FINANCIAL SECTOR ASSESSMENT

BARBADOS

APRIL 2009

LATIN AMERICA & THE CARIBBEAN REGION VICE PRESIDENCY
FINANCIAL AND PRIVATE SECTOR DEVELOPMENT VICE PRESIDENCY

BASED ON THE JOINT IMF-WORLD BANK FSAP UPDATE

As part of the joint IMF-World Bank Financial Sector Assessment Program (FSAP), a mission visited Barbados during March 26 to April 9, 2008.[1] The principal objective of the mission was to update the FSAP conducted in 2002 focusing on financial system stability and specific institutional development issues.[2] The mission also provided an assessment of the observance of international standards and codes in financial regulation and supervision for the banking and securities sectors as well as of the development needs of the financial system and its potential contribution to economic development. Preliminary results of the mission were discussed with the authorities during the subsequent IMF Article IV mission.

---

[1] The FSAP team was led by Messrs. Marco Espinosa-Vega (IMF, Mission Chief) and Craig Thorburn (World Bank, Deputy Mission Chief) and was composed of Joon Soon Lee, Bikki Randhawa (from headquarters), and Florencia Moizeszowicz (all World Bank); Giancarlo Gasha and Eugenio Cerutti (IMF), Diane Mendoza (external expert, formerly with the Resolution Trust Corporation and the Office of the Controller of the Currency, United States), Tanis MacLaren (external expert, formerly with the Ontario Securities Commission, Canada), and Linda Hytry (external expert, currently with the Texas Department of Insurance, United States). Gamal El-Masry (IMF) participated in the meetings and supported the FSAP team on macro issues.

[2] The FSAP team met with Senator Darcy Boyce, Minister of State; Dr. Marion Williams, Governor, Central Bank of Barbados (CBB); and officials at the Ministry of Finance; Central Bank of Barbados, Securities Commission; Barbados Stock Exchange; the Office of the Supervisor of Insurance and Pensions, Ministry of Finance; Registrar of Cooperatives; National Insurance Scheme; and representatives of commercial banks, insurers, credit unions, external auditing firms, and other private sector institutions.

I. Overall Stability and Development Assessment

1. **The 2008 FSAP Update for Barbados took place in the context of considerable turmoil in global financial markets.** Encouragingly, the financial system in Barbados has been little affected by this turmoil and the macroeconomic situation remains robust with economic growth continuing to benefit from healthy tourism numbers and ongoing construction activity. As a result, the unemployment rate continues near historic lows. Nonetheless, economic prospects are tied to continuing tourism and, as such, to the slowing economic performance in Europe, particularly the United Kingdom, and the United States.

2. **The dominant domestic banking sector appears sound, resilient, and profitable.** Since the first FSAP, the financial system has benefited from the strong economic expansion, which has boosted credit demand while contributing to a steady improvement in banks' asset quality. Capital adequacy for locally incorporated banks remains above the minimum required, and profits are at healthy levels. Stress tests reveal that the sector would be resilient to most market shocks, but capital levels may be at risk in the case of more extreme events. In particular, the system is vulnerable to credit quality shocks, and an extreme but plausible decline in tourism receipts, or in construction activity, would reduce banks' capital to below the regulatory minimum.

3. **Progress has been made in addressing the recommendations of the 2002 FSAP assessment.** The Bank Supervision Department (BSD) of the Central Bank of Barbados (CBB) has been moving toward a risk-based supervisory framework, increased the number and training of its staff, and issued many guidelines on risk management. The Financial Institutions Act (FIA) was amended, inter alia, to require auditors to be approved by the CBB and to improve the procedures for winding up, restructuring and license revocation. The crisis management framework was enhanced with the introduction of a compulsory deposit insurance scheme in mid-2007. A full update of progress against the 2002 FSAP recommendations is included in the annex.

4. **To assure continued financial stability and competitiveness, important regulatory and remaining supervisory weaknesses in the financial system also should be addressed.** The prudential oversight of the banking sector could be strengthened by enhancing supervisory capabilities, accelerating the transition to risk-based banking supervision, tightening supervision of large exposures and exposures to related parties, improving the criteria for asset classification and provisioning, improving consolidated supervision for banking groups and regional financial conglomerates, and establishing more active home-host supervisory cooperation arrangements.

