

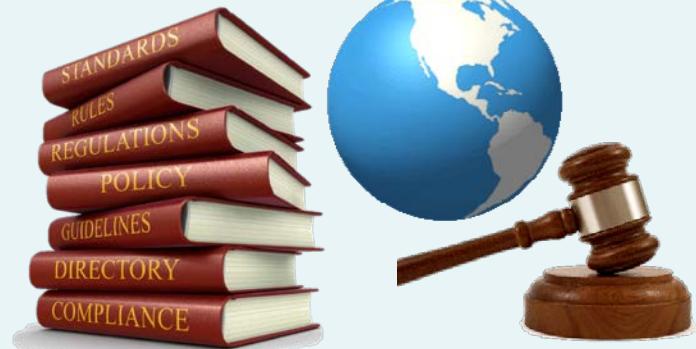


Framework for Effective Cross Border Bank Resolution and Deposit Insurance Issues – Caribbean Region

IADI 2019 Annual Conference

October 11, 2019

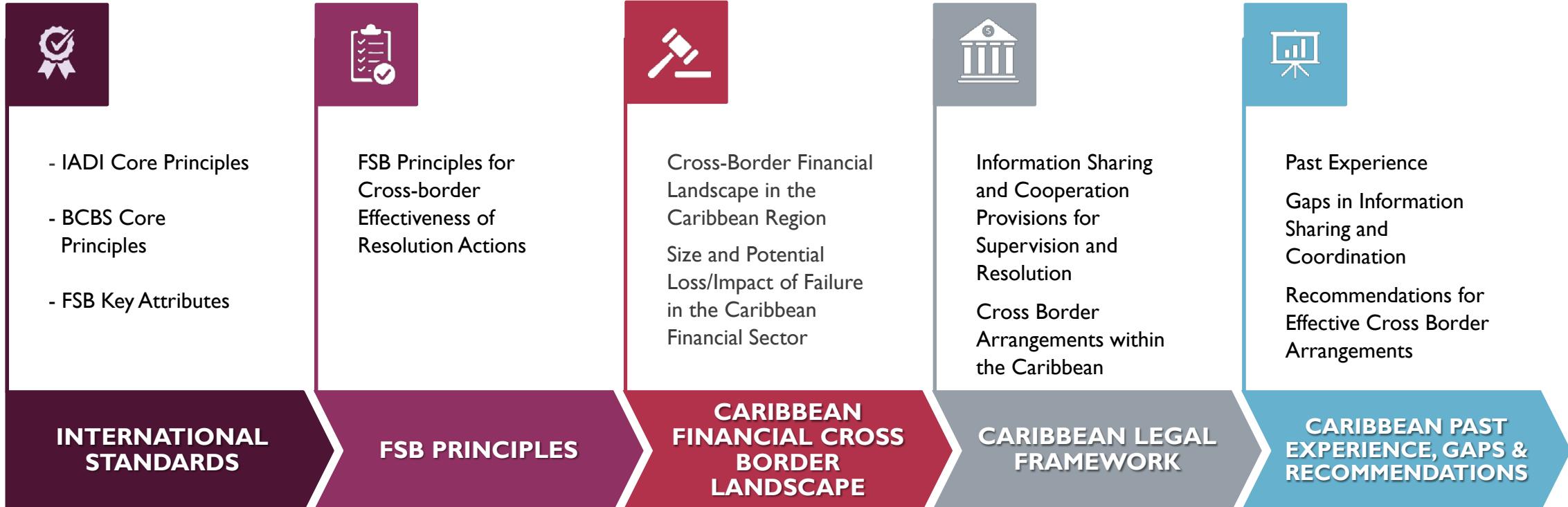
Istanbul, Turkey



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Presentation Outline



International Standards

❖ IADI Core Principles for Effective Deposit Insurance Systems



Material presence of foreign banks (i.e. foreign banks, subsidiaries or branches) requires formal information sharing and coordination arrangements between relevant DIs and safety-net participants subject to confidentiality.

Deposit insurer responsible for coverage of deposits in a foreign jurisdiction requires bilateral and multilateral agreements necessary to determine which DI is responsible.

International Standards (contd.)

