



**FINANCIAL SERVICES
COMMISSION**

Welcome Address and FSC Update

Delivered by

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(Hilton Barbados Resort – Sept. 8, 2015)



Dr. DeLisle Worrell, Governor of the Central Bank of Barbados; colleagues from the Central Bank of Barbados and the Financial Services Commission; representatives from the financial institutions, specially invited guests, members of the media, ladies and gentlemen – good morning.

The Financial Services Commission (FSC) is pleased once again to continue our partnership with the Central Bank in planning and presenting the annual Domestic Financial Institutions Conference (DFIC). This conference is fast becoming an important item on the local business calendar and we welcome the opportunity to interact with the financial institutions operating in Barbados on matters pertaining to ***financial stability*** and ***business facilitation***.

With regard to the area of financial stability, as we have said repeatedly, this is one of the core functions for regulators. We have analysed the results of the most recent update to the financial stability report with our colleagues from the Central Bank, and we are generally pleased with the performance of the stability indicators in Barbados. Barbados' financial system continues to show firm resilience even in the face of a prolonged and harsh global economic crisis and it is more than noteworthy that the domestic financial system and the institutions in the system have not suffered major catastrophe from the recession, while more developed countries sought well publicised bailouts to prevent material disruption. This is a testament to the best practices utilised by our domestic financial institutions and also to the high standard of the regulatory framework being applied in Barbados.

Speaking specifically to the regulatory framework for the non-bank sub-sector of the domestic financial system, FSC, as you know, became an integrated regulator with responsibility for the non-bank financial sector in 2011 supervising the credit union, insurance, securities, and occupational pension sectors. Since its inception, FSC has sought to raise the regulatory standards for the non-bank sector to a level that is globally recognised as being among the best used. The banking system in Barbados has long had a well-defined regulatory framework and it became imperative that FSC create a similarly well-defined regulatory framework for the non-bank sector.

In terms of the definite actions taken to date to raise the regulatory standards, FSC would have implemented the following:

- a new risk based supervisory framework for our regulated sectors that allows better utilisation of regulatory resources and more real-time analysis to inform the remedial actions which the regulator must take to protect investors
- the issuance of eight (8) guidelines to the insurance sector, 15 to the credit union sector, and five (5) to the securities sector which can all take the force of law and which were aimed at addressing gaps identified in the underlying legislation for these sectors to bring us in line with international standards
- we also issued a number of circulars to provide further explanation on the guidelines issued
- we developed and released new reporting forms and quarterly reporting forms to ensure that industry data is more complete and is received on a more frequent basis for analysis
- we have conducted over 30 on-site examinations of regulated entities and issued them their reports; we continue to follow up on the action plans coming out of those examinations
- we have now implemented a top-down, stress testing framework for the insurance sector and we will shortly be looking at a similar stress testing framework for the credit union sector as we seek to add forward-looking elements to our growing robust regulatory framework

As indicated, these actions all sought to raise the standard of regulation in the non-bank financial sector in order to reduce the probability of entities going into default and also to give a methodology for swifter remedial actions to be implemented as needed.

This has been an aggressive and intensive overhaul of the regulatory framework by FSC but we believe the overhaul was needed and the new regulatory system is already seeing benefits:

- we are improving the historical data to which we have access
- we are increasing our dialogue with financial institutions on areas related to risk
- we are creating better corporate governance frameworks
- we are detailing related party transactions
- we are improving access to members of the public on the information they need to make decisions on their financial products

I would want to indicate at this point that while we agree that FSC has been aggressive in developing a more robust regulatory framework – and again, I must continue to commend our dedicated staff for their commitment and also my colleagues at the Central bank, particularly in the bank supervision and research departments for their support – I am of the firm belief that the successful implementation of this new framework must also be attributed to the support we have received from the financial institutions themselves who operate in Barbados. At most points along FSC’s development path, we engaged these entities to explain what we were trying to achieve in the area of regulation and they have supported our plans even where there were associated regulatory costs. I would want to say to the financial institutions present today that the regulatory framework is now more settled and whereas we will continue to review and amend, we would not expect that you will have to deal with as many regulatory updates in the future as you have had over the past three years.

Forging good working relationships with our regulated entities is also an important part of a robust regulatory framework and at FSC we take transparency in our decision making process very seriously; we communicate the rationale for our decisions to our entities in an effort to encourage the necessary remedial action needed to reduce the probability of entity default and protect the public in Barbados. While FSC will continue to make the decisions we deem necessary without fair or favour, the industry may be assured that we will not be high handed in

our approach and that we will continue to consult with them. They, of course, are allowed under the legislation to question our decisions.