5. **Limitations in the supervision of the insurance sector expose the sector to material risks.** Profitability and capital adequacy are difficult to assess due to incomplete and inadequate data. Single negative events may significantly damage the reputation of a jurisdiction in an increasingly regional and global market. Although the mission noted the introduction of on-site inspections, the sector remains largely self-regulated owing to continuing shortages of qualified staff, inadequate regulation, and out-of-date financial reporting. Greater cooperation and exchange of information, particularly with the authorities in Trinidad and Tobago, are necessary to facilitate effective assessment of financial soundness and the protection of Barbadian policyholders.

6. **Capital markets remain underdeveloped.** Efforts to integrate the Barbados Stock Exchange with the Trinidad and Tobago and Jamaica exchanges through the Caribbean Exchange Network (CXN), pending regulatory approval, are in line with the 2002 FSAP recommendations to adopt common listing, trading, and settlement rules across the exchanges in the region to promote development of capital markets.

7. **The Registrar of the Cooperatives Department is slowly building capacity to adequately supervise credit unions.** This agency has continued to carry out joint inspections with the CBB of larger institutions as recommended by the 2002 FSAP. However, the number of inspections conducted and the joint inspections are not yet being conducted with the recommended frequency. Official figures for loan delinquency at Credit Unions understate the position and require close monitoring.

8. **The offshore financial sector appears insulated from the onshore banking system, thus limiting the risk of contagion.** Barbados will continue to face competition from offshore financial centers in the region. To differentiate itself, the country is seeking to continue strengthening its reputation for stability and a selective licensing process, and to develop a workforce with strong skills in financial services. However, the authorities continue to face the challenge of overseeing a large number of very heterogeneous financial institutions with constrained resources.

II. The Macroeconomic Setting and Risks

9. **Barbados is a small country with a developing infrastructure, boasting one of the highest levels of GDP per capita in the region.** Economic growth has been strong in tandem with increased tourism. Robust output growth has helped bring the unemployment rate to a historical low 2007. The country enjoys an investment grade rating and has one of the highest S&P foreign currency sovereign credit ratings in the region. Tourism, real estate, and financial services are the most dynamic sectors and represent almost half of GDP and almost 80 percent of foreign currency receipts. The Barbados dollar is pegged to the U.S. dollar at BDS$2=US$1. The country maintains a number of exchange controls, and interest rates have typically followed U.S. rates closely. Inflation has declined from about 6.75 percent during 2005–06 to 4 percent in 2007. However, food and energy prices have had a material impact on inflation in 2008.

10. **In the context of an uncertain global environment, GDP growth is expected to slow**. Barbados is a popular destination for affluent U.K., U.S., and Canadian tourists, and tourism receipts are less sensitive to global economic trends than other destinations. However, both general economic conditions in Europe, the U.K., Canada and the U.S. along with relative exchange rates between these countries and the BDS$/US$ impact price competitiveness.

11. **Barbados is also exposed to international oil prices through its impact on domestic prices and tourism.** As Barbados is a net importer of oil, increases in the oil price translates to domestic prices and represents a negative terms-of-trade shock. Barbados is relatively distant from the main Caribbean cruise market, and higher fuel costs could adversely affect numbers of cruise ship arrivals. Thus far, these two channels do not seem to have had a material effect, partially due to government subsidies of domestic gas prices, and the upscale characteristics of Barbados' tourism market.

12. **The protracted global financial market turmoil could also impact the real estate market and the financial sector in the medium term.** Real estate and construction have been important contributors to GDP. Acquisition of real estate by foreigners has boomed and is often externally financed. A sharp and protracted slowdown could increase unemployment and credit risk for the domestic banking sector.

III. The Financial System, Institutions, and Markets

Onshore Banks

13. **The onshore banking sector has grown significantly since the 2002 FSAP and has seen increased consolidation and globalization.** Bank assets have increased from US$3.1 billion in 2002 to US$5 billion in 2007, equivalent to 142 percent of GDP and 80 percent of all deposit-taking institutions' assets. Onshore banks have increased regional links and continue to focus operations on consumer and real estate lending; have investment portfolios comprising mostly government bonds (70 percent of investments) held to maturity; and operations funded by local deposits (almost 90 percent of liabilities). Off-balance sheet operations are virtually nonexistent. The sector is dominated by the operations of Canadian banks and increasingly so with the acquisition of RBTT by RBC completed in mid-June 2008[3] (see Figure 1).