❖ Basel Committee on Banking Supervision (BCBS) Core Principles for Effective Banking Supervision

- P5 EC10** The host supervisor has none objection from the home supervisor before issuing a licence and determines if the home supervisor practices global consolidated supervision.
- P7 EC3** The supervisor can prohibit establishment of cross-border banking operations in jurisdictions where information flow is inadequate.
- P12** The Supervisor practices consolidated supervision and apply prudential standards to all aspects of the business conducted by the banking group worldwide.
- P13** Home-host relationships of cross-border banking groups share information and cooperate for effective supervision and handling of crisis situations.

International Standards (contd.)

❖ Financial Stability Board (FSB) Key Attributes of Effective Resolution Regimes for Financial Institutions

**KA
7.1**

The RA should encourage the authority to achieve cooperative solution with foreign resolution authorities.

**KA
7.3**

The resolution authority should have resolution powers over local branches of foreign firms and support resolution in foreign home authorities.

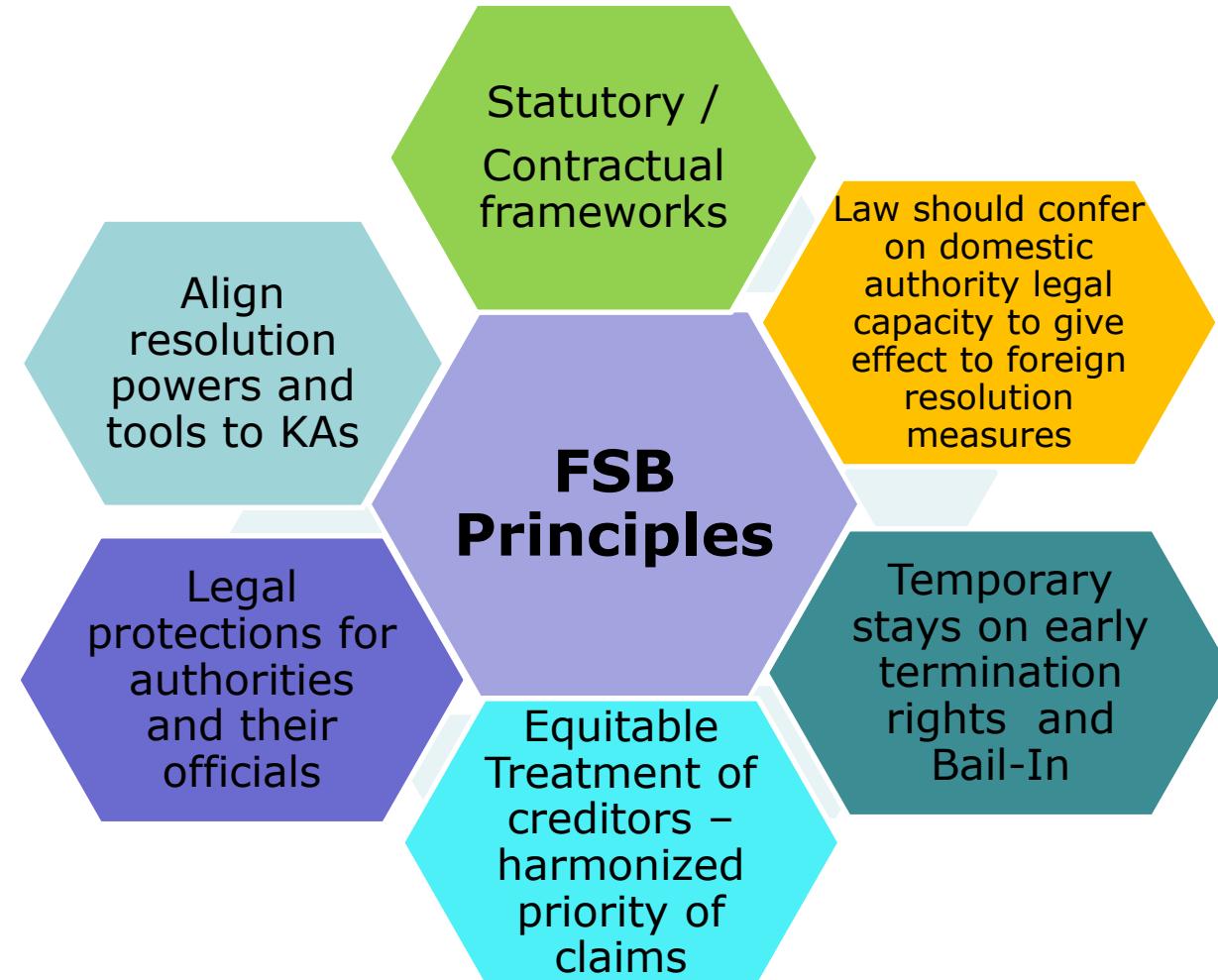
**KA
8.1**

Home and key host authorities of all G-SIFIs should maintain CMGs.

**KA
9.1**

There should be institution-specific cooperation agreements between home and host authorities.

FSB Principles for Cross-Border Effectiveness of Resolution Actions



Overview of the Caribbean Financial Cross-Border Landscape

Cross Border Banks/Financial Institutions	Operating Companies	Parent and Jurisdiction
Bank of Nova Scotia	20 Countries in the Caribbean	The Bank of Nova Scotia - Canada
Citi Bank NA	8 Countries in the Caribbean	Citigroup Inc. - USA
CIBC FirstCaribbean International Bank	8 Countries in the Caribbean	CIBC - Canada
National Commercial Bank / NCB Financial Group	9 Countries in the Caribbean	AIC - Barbados
Republic Bank	6 Countries in the Caribbean	Republic Financial holdings - Trinidad & Tobago
Sagicor Group Jamaica Ltd/Sagicor Financial Corporation	22 Countries in the Caribbean, Latin America and USA	Sagicor Financial Corporation – Barbados
RBC Caribbean	17 Countries in the Caribbean	RBC - Canada

