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PRESENTATION TITLE:

"The Private Sector Perspective"

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- Governors and Deputy Governors of our regional Central Banks
- Other Distinguished Central Bank representatives
- Representatives of the International Monetary Fund
- Representatives of the Office of International Affairs, US Securities and Exchange Commission
- Representatives of CARTAC
- Other Distinguished Guests
- Members of the Media

Globally, countries have been grappling with this same topic- How to maintain financial stability? What measures are required to strengthen the institutional framework for financial stability? How can another financial crisis be prevented?

Many countries and regional blocs have implemented a comprehensive package of initiatives, which incorporate new supervisory tasks and agencies responsible for the macro-prudential regulation of systemic risks.

The European Central Bank has implemented some core policies to guide their markets. The European Commission in 2009 developed a set of reforms, including the creation of a new European Systemic Risk Board responsible for macro-prudential oversight.

The United States Federal Reserve has been reviewing the same issues and drafting new measures to strengthen their financial systems. Toward this end, the US has developed a Financial Stability Improvement Act, which would create ways to monitor systemically risky firms, establish a process to wind down large institutions and overhaul the financial regulatory system.

While none of the actions taken by these large countries may be best for our small islands, the point is; the development of a regional approach to financial stability for the Caribbean; is long overdue. It is time that we proactively build and implement strong macro and financial measures to meet our unique market and economic needs.

I therefore want to thank the CARTAC for organising this forum and bringing together such a distinguished gathering of key regulators and practitioners from across the Caribbean region and internationally, to

exchange ideas and information, to drive regional development and stability.

Our Caribbean countries are small, with higher vulnerability indexes than many regions. While we have withstood the financial crisis, which crippled countries across the globe, the closely interwoven nature of our CARICOM markets increases the propensity for contagion effect in severe financial times. It is therefore important that at the national and regional levels we implement the necessary infrastructure and requirements for stable financial systems and macro-economy.

Ladies and Gentlemen, undoubtedly, financial sector stability is critically linked to macro-economic growth and stability. The global financial crisis presented clear evidence of this; as global financial icons fell, market declines and recession followed in these countries.

From a private sector perspective though, financial stability is more than ensuring capital adequacy of financial institutions; more than strong corporate governance practices in financial institutions. Regional financial sector stability should follow a comprehensive mix of prudent Governmental fiscal and monetary practices, strong regulatory framework, strong market practices, strong consumer protection practices and an effective regional integration body.

My presentation today will focus on five key drivers of financial sector stability:

1) Prudent management of macro-economic and fiscal policies
2) Effective legislative, regulatory and institutional framework
3) Responsible financial institutions
4) Vibrant CARICOM Secretariat, with focus on harmonised standards and practices across the region
5) Collaboration among regulators

Generally, policies aimed at macroeconomic development, have their associated macroeconomic and financial risks. Countries should therefore have a sustainable schedule of fiscal expenditures and infrastructural development to alleviate distress on the national coffers.

The Government's debt portfolio makes up the largest financial portfolio of a country. Reduced risk of the Government's portfolio therefore converts into reduced risks at the financial level. Public sector risk management is therefore essential for overall risk management at the national level.

Further, we have seen from some of the large, developed countries, that significant financial support and bailouts to financial institutions have created new risks to the Government's balance sheets and concerns about future financial stability, resultant from existing debt burdens.

Greece, for example, has recently had its investment ratings downgraded, particularly because of the country's fiscal imbalances (long term debt obligations), which has led to significant market uncertainties, as investors question their ability to service their debt.

Further, fiscal financing problems negatively impact monetary policies. Prudent fiscal and debt management are therefore essential for reducing the vulnerability of countries to financial crises and contagion effects. The complementarities and tradeoffs between financial stability and development must be carefully considered by Governments.

According to Ben Bernanke, Chairman of the US Federal Reserve Board; "Unless we demonstrate a strong commitment to fiscal sustainability in the longer term, we will have neither financial stability nor healthy economic growth."

My second point, ladies and gentlemen, is the need for effective legislative, regulatory and institutional frameworks.

There must be strong macro and micro prudential regulations.

The countries which have withstood the financial crisis, credit a strong legislative structure. Global reports have shown that while Canada faced recessionary trends, the financial system remained strong. Canada gives credit to its strict adherence to a schedule of legislative improvements required for the maintenance of the country's investment ratings. They have also credited the consolidated regulatory model for improving their response time to crisis and their chances of success.

The Canadian experience provides lessons for the Caribbean. We need to adhere strictly to the legislative agenda, required for improvement of our financial sectors. Some of our countries are still non-compliant

in meeting the FATF 49 recommendations regarding AML/CFT practices; the implementation of which is critical for our integration into a revived global economy and for the protection of market integrity.

Further, the implementation of these international requirements underpins the maintenance and improvement of our investment ratings at the national and institutional levels.

Following the recent financial crisis, improved investment ratings have become more crucial to a country's global integration and acceptance. The criteria have also become more demanding, hence the necessity for a strong legislative agenda and schedule of implementation.

It is not enough to pass the laws; we must build and integrate the necessary infrastructure for full implementation of these legislation and policies. Regulators must have the tools and power of enforcement. Regulators must be able to carry out their duties without political

interference, yet with the awareness that they are accountable to the people. Prudential supervisory independence is so critical to financial stability, that the Basel Committee on Bank Supervision (1997) identifies operational independence as a precondition for effective supervision.