14. **Onshore banks' CAR exceeds regulatory requirements and nonperforming loans are declining.** At end-September 2007 the sector's CAR stood at 10.8 percent.[4] However, the CAR has been declining mainly due to an increase in higher risk-weighted consumer and real estate lending. Supported by economic expansion, nonperforming loans have sharply declined from 8.2 percent in 2003 to 2.9 percent in 2007.

15. **The system remains profitable and liquid, with moderate positions in foreign currency.** Regulatory requirements on liquidity and foreign exchange exposures have induced banks to remain liquid and only modestly exposed to foreign currencies. Short-term assets as a ratio to short-term liabilities stand at close to 59 percent. Subsidiaries maintain a long net open position in foreign exchange of 35.3 percent of their capital, and loans and deposits in foreign currency represent only 3 percent and 17 percent of the respective totals. For branches, loans and deposits in foreign currency represent 17 percent and 26 percent of the respective totals.

16. **Consumer credit has expanded faster than other credit activities** (Figure 2). Although private credit has moderated, and is now one of the slowest growing in the region from 2003–2006, growth exceeded 15 percent annually.[5] Consumer credit, including residential mortgages, has been the most dynamic, contributing to the system's hefty profitability. According to published indicators, rapid credit growth has not, so far, adversely affected asset quality, largely due to the persistent expansionary environment. However, since consumer and

---

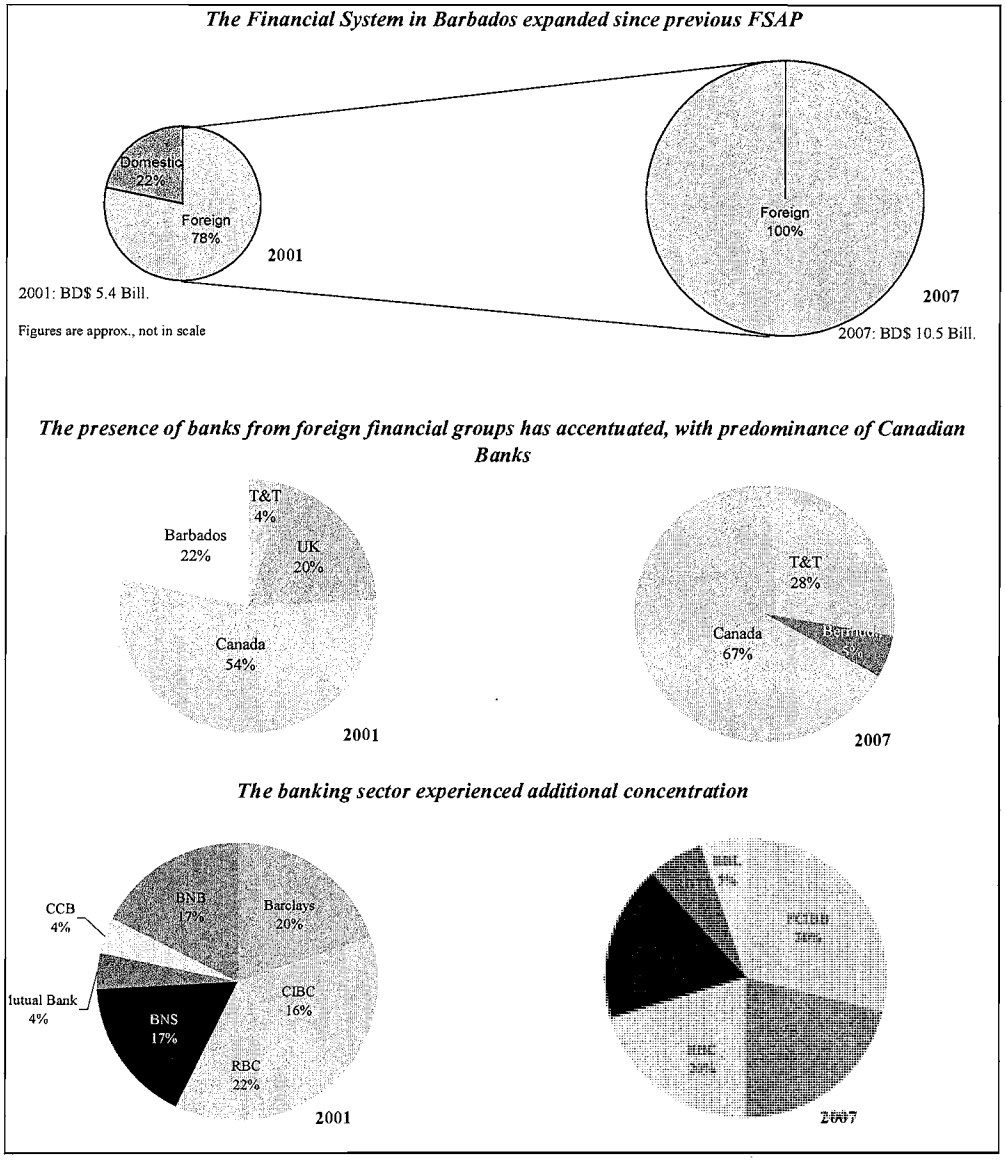
[3] Currently, the sector comprises six foreign-owned banks (four subsidiaries, two branches) with preeminent Canadian dominance (about 70 percent of system's assets). The Canadian parent banks of the Barbadian institutions remain sound, with a combined CAR of 11.5 percent, and NPLs of only 0.5 percent of loans.

