The Caribbean Finance Industry: Challenges And Strategies

The survival of the financial industry, and by extension the economies of the region, is constantly being challenged by internal and external shocks on a legislative, regulatory, institutional and industry level. The key question which must be answered is this: How will banks, large and small, continue to achieve their objectives while effectively managing these challenges?

Regulatory and Legislative Challenges

Compliance with the ever-changing regulatory framework has become a blueprint for survival for financial institutions. In the aftermath of the “great financial crisis”, a plethora of regulations has evolved, including Anti-Money Laundering (AML), Counter Terrorist Financing (CTF), Foreign Account Tax Compliance Act (FATCA), Common Reporting Standards (CRS) and the BASEL Accords.

Adequacy of return received by the correspondent banks for risk rating; Risk rating of financial services institutions; and Risk Rating of Individual countries with regards to AML/CTF and Tax compliance;

It is therefore important to pursue the harmonisation of the Caribbean region’s regulatory and legislative framework to provide a more effective enabling environment for the financial services industry in the Eastern Caribbean Currency Union, including harmonised foreclosure, credit reporting, AML/CTF and privacy laws.

Threats To The Banking Industry

The loss of correspondent banking relationships and de-risking are considered the most severe threats that the financial services sector and the Caribbean region face at this juncture.

De-risking refers to the phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid rather than manage risk. The “de-risking” decisions by the correspondent banks take into account several factors which include:

• Risk Rating of individual countries with regards to AML/CTF and tax issues;
• Risk rating of financial services institutions; and
• Adequacy of return received by the correspondent banks for undertaking the risks associated in providing correspondent banking services.

The loss of these vital relationships could render the Caribbean region “unbanked” and ultimately destabilise all sectors of our economies.

In this regard, the CAB has collaborated with a correspondent banking service provider to facilitate U.S. correspondent banking services to members who have been negatively impacted. The CAB also continues to work with other correspondent banking providers to widen the pool of options available to members.

The CAB is currently researching the possibility of a regional payments system which would streamline the need for U.S. correspondent banks in intra-regional transactions. The CAB is also a partner in the Inter-American Development Bank’s project “Strengthening Financial Transparency: Rebuilding Trust in Correspondent Banking in the Caribbean”. This multilateral project will involve initiatives aimed at helping to prevent and mitigate the risk of loss of correspondent banking relationships.

The perception of the region’s risk rating by correspondent banks is another deciding factor. In this regard, it is necessary for countries to pay attention to rectifying the gaps identified in their national risk assessments and actively publish the initiatives that they are taking with respect to AML/CTF.

The Financial Technology (Fintech) revolution has been radically challenging and threatening banks’ traditional roles as trusted intermediaries. It has also reduced barriers to entry in the financial industry, thereby enabling new entrants to compete with banks without incurring the injection of enormous capital investments.

New services such as peer-to-peer lending, block chain, crypto currencies, cognitive computing, mobile and internet banking will certainly change the face of banking in the future, and banks should assess these developments as well as customer demands, in order to be innovative, and responsive. For example, Carilend in Barbados, a peer to peer lender was recently established in Barbados.

Cyber risks and implementation of necessary mitigating infrastructure is another area of great threat to banks. In this regard, the CAB has a group insurance scheme which covers such risks for members.

Impact On Institutions

The dynamics of the worldwide financial crisis brought to light a number of credit portfolio risks. Globally, there has been an increase in non-performing portfolios, giving rise to increased provisioning which exerts significant pressure on the banks’ capital base. For example, in the OECS, “non-productive loans” as a percentage of total assets averaged approximately 12% against a benchmark of 6%. With the impending introduction of the accounting standard IFRS 9, which is based on raising provisions upfront on future expected losses, banks may experience increased pressure on their capital and profitability.

In order to continue recovery and growth, banks will have to continue to demonstrate strong leadership capability, good corporate governance, greater investments in talent management to produce the highest-performing teams, to steer the region’s financial services industry into the path of growth and expansion.

Source: Caribbean Association of Banks
Correspondent Banking Survey: Identifying The Impact Of De-risking

On August 25, 2016, the CAB Secretariat conducted a survey to track and interpret the impact of actions of correspondent banks, and assess the scope of de-risking on its members. There were thirty-eight (38) respondents representing 97% per cent of the sample.

The results indicated that more than half of respondents (55%) had lost at least one Correspondent Banking Relationship (CBR), while 45% per cent of respondents reported having no loss. The major loss came from relationships with Bank of America.

However other USA banks were also involved in the de-risking exercise. To eliminate the heterogeneity caused by of Bank of America in the sample, weights were added. When further analysis was done the data indicated that Europe as a region has had the most severe impact in de-risking Caribbean banks.

When measuring the incidence of de-risking vis-a-vis the number of members present in each country, it was found that the most affected countries were Suriname followed by Guyana and of members present in each country, it was found that the most affected countries were Suriname followed by Guyana and Barbados.

The results from this survey have provided greater clarity with regard to the scope of de-risking among members, the most aggressive entities involved in de-risking and the impacted lines of business. That 55% of members have lost at least one CBR warrants the involvement of the Caribbean Association of Banks in advocating for some relief for those affected. For the 45% that have reported no loss in relationship, the onus is on them to continue to provide services that can withstand international scrutiny.

The results also call for a refocus of attention away from purely USA-based advocacy to a strategy aimed at Europe, where the bulk of the banks engaged in de-risking originate. The survey results also point to the need to develop new products and services, and reduce the reliance on traditional products and services which have come under increasing scrutiny.

CAB will continue its advocacy efforts to keep this issue at the forefront of both the regional and international agenda.

Conclusion

The Caribbean Association of Banks (CAB) paid an official visit to the CARICOM Secretariat in Guyana as well as the Central Bank of Guyana, July 6-7, 2017.

The CAB was represented by six (6) Directors of the Association: Ms. Joanna Charles – Chairperson, Mr. Rolf Phillips, Mrs. Evelyn Wayne, Mr. Mark Anderson, Mr. Richard Sammy and Mrs. Mary Pogo, the Secretary to the Board.

The Directors first met with Mr. Irwin LaRocque, CARICOM Secretary- General, Mr. Joseph Cox, Assistant Secretary- General, Trade and Economic Integration. Following this meeting, they met with, Dr. Gobind Ganga, the Governor of the Central Bank of Guyana as well as Mr. Ramarine Lal, Director, Banking Supervision Department of the Central Bank of Guyana.

Discussions with the CARICOM Secretariat and the Central Bank of Guyana focused on issues of great importance to the financial services sector and the growth and development of regional economies. The discussions focused on:

1. The importance of the financial sector in facilitating trade in goods and services, remittances and investments;
2. The development of a regional payments system which should: reduce reliance on international correspondent banks; reduce the length of the regional payments chain; and improve settlement times;
3. Harmonization of the Region’s regulatory and legislative framework to provide a more effective enabling environment for the financial services industry;
4. Solutions which could be pursued in an effort to address the correspondent banking issue; and
5. Strengthening collaboration between the CAB and the CARICOM as well as the Central Banks in the Region on matters of common interest.

In recognition of the unprecedented challenges being faced by the industry, and given the important role of banks in financial intermediation, economic growth and the overall development of the Region, the CAB has made it a priority to collaborate with key stakeholders in the industry.

The Directors also took the opportunity to visit some of the Association’s members in Guyana and to listen first hand to some of their concerns and challenges as well as to share best practices.