



# BANK OF JAMAICA'S ROLE IN REGULATING DEPOSIT-TAKING INSTITUTIONS

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# Overview of Presentation



- Structure of the Financial Sector
- Who we Regulate/Supervise?
- Why we Regulate/Supervise?
- What we Regulate/Supervise?
- How we Regulate/Supervise?



# Structure of the Financial Sector Supervision



- ❖ The responsibility for the regulation and supervision of Financial Sector entities is shared between the Bank of Jamaica (BOJ) and the Financial Services Commission (FSC).
- ❖ The Bank of Jamaica supervises:
  - ❖ Deposit Taking Financial Institutions;
  - ❖ Credit Bureaus; and



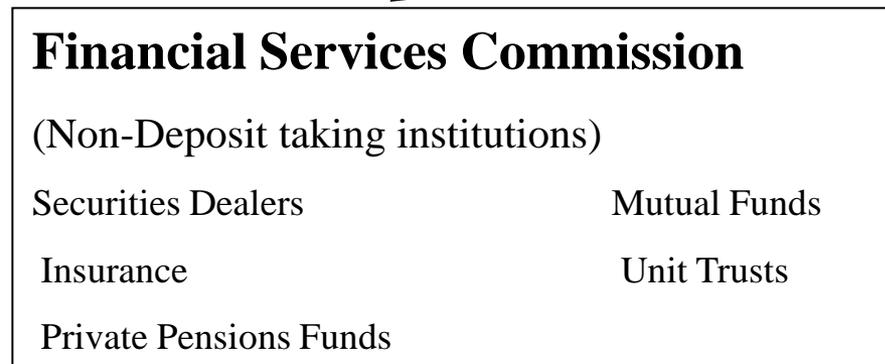
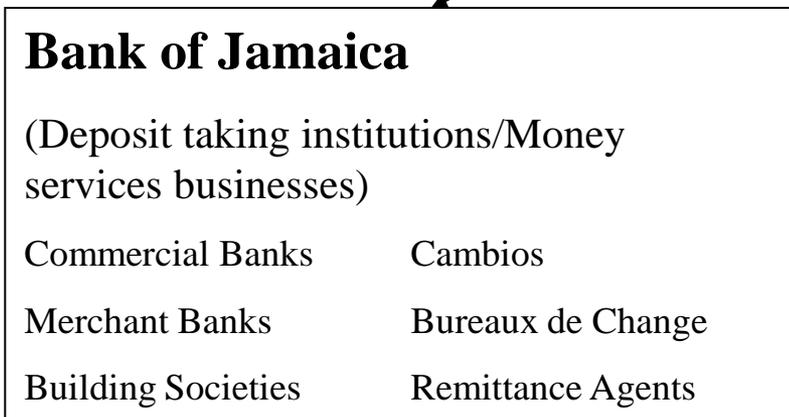
# Structure of the Financial Sector Supervision (Cont'd)



- ❖ Money services businesses (i.e. Cambios, bureaux de change and remittance services).
- ❖ The Financial Services Commission supervises:
  - ❖ Non-Deposit Taking Financial Institutions



# Structure of Financial Sector Supervision (Cont'd)



**Note on Credit Unions**  
Credit unions have been designated by the Minister of Finance as 'specified financial institutions' under the Bank of Jamaica Act. Regulations that will bring the credit unions under full supervision of the BOJ have been drafted and are pending presentation to Parliament.





# Who We Supervise?

- ❖ Deposit-taking Institutions (DTIs) supervised by the BOJ:
  - ❖ Commercial Banks
  - ❖ Merchant Banks/Trust Companies
  - ❖ Building Societies

**N.B.** Credit Unions have also been specified under the BOJ Act; however the BOJ will assume full supervision once the relevant Regulations are passed



# Supervised Deposit Taking Institutions as at 30 August 2013



## Commercial Banks (7)

- ❖ The Bank of Nova Scotia Jamaica Limited
- ❖ Citibank N.A.
- ❖ FirstCaribbean International Bank (Jamaica) Ltd.
- ❖ First Global Bank Limited
- ❖ National Commercial Bank Jamaica Limited
- ❖ RBC Royal Bank (Jamaica) Limited
- ❖ Sagicor Bank Limited



# Supervised Deposit Taking Institutions (Cont'd)



## Licensees under the Financial Institutions Act (2)

- ❖ JMMB Merchant Bank Limited
- ❖ MF&G Trust and Finance Limited



# Supervised Deposit Taking Institutions (Cont'd)



## Building Societies (3)

- ❖ Jamaica National Building Society
- ❖ Victoria Mutual Building Society
- ❖ Scotia Jamaica Building Society





# Why we Supervise DTIs?

- ❖ To promote the safety and soundness of financial institutions to engender confidence in and integrity of the banking system.
- ❖ To promote an efficient and effective banking system that finances economic growth, allocates credit and meets the needs of the customers and communities they serve.