[4] The Minimum regulatory CAR of 8 percent applies.

[5] In 2007, Barbados' private non-financial credit growth was close to 8 percent, compared with close to 10 percent for Bahamas, 27 percent for Dominican Republic, 36 percent for Jamaica, and 17 percent for Trinidad and Tobago.

mortgage lending represents as much as 68 percent of total loans, then a deep or sustained downturn would require close monitoring.[6]

Figure 1. Banking Sector Trends since 2002 FSAP

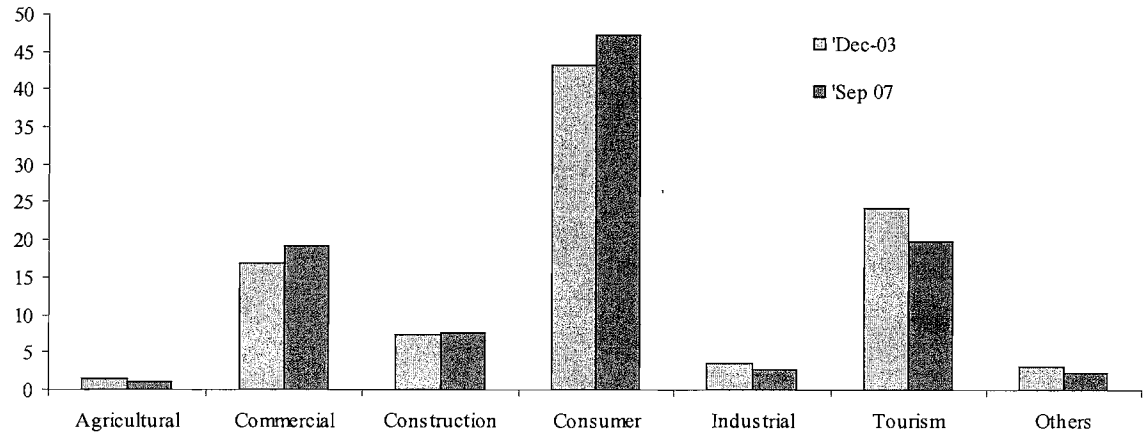


Source: CBB and FSAP 2002.

[6] Mortgages grew by about 20 percent in 2007. Most of them carry adjustable interest rates and up to a 95 percent loan-to-value ratio. According to industry participants, the recovery of collateral through a judicial process takes between 6-18 months, relatively rapid compared with the rest of the Caribbean.

Figure 2. Credit by Economic Sector, 2003 vs. 2007

(In percent of total loans)



Source: CBB and staff estimates.