Further, I would like to note that legislation and regulations need to effectively address all types of financial institutions and not narrowly focus on banks. There is a failure by many countries to have effective regulations for non-bank financial institutions. Indeed the recent financial crisis was precipitated by these large entities which function like banks, yet are not rigorously regulated like banks. From a private sector viewpoint, it is imperative we address these loopholes in our regulatory framework for the creation of a financially stable market and economy.

Additionally, from a private sector standpoint, the consolidated approach to supervision seems most effective. The US has admitted that the disparate nature of its regulatory system was in part responsible for the acceleration of the financial crisis. There was little or no cross-fertilisation of information.

The consolidated approach allows a quick response in the face of emergent financial disturbances.

My third point focuses on the role of financial institutions in maintaining stability.

Financial institutions need to recognise the leading role they have in the growth and development of markets and self-mandate a practice of financial responsibility to maintain viability and solvency.

Financial institutions should develop a culture of risk management and implement effective corporate governance practices.

Competition should never drive an institution to cut corners in its due diligence practices. Financial institutions should undertake proper credit checks and risk assessment of customers and recognise its role in customer protection.

I turn now to the role of the CARICOM Secretariat in guiding a regional approach to financial stability.

The CARICOM Secretariat needs to take a proactive approach to regional development. Work closer with the relevant regional legislative and regulatory bodies and put in place the required mechanisms for a fully functional Single Market.

There have been several drafts of a CARICOM Financial Services Agreement over the past years; each new iteration sometimes still not addressing regional financial sector challenges.

For progress to be made, we need to have a comprehensive regional Financial Services Agreement, with focus on harmonised standards and practices, which allow us to build on the strengths of each other.

At the CARICOM level there seems to be some deceleration in the CSME process. However, the linkages in our markets leave us little choice but to develop comprehensive approaches to harmonisation and standardisation of financial sector practices.

There must be revived commitment to the regional process, driven top-down from the CARICOM Secretariat.

Ladies and Gentlemen, the establishment of the super-regulatory structure by many Caribbean countries have addressed the problems of inter-agency information sharing by regulators at the national level. The one stop shop approach is more meaningful. However, there is still need for improved information sharing across the region.

My fifth point focuses on cooperation among regional regulators.

I firmly believe that information exchange among regulators can alleviate or eliminate potential financial crises.

Ladies and Gentlemen, if a financial entity does not meet the ratios over a period of time in one jurisdiction, other jurisdictions should be consulted. The likelihood is; that institution is performing similarly in another member state; but because there is limited exchange of information, no action is taken to stave off regional disaster. The CLICO insolvency is evidence of this.

On the crisis management front, one option is to have a regional Memorandum of Understanding (MOU) dealing specifically with financial crisis management arrangements. Such an MOU should cover the objectives of financial distress management and the principles that guide decisions and actions during times of financial distress.

The recent and still latent financial crisis has proven that the "island onto itself" approach to supervision is flawed. If one is not in place, consideration should be given to the development of an information-sharing protocol to guide exchange of financial information.

Member states should have a common agenda of legislative expediency which would also hasten the pace of the integration process.

Further, there must be a fully functional regional college of supervisors for continuous exchange of ideas, practices and experience and to facilitate quick response in times of crisis.

Regional regulators also need to have effective liaison with external regulators, as these alliances could provide crucial information or early signals of external market disturbances.

In concluding I would point out a few areas for action.

First, countries should undertake at the national level their own financial sector vulnerability assessments. I see this as especially critical for member states of a regional group, since the connectivity of our markets redefine external vulnerability as internal. Our capital markets are integrally linked, financial institutions are common across the region; hence any systemic disturbance in one part of this regional system could have dire effects on other states.

Further, at the industry level there must be the maintenance of proper liquidity ratios, capital adequacy ratios and a strong risk-based approach to management.

At the regulatory levels, many countries are proposing a new strengthened rule-based rather than principle-based approach to supervision. However, the rules should not be so onerous that the industries have difficulties meeting them or so restrictive as to damage the growth initiatives of financial institutions.

Rules should be well-defined, transparent, well communicated and easy to follow. They should encompass ALL industries in the financial sector; not only banks. Non-bank financial institutions therefore need to be better regulated to mitigate the risks they pose.

Additionally, as a region we need to keep our eyes on developments in the multilateral trade process. Deals are being made behind closed doors. One day we may just wake up to a new multilateral trading system with new rules, which challenge our capacities as developing states.

Ladies and Gentlemen, the recent financial crisis has shown that the "too big to fail" concept is a myth; that the system of self regulation may not work in tandem with the goals of financial stability. Countries are now introducing new, stringent measures to meet the loopholes in their regulatory systems. We need to be mindful that these measures would impact on us, even though our markets did initiate the global financial failure.

These same measures could find their way into the standards-making bodies, even though many are not suited to our market needs. It is long overdue that we as small states begin to lobby in an effort to influence policy, legislation and standards by the international standards-making bodies like the OECD and the FATF. Why are small developing countries not part of the Egmont group, given that information exchange is critical for combating ML/FT activities?

We speak about not having a voice, but really, have we used our voices? It is time to Act.

Ladies and Gentlemen, I thank you.