# What we Supervise in DTIs?

BOJ assesses:

- ❖ How much risk each bank is undertaking.
- ❖ The resources available to manage those risks.
- ❖ Whether the identified level of resources are adequate to effectively manage the bank's risk exposure.
- ❖ The fitness & propriety of directors, senior managers, branch managers, traders & majority shareholders





# How we Supervise DTIs?

- ❖ Assessing compliance with laws and regulations.
- ❖ Providing guidance through Best Practice Standards and Guidelines.
- ❖ Assessing the quality of a bank's activities through annual on-site examinations and on-going off-site monitoring.
- ❖ Meetings and correspondence with Board and/or Senior Management of supervised entities.
- ❖ Application of Fit and Proper Criteria to Board/Management and significant shareholders



# Legislation and Regulations (DTIs)



## Principal Legislation:

- ❖ The Bank of Jamaica Act, 1960
- ❖ The Banking Act, 1992
- ❖ The Financial Institutions Act, 1992
- ❖ The Building Societies Act, 1897 and The Bank of Jamaica (Building Societies) Regulations, 1995



# Legislation and Regulations (Cont'd)



## Subsidiary Legislation:

- ❖ The Bank (Establishment of Branches) Regulations 1996
- ❖ The Banking (Amalgamation and Transfer) Regulations 1997
- ❖ The Banking (Licence Fees) Regulations 2003
- ❖ The Banking (Capital Adequacy) Regulations 2004



# Legislation and Regulations (Cont'd)



- ❖ The Financial Institutions (Establishment of Branches) Regulations, 1996
- ❖ The Financial Institutions (Amalgamation and Transfer) Regulations, 1997
- ❖ The Financial Institutions (Licence Fees) Regulations, 2003
- ❖ The Financial Institutions (Capital Adequacy) Regulations, 2004
- ❖ The Building Societies (Licences) Regulations, 1995





# Best Practice Standards for DTIs

In addition to Laws and Regulations, the BOJ has circulated to DTIs Standards of Sound Business Practice and Guidelines in areas that are critical to their operations. These include:

- ❖ Capital Management
- ❖ Credit Risk Management
- ❖ Foreign Exchange Risk Management
- ❖ Interest Rate Risk Management
- ❖ Internal Controls
- ❖ Liquidity Risk Management
- ❖ Real Estate Appraisal Management



# Best Practice Standards for DTIs (Cont'd)



- ❖ Securities Portfolio Risk Management
- ❖ Country and Transfer Risk
  
- ❖ Fit & Proper Guidelines
- ❖ The Management or Investment of Customers' Funds
  
- ❖ Guidance Notes for the Detection and Prevention of Money Laundering & Terrorist Financing Activities
  
- ❖ Corporate Governance



# Sanction Powers

The BOJ sanction powers for DTIs in instances of unsafe and unsound practices include:

- ❖ Requiring Board Undertakings
- ❖ Issuing Directions
- ❖ Temporary Management
- ❖ Revocation of Licence (Minister)



# On-Site Examination of DTIs



## The process involves:

- ❖ The collection of data and information that will indicate the current financial condition of an institution.
- ❖ Verification of prudential data and other information already furnished by licensees to the BOJ.
- ❖ Assessment of level of compliance with laws, regulations, Standards of Best Practice and Guidelines.
- ❖ Recommendations for corrective actions.
- ❖ Monitoring for appropriate implementation of required corrective action.



# On-Site Examination (Cont'd)

## Emphasis on:

- ❖ Processes to identify, manage and control risks.
- ❖ Capital coverage for those risks.
- ❖ Assessment of asset quality, earnings, liquidity, market risks (e.g. interest rate, foreign exchange and equity prices)
- ❖ Effectiveness of Board and Management oversight.
- ❖ Auditors' reports (internal and external)





# On-Site Examination (Cont'd)

On-site Examination also includes assessment of:

- ❖ Anti-Money Laundering/Combating the Financing of Terrorism systems and practices
- ❖ Information Technology Frameworks
- ❖ Business Continuity/Contingency Plans and Policies

Reports of findings are sent to CEO, Board of Directors & Minister of Finance



# Off-Site Monitoring - DTIs



The process involves:

- ❖ Data collection via periodic prudential returns.
- ❖ Review and analysis of data (including trend assessments, forecasting and scenario analysis).
- ❖ Reporting of findings (to Minister of Finance & DTI).
  
- ❖ Recommendations for corrective actions.
- ❖ Monitoring of appropriate implementation of required corrective actions.





# Credit Bureaus

- ❖ The Credit Reporting Act, 2010 (CRA) took effect on 1 October 2010.
- ❖ The Credit Reporting Regulations were approved by Parliament on 14 January 2011 and subsequently gazetted, thereby operationalizing the provisions of the CRA
- ❖ The CRA establishes a credit reporting system in Jamaica and sets out the criteria for the licensing of credit bureaus, their permissible activities, oversight arrangements and related matters





# Credit Bureaus (Cont'd)

- ❖ Purposes:
  - To improve credit assessment services; and
  - To facilitate enhanced risk management and loan pricing strategies throughout the financial sector.
  - To promote increased access to credit by consumers.
- ❖ Under the Act, the BOJ is the designated supervisor for credit bureaus in Jamaica.
- ❖ Following assessment and recommendation by the BOJ, the Minister recently issued licenses to two credit bureaus – Credit Info Jamaica and CRIF NM Credit Assure





# CONCLUSION

- ❖ Supervision of the financial system is shared between BOJ and FSC.
- ❖ BOJ Supervises:
  - **Deposit-taking financial institutions**
  - **Credit Bureaus**
  - **Money service businesses i.e. cambios and remittance companies**
- ❖ Supervision is aimed at promoting the safety and soundness of the financial system and promoting an efficient and effective banking system.
- ❖ FSD focuses on the supervision of risks and risk management of licensees.



# CONCLUSION (Cont'd)



- ❖ Supervision is conducted using available tools and techniques
- ❖ The safety and soundness of the financial system, will require complete co-operation between the major stakeholders viz:
  - The Supervised Community (banks Board/Management)
  - The Auditors (External and Internal)
  - The Regulators and
  - The Public





# THANK YOU