17. **The stress test analysis suggests that the main vulnerability faced by the domestic banking system is credit risk stemming from a downturn in economic activity.** Specifically, although a credit risk baseline scenario based on WEO projections shows that the capitalization of the onshore system would remain above the minimum capital requirement, one bank's CAR would fall below the minimum 8 percent.[7, 8]

18. **An extreme but plausible decline in tourism receipts, or in construction activity, would reduce banks' capital adequacy requirement below the regulatory minimum.** A 15 percent decline in tourist arrivals, or a 15 percent decline in the construction sector, would drive the CAR of the system from the current 10.2 percent to 6.7 percent and 5.9 percent respectively. If the system were hit simultaneously by several significant shocks, including a 15 percent decline in both tourism and construction, a 500 bps increase in interest rates, 50 percent increase in oil prices, and a material recession in the U.S., the capitalization ratio of the system could decline to 3.6 percent in the absence of other initiatives, and all the banks would be below the regulatory minimum. Some of these shocks are extreme. The tourism shock would be about 30 percent larger than the large tourism drop experienced in 2001; the construction shock would be a sharp reversal of recent trends (about 9 percent growth on average per year), and much deeper than the previous cycles, where there was only a slowdown in construction activity (e.g., in 1996, 2000 and 2003). However they are also plausible because GDP fell by 4 percent form the last quarter of 2001 through the first half of 2002, and in the early 1990s, GDP fell by more than 6 percent.

19. **Domestic bank vulnerability to market risks is more limited.** In particular:

---

[7] In light of shortcomings in asset classification and provisioning standards identified by the BCP assessors, adjustments were applied to the official data for stress testing purposes. These adjustments reduced the effective average CAR for the universe of banks analyzed from 10.8 percent to 10.2 percent, with all the banks still complying with the regulatory minimum. The stress test covers the four subsidiaries of the onshore banking system. All the stress tests were conducted considering a benchmark CAR of 10.2 percent.

[8] The authorities have approached this bank requesting an increase in its CAR because it is currently only slightly higher than the minimum regulatory level.

- **Interest Rate Risk.** An increase in interest rates of 5 percentage points would reduce the system wide CAR to 8.4 percent, and one bank with a sizable maturity gap would fall below the regulatory minimum.[9]
- **Exchange Rate Risk.** Changes to the currency peg would have only moderate effects on banks' capitalization. In the event of a depreciation, given the long net position in foreign currency held by banks, the negative effect of the limited foreign currency induced credit risk would be offset by the direct positive balance sheet effect from long positions and would be positive for sector CARs. A material appreciation would slightly reduce system CAR from 10.2 percent to 9.9 percent and no bank would fall below the regulatory threshold.
- **Liquidity Risk.** Liquidity risk was tested assuming a sudden, large deposit run on the subsidiaries of foreign banks (e.g., simulating a reputational shock to the parent company abroad), equivalent to a run on deposits of 30 percent in a 30-day period. No banks become illiquid under this scenario, although two banks would suffer strain—the ratio of liquid assets to short term liabilities would decline from 57.3 percent to 31.6 percent for subsidiaries, and from 60.8 to 36.1 for branches. The same deposit run would potentially leave one foreign branch illiquid. Should the current levels of external funding cease altogether, no banks would become illiquid.[10]

Table 1. Stress Testing: Summary of Results

Case	CAR Official Data	Adjusted CAR 1/	Baseline	CAR After Shock	Number of Banks CAR<8%	Number of Banks CAR<0%
Credit Risk						
Baseline 2/	10.8	10.2	8.4	-	1	0
"Perfect Storm" Scenario 3/	10.8	10.2	-	3.6	4	1
Interest Rate Risk						
+500bp	10.8	10.2	-	8.4	1	0
-500bp	10.8	10.2	-	11.9	0	0
Exchange Rate Risk						
10 percent depreciation	10.8	10.2	-	10.5	0	0
10 percent appreciation	10.8	10.2	-	9.9	0	0

Source: authorities and staff estimates.
Notes:
1. Adjusted CAR correspond to the CAR after introducing a 5 percent provisioning rate for "Special Mention" loans, increasing the provisioning rate for "Substandard" loans to 20 percent, and migrating 20 percent of "Pass" loans to "Special Mention."
2. The Baseline case is based on WEO projection of macroeconomic variables for 2008 at the time of the mission.
3. The Macroeconomic Scenario includes a 15 percent decline in tourism, a 15 percent decline in the construction sector, a recession in the US of -3.0 percent of GDP, and an increase in oil prices of 50 percent.