Size and Potential Loss/Impact of Failure in the Caribbean Financial Sector



- ❖ Total financial sector assets in Caribbean countries amounts to approximately US\$96,778.9 million. The Banking sector assets total US\$70,376.7 million. Commercial banks account for the largest share of financial system assets.
- ❖ The financial sector accounted for approximately 133% of GDP. Domestic Banks account for 48.9% of GDP whilst Foreign Banks account for 50.43% of GDP.
- ❖ The Bahamas and Barbados have significant offshore banking sectors.
- ❖ Approximately 60 percent of the region's total banking system assets are held by foreign banks. These banks are primarily Canadian owned, with three Canadian banking groups accounting for about 45 percent of the region's total banking system assets.

Size and Potential Loss/Impact of Failure in the Caribbean Financial Sector



- ❖ Close business and financial links between Trinidad and Tobago and the broader Caribbean have encouraged the cross-border expansion of Republic Bank, its largest indigenous bank.
- ❖ First Citizens Bank of Trinidad and Tobago and the Eastern Caribbean Financial Holding Company (ECFH) in St. Lucia also have cross-border exposures within the Caribbean.
- ❖ The Caribbean also has one of the highest credit union penetration ratios (measured as the ratio of membership to total population) in the world, at about five times the world average.

Legal Framework – Information Sharing and Cooperation Provisions for Supervision and Resolution in legislation of Selected Jurisdictions



Bank of Jamaica Act - Section 34D (1) (v)
 Banking Services Act (2014) – Section 69, 70 and 134 (1) (g)(i); Resolution Powers:
 Section 109-122
 Companies Act ?
 Insolvency Act ?



Financial Institutions Act - Part II – 8 and Part IV – 44 (1) & (2); Resolution
 Powers: Section 69 – 83
 Deposit Insurance Act – Section 43
 Insolvency Act – Resolution Powers: Section 223-231 ?



Bank & Trust Companies Regulation – Section 14
 Central Bank of Bahamas Act – Section 38 (3)
 Companies Act – Winding Up: Section 187 – 224 ?



Central Bank Act of T&T - Part VB – 44L
 Financial Institutions Act – Section 8 and the Fifth Schedule
 Company Act T&T – Winding Up: Section 355 - 404 ?