The key benefit from the continued collaboration with the entities is that we have been able to implement an improved regulatory framework in a much shorter time period and we have since seen consistent stability in the financial system in the following ways:

- Asset values have stabilised in the insurance sector at around \$3 Billion and documentation of related party transactions is much more detailed
- Insurance premiums have been stable over the past three years, and we have seen an approximate 5% growth in the 2014 figures moving from approximately \$680 million to just over \$700 million which although slight, could be an early indication that confidence is returning to the sector
- The credit union sector continued to show growth in the asset base driven mainly by increased lending, which is one of the core principles of the movement ensuring that the members benefit and we now see an industry base nearing \$1.8 billion in assets
- Savings in the credit union sector has also increased by approximately 5.3% year-on-year between 2014 and 2015, which again, is another sign that the public's confidence in the system is returning, and this is having a positive spill effect in the nation
- Assets under management in the mutual fund sector held firm at approximately \$1.5 Billion but significant growth in new investment was not seen. Fixed income portfolios reported stable returns and stable net asset values, while there was some volatility in the equity and property funds but no material negative returns were recorded similar to the reduction in asset values we would have seen in the early stages of the recession.
- The occupational pensions sector is relatively new in terms of its inclusion under the regulatory and reporting framework of FSC. The status of incomplete data sets does not allow for a full assessment to be reported on at this stage, but from what we have thus far, it is apparent that the assets under management in the sector can exceed BDS\$2 billion and the sector can aid demand for long-term investment instruments. We have also recognised a high correlation between the assets invested in the pension sector to the assets in the mutual funds sector in Barbados. Later in our programme today we have a most esteemed individual who will expand on this sector and we look forward to the

presentation; FSC is also committed to improving public access to credible data in this industry.

As indicated earlier, the financial stability indicators as presented in the most recent update to the Financial Stability Report (FSR) suggest that the financial system in Barbados is stable. As regulators, we would also be encouraged to see growth and we will do our part to ensure that the high regulatory standards which we have set for ourselves create a positive environment that would facilitate growth. We have therefore identified strategic actions to be explored to support this growth:

- In the area of securities, we will soon begin consultation with key stakeholders to define the strategic niche Barbados wants to play; we cannot be all to everyone in this regard so we need to collectively determine our niche and focus our resources in developing this specific area
- In the area of credit unions, we continue to place emphasis on getting the deposit insurance scheme functioning and on expanding the products on offer from credit unions, which will allow the movement to diversify its income streams
- In the area of insurance, we will seek to work with the representative bodies to improve the information made available to the public such that individuals fully understand the benefits of property, life, and medical insurance in particular, to their personal financial planning. It is my belief that with a better understanding of the use of these products, we will remove the inertia regarding them, and see an expanded uptake of the products. As it relates to insurance, in 2016 we also expect to begin consultation to introduce risk based capital to the insurance sector which many believe our sector is now ripe to receive.
- Finally in the area of pensions, we will be increasing the amount of public education relating to pensions such that citizens have a better understanding of the need for them to be more financially aware and knowledgeable about planning for their retirement years

The actions that FSC has taken to date in both the areas of financial stability and business facilitation, are a direct cascade from our strategic vision as we strive to be the best in the world at what we do – financial regulation. In so doing, we will continue to work with all stakeholders

to continue to raise the standard of regulation in the non-bank financial system and sustain our attempts to reduce the probability of any future negative impacts on the domestic system.

Before I close, I believe it would be remiss of me if I did not comment on the most recent blacklisting of Barbados by the EU. Although this is a domestic conference, I am aware that this blacklisting matter impacts some of our domestic entities, particularly those insurance companies that have to buy reinsurance in the European market. I have read all reports to date and I have found nothing to suggest that there was a warranted basis for the EU blacklisting. Further, we have received no request for information from a competent authority in the EU that we would not have been able to respond to, or for which information was requested that we did not supply. Barbados has now had three Financial Sector Assessment Programme (FSAP) assessments jointly conducted by the IMF and the World Bank and no material or unaddressed issues relating to the regulatory framework for the financial sector has been raised that could form a basis for this blacklisting. I therefore submit that in our opinion the EU blacklisting is without basis and we will support the efforts of the Ministry of International Business to correct this erroneous judgement.

Almost entirely contradictory to the suggestion of a blacklisting, what we find is a regulatory framework in Barbados that has improved by leaps and bounds and continues to develop. FSC maintains a close relationship with the Central Bank and the support we receive from the seasoned regulators at the Bank has been a catalyst for our development. We, therefore, commit to sustaining a high standard of regulatory framework for the non-bank financial system in Barbados and to promoting the continued stability and growth in the financial system which will benefit the people of Barbados and our business partners globally. It is left only for me to wish you a successful conference today and I am certain that those of you in attendance will benefit greatly from the presentations to be made by our most esteemed group of presenters. I thank you.