[9] Subsidiaries and branches have similar ratios of cumulative gaps over assets: -26.8 percent and -24.2 percent respectively. Also, government securities comprised only 14 percent of assets of the subsidiaries, and 17 percent of the assets of the branches.

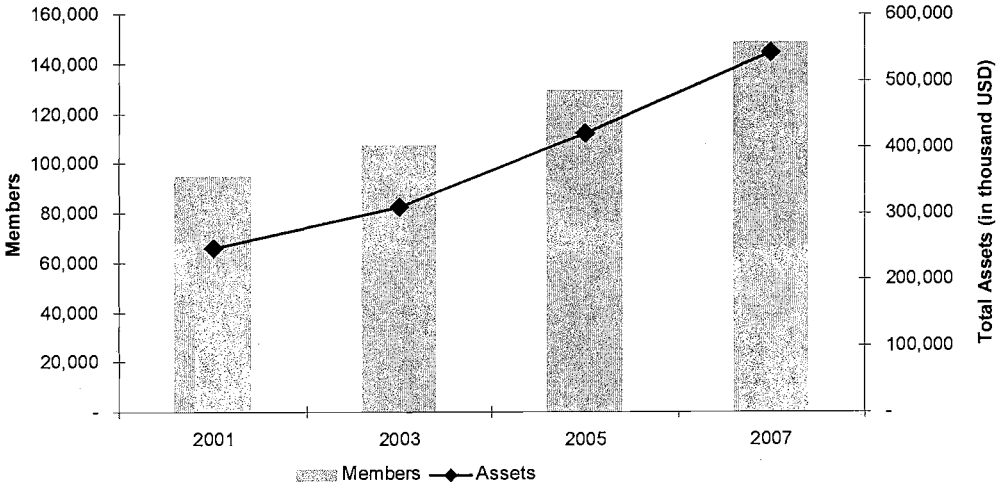
[10] No formal inter-bank contagion analysis was carried out due to the lack of individual interbank lending activity data. However, the fact that interbank lending amounts to 5 percent of total excess reserves suggests that interbank contagion is not a significant concern. Contagion from a foreign parent bank may also be limited because funding from foreign parent banks amounts to only 10 percent of total funding.

Credit Unions

20. **The credit union sector has continued to expand and compete with banks in the consumer lending segment.** Although there have been no new registrations in the last five years, the combined assets of the 34 credit unions[11] are equivalent to about 14 percent of GDP, compared to 10 percent during the 2002 FSAP (see Figure 3). The sector remains highly concentrated with the two largest credit unions accounting for 71 percent of total assets and 73 percent of the total membership. Smaller banks express frustration at the tax breaks and perceived lower compliance costs afforded to the credit unions.

21. **Official figures understate actual loan delinquency rates in the credit union sector.** The official rate was 6 percent rate, as of September 2007, but does not consider arrears on past due loans over 30 days.[12] Return on equity for the largest credit union was 6 percent for 2007, while the loan-to-deposit ratio for the sector stands at 87 percent. Loan origination polices for the largest two credit unions have improved since the 2002 FSAP due to enhancements made to the credit policy guidelines and member financial education programs. The tax break to credit union members, which was in place during the 2002 FSAP, has now been extended to mutual funds and equities.[13]

Figure 3. Credit Unions Growth (2001–2007)



Source: Registrar, Cooperatives Department.

Insurers

22. **The insurance sector continues to be an important part of the financial system.** Existing high market penetration has led the sector to look outside Barbados for growth. The insurance penetration rate—the ratio of premiums to GDP—was equal to 10.3 percent in 2006

[11] The largest two credit unions have assets of $252 million and $134 million, eight "medium" credit unions have assets which range from $34 million to $7.5 million, and the remaining 24 "small" credit unions have combined total assets of US$28 million.

[12] Late payment is considered past due only after 90 days.

[13] The first BDS$10,000 generated from combined investments in credit union, mutual fund and equity holdings are tax exempt.

(3.3 percent for life insurance and 7 percent for non life insurance)[14] and is the currently the highest figure in the world for non life insurance and 9th in total. Real and nominal growth has been strong over the last five years. Strong competition in the non life sector, in the context of a moderating market growth outlook, can be expected to continue to drive consolidation in the local market and reliance on regional expansion.