Deposit Insurance Act 2018 – Part X – 44 (1)
 Financial Institutions Act 1995 – Section 31; Insolvency and Winding Up:
 Section 34-58

Cross Border Arrangements Among Regulators, Supervisors and DIS within the Caribbean



CARICOM
Financial
Services
Agreement
(Draft) under
the Revised
Treaty of
Chaguaramas



MOU
Concerning
Cooperation
Between
Caribbean
Deposit
Insurers



Regional
Multilateral
MOU -
between
Caribbean
Group of
Banking
Supervisors



Caribbean
Community
(CARICOM)
Policy On
Deposit
Insurance
(Draft)



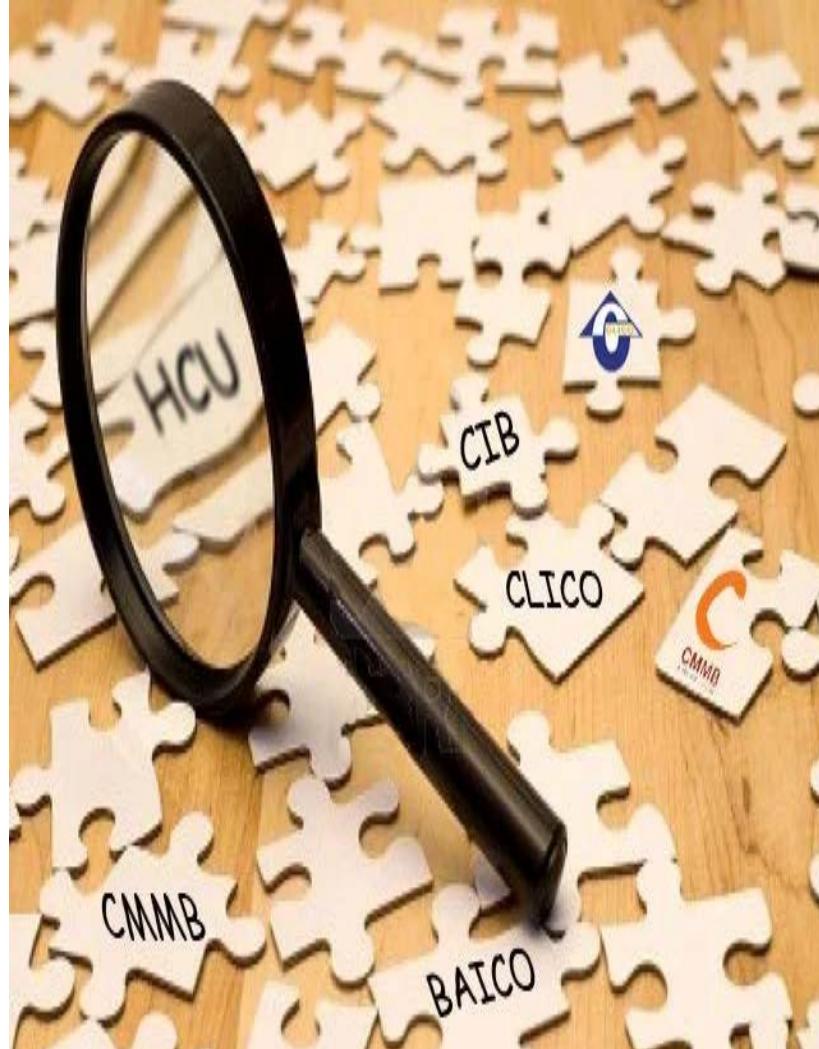
The United
Nations
Commission
on
International
Trade Law
Model Law on
Cross-Border
Insolvency

Past Experience within the Caribbean: Collapse of CL Financials



- ❖ CL Financials, founded in 1993 in Trinidad and Tobago held billions of dollars in assets in a portfolio of more than 60 companies in the Caribbean, Europe, the Middle East and Asia.
- ❖ The portfolio included banking and financial services, insurance, energy, real estate, forestry, insurance, medical services and retail.
- ❖ CLF's insurance subsidiaries, the Colonial Life Insurance Company (CLICO), the British American Insurance Company (BAICO), and related companies took in funds via deposit-like investment products, traditional insurance and pension products, and channeled these to over-leveraged sister companies and real estate developments which have sharply lost value during the global crisis.
- ❖ At end-2007, the group's assets stood at US\$16 billion, equivalent to about 30 percent of the Caribbean region's GDP.

