to support public and private sector projects that promote sustainable economic growth in the region. (CNnow 18 Mar)
 - According to Moody's Investors Service, Grenada's liquidity crisis leading to default in its coupon payment is credit negative for Grenada and elevates the risk of distress spilling over to its peers in the Eastern Caribbean Currency Union (CNnow 18 Mar)
 - The Government of Suriname has embarked on a joint venture with the Kaloti Group of Dubai to establish the first gold refinery in the Caribbean. (Carib360 19 Mar)
 - The Barbados government plans to invest over \$600 million in the economy this year as part of a new stimulus to drive the economy and create at least 1 000 new jobs. (BAdv 19 Mar)
 - Trinidad Match Ltd, a subsidiary of the ANSA McAL Group of Companies and manufacturer of Three Plumes safety matches recently signed an agreement with Pemar Distributors for importation and distribution of its prod-

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- ucts in Puerto Rico. (TG 19 Mar)
- British energy giant, Centrica Energy is to invest some US\$100 million in drilling explorations off north-east Tobago this year. (Newsd 20 Mar)
 - The Barbados government says it intends to invest BDS\$600 million as part of a new stimulus to improve the local economy and create at least 1,000 new jobs. (CNnow 20 Mar)
 - Jamaica has received US\$2.4 billion in funding support from Venezuela under the PetroCaribe agreement, since the facility's establishment in 2005. (CNnow 20 Mar)
 - Barbados' regulatory authorities will be keeping a closer eye on financial institutions in light of rising non-performing loans, many of which are linked to the vital tourism industry. (BN 21 Mar)
 - Developing cooperatives and clusters has been identified as one way small enterprises can access financing and take advantage of export opportunities. (BN 21 Mar)
 - Scotiabank has earned the title of Best Emerging Market Bank 2013 in T&T by Global Finance magazine. This is the fourth consecutive year the bank has captured this accolade (TG 21 Mar)
 - Trinidad's Republic Bank has lost out on acquiring a majority stake in state-owned Hakrinbank of Suriname after that government announced its decision to instead sell its shares to private Surinamese investors. (Carib360 21 Mar)
 - The Haitian community in Suriname wants an embassy of their country in Suriname, as they currently have nowhere to go when they have problems or need consular services. (de Ware Tijd 22 Mar)
 - President of Haiti and Chairman of CARICOM Michel Martelly is seeking the assistance of CARICOM sister countries to have entrepreneurs invest in Haiti, in order to provide employment opportunities and help to rebuild his country (GuyTim 22 Mar)
 - Headline inflation in Trinidad and Tobago for the month of February fell to a low of 5.9% down from a high of 7.3% in January. (TE 23 Mar)
 - The Trinidad Building and Loan Association achieved its single largest mortgage portfolio growth in the association's history last year with an increase from \$29 million to \$35 million for 2012. (TG 23 Mar)
 - Stop complaining about Trinidad and Tobago investments and adopt the twin-island republic's business savvy, advised the executive director of the Barbados Coalition of Service Industries. She said that while people argued that CARICOM was dead, Trinidadians were taking advantage of the rights of establishment and the right to freely move capital and labour as provided under the Revised Treaty of Chaguaramas (BN 25 Mar)
 - Guyana's Minister of Finance Dr. Ashni Singh announced that the personal income tax threshold has been reduced from 33.3% to 30%, and that old age pensioners would start receiving \$12,500 per month, up from \$10,000 per month. The sector allocations saw education receiving \$28.7B; health, \$19.2B and public safety and security, \$17.5B. (DemWaves 26 Mar)
 - The European Union launched the Caribbean Investment Facility (CIF) on Friday in Barbados with an initial budget of €40 million. The CIF is an innovative financing mechanism established by the EU in 2012 to mobilise additional financing from European and Caribbean development and finance institutions. (TG 26 Mar)

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