

# **Essential Elements of a Framework for Caribbean Financial Stability**

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- Use all available techniques of financial risk analysis
- Encompass all FIs and links between them
- Make assessment for region as a whole, taking account of systemically significant FIs
- Implement systems for the collection and publication of financial data on all FIs, to be used as the basis for financial risk assessment
- Provide a mechanism for continuous surveillance and policy making, to address financial vulnerabilities
- Trigger for coordinated action in case of FI failure

# Background

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- The extent of financial integration in the Caribbean
- The prevalence of conglomerate structures
- The thinness of regional financial markets
- The financial openness of the region
- The CL Financial crisis and the regional fallout  
→ surveillance needs to be regional and comprehensive

# Techniques

- FSIs: available for banks, insurance companies, credit unions; but not for collective investment schemes, pension funds, etc.
  - In use for banks only, in some jurisdictions
- EWSs: still at an early stage of development; mostly academic studies
- Financial sector forecasts: you need to have a financial sector model
- Stress tests

# Encompass all FIs

- The assessment of banking risks is well developed, though there are problems
- Techniques for the assessment of insurance risks are less well established; also, insurance regulators not well equipped, inadequately financed
- CUs quite similar to banks, similar techniques applicable; but not yet in general use
- Risks from collective schemes is a grey area
- The peculiar risks of financial conglomerates, typically insurance/banking

# Encompass all FIs

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- The financial subsidiaries of non-financial conglomerates
- Cross border financial activity: little information
- Contagion risk: intractable?

# Central Banks and other Regulators at National and Regional Levels

- The Central Bank always has the responsibility for financial stability, for the system as a whole, including FIs it does not regulate
- Implies effective co-operation between national financial regulators
- FI regulators have regional bodies for training, sharing experiences/interests and limited ad hoc sharing of information
  - CGBS, CAIR, CGSR, CAPS, bank colleges
- To complete the matrix, institutionalised network for regional financial surveillance



# Financial Data Collection, Analysis and Publication (monthly, minimum periodicity, short lag)

- FSIs for banks
  - Partially available at national level
  - No info on regional consolidation
- FSIs for non-banks – n.a. nationally or regionally
- Information on cross border exposures – n.a.
- Information on ownership linkages for contagion risk assessment – n.a.

# On-going Regional Surveillance and Policy Response

- Collection and publication of regional FSIs monthly
- Monthly financial stability assessment memorandum to highlight new sources of risk, vulnerabilities, and to track remedial actions
- Monthly meeting of central bank governors to review the memorandum, to take action to strengthen regional financial system resilience and to monitor implementation (video conference)

# On-going Regional Surveillance and Policy Response

- Publication of regional FSR, annually
- Trigger mechanism for response to impending financial failure built in
- Because the central banks have the overall responsibility for financial stability, the committee of central bank governors and heads of monetary authorities would be the body to initiate the response to financial failure, irrespective of the sub-sector in which the failure occurred.

# Guidelines for Financial Crisis Response

- The committee of governors and heads of MAs would designate emergency response team
- The composition of the team would be appropriate to the crisis, in terms of countries and regulators
- Preparation of crisis report: scope, causes and consequences, with documentation
- Crisis response guarantees via reciprocal arrangements to borrow
- The committee of governors and heads would monitor implementation of crisis resolution.