Past Experience within the Caribbean: Collapse of CL Financials (contd.)



- ❖ Vulnerabilities were compounded by a weak legislative and regulatory infrastructure in which CLF was not subject to formal regulation, poor internal governance and insufficient regional regulatory collaboration.
- ❖ CLICO's failure revealed its inadequate risk management and weak corporate governance system. Supervisory framework was not adequate to detect the company's excessive risk taking activities and complex related party transactions in a timely manner.
- ❖ The conglomerate was rescued by the Trinidad and Tobago Government in January 2009.
- ❖ The collapse has had spillover effects in all 15 CARICOM states except for Jamaica and Haiti, with exposures as high as 17 percent of GDP in the Eastern Caribbean, leading to costly government interventions in each Member State.
- ❖ The resolution process has been slow and piecemeal, and only Belize, Cayman Islands, and Suriname have made notable progress.

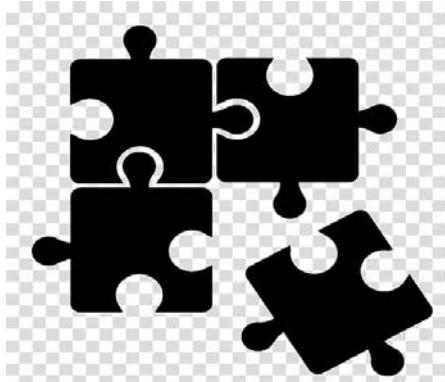
Past Experience within the Caribbean: Collapse of CL Financials (contd.)

- ❖ Caribbean finance ministers have agreed on the urgent need for deposit insurance systems to provide some protection for depositors.
- ❖ Urgent need for all regional jurisdictions to strengthen national financial legislation and regulatory practices.
- ❖ Request for Countries to coordinate their efforts to reduce the risk of regulatory arbitrage, and build a structure that allows for close collaboration among regional regulators who oversee cross-border institutions.
- ❖ The Caribbean Community (CARICOM) Heads of Government, requested regional central banks and other stakeholders to put in place a framework for regional financial stability to increase resilience both to exogenous shocks and to intra-regional stresses.
- ❖ Developing National crisis-management plans detailing how regulatory authorities would react in the event of a systemic financial crisis.



THE WAY FORWARD

Gaps in Information Sharing and Coordination Framework within the Caribbean



- ❖ Lack of uniform legal provisions providing for and facilitating coordination and resolution for cross border action.
- ❖ Lack of consistent recognition processes for foreign resolution measures across the region.

- ❖ Lack of supporting MOUs and agreements between the Caribbean Regulators, Supervisors, DIs and Resolution Authorities.
- ❖ Lack of supporting contractual recognition approaches to complement and support statutory regimes.

- ❖ The majority of jurisdictions within the Caribbean region have not implemented deposit insurance
- ❖ Absence of resolution funding laws, protocols, agreements in relation to cross border FIs.

- ❖ Lack of Crisis Management Groups and resolution planning and coordination.
- ❖ Likely insufficient institutional capacity

Recommendations for Effective Cross Border Arrangements for CARICOM Member States

Strengthening of regulatory and supervisory frameworks to facilitate information sharing, coordination and resolution.

Implementation of consolidated supervision regionally.

Institutionalization of a governance framework for financial stability to enable the monitoring of cross-border entities in normal times and during crisis periods.

Development of data systems for measuring and monitoring regional financial risk exposures.



Implementation of Core Principles and Key Attributes across the region and adoption of UNCITRAL model laws for cross border insolvency as appropriate.

Establishing Deposit Insurance Systems.

Development of MOUs to facilitate information sharing for resolution and Crisis Management Groups.

On-going preparation of annual Regional Financial Stability Report that assesses the stability of the regional financial system, the risks it faces and how risks can be spread across jurisdictions.

Establishment of protocols at the regional level for resolution planning and funding including the use of DIF for cross border resolutions.

TEŞEKKÜR EDERIM.

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