23. **Insurance market profitability and capital adequacy are difficult to assess due to incomplete and inadequate data.** The introduction of Minimum Continuing Capital and Surplus Requirements for life companies, a Minimum Capital Test for non life insurance companies, and a Branch Adequacy Test for foreign branches are important achievements made possible by the Supervisors' (SOIP) amendments to the Insurance Act. However, effective oversight of these regulations is severely limited by returns that are neither timely or sufficiently comprehensive to facilitate proper analysis. Although most companies adhere to provisioning techniques based on Canadian systems voluntarily, providing a measure of consistency, adequacy and comparability, the system is heavily dependent on the continuing ethical standards and competence of insurer management. Adopting appropriate accounting and reporting standards under the insurance law would allow the supervisor to better assess the stability of the insurance sector.

24. **The exposure to natural hazards in the Caribbean is an important challenge for the sector and is, increasingly, managed through the group head offices of regionally linked companies.** Continued regional diversification has meant that reinsurance programs have become more complex and are often arranged at a group level. Although no specific issues were identified regarding the quality of reinsurance programs, continued diligence and assessment is recommended. The effectiveness of reinsurance programs is a key issue for supervisory oversight and, with the regionalization of the sector, can only be adequately addressed through cooperation between supervisors in home and host jurisdictions.

25. **Insurers continue to face challenges in sourcing investable assets.** Insurance companies have difficulty in finding appropriate long-term investment vehicles in the Barbados capital markets that meet the statutory investment regulations. Non-life companies in 2006 had more than 36 percent of their invested assets in cash balances. In contrast, cash represented only 12.5 percent of the life companies' investment portfolios in 2006, as they were more active in domestic mortgage and policy loan transactions as a means of balancing their portfolio.

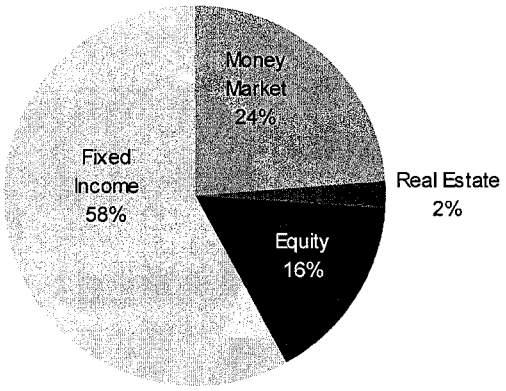
The Investment Role of the National Insurance Scheme

26. **The National Insurance Scheme (NIS) underwent a reform in 2002 increasing contributions, increasing the retirement age and lengthening the expected duration profile of its liabilities.** The reforms significantly lengthened the time horizon for investment of the assets of the NIS. As of February 2008, NIS' assets were valued at BDS$2.7 billion (about 30 percent of GDP) up from BDS$1.4 billion in 2002. Current actuarial estimates indicate that assets will continue to grow until around 2030, or longer under more optimistic assumptions.

[14] These figures were computed based on unpublished and incomplete Supervisor of Insurance's report for December 2006.

27. **A shortage of suitable local investment opportunities has meant the NIS cannot achieve its preferred investment profile and its target investment mix appears suboptimal.** The current NIS investments include largely domestic instruments: government securities, other fixed interest investments and bank deposits (see Figure 4). Equity and real estate (including government occupied buildings) represents only 18 percent of investments. The current portfolio mix is suboptimal compared to the target asset mix developed by the NIS before the reforms. All NIS's asset classes, other than money market investments, are below the target asset mix—due to a lack of investable opportunities. Over 63 percent of assets are directly or indirectly invested in Barbadian government instruments and a sizable 24 percent is held in money market instruments (mostly demand deposits). Furthermore, because the liability profile has changed and lengthened as a result of the reforms, the optimal investment portfolio strategy should now include a larger share of longer term investments, and in all likelihood, increased investment outside Barbados.

Figure 4. NIS portfolio structure, 2007



Source: NIS.

Securities Markets

28. **Securities markets remain illiquid and lack depth owing to the size of the economy, restrictions on capital movements, and investor preference for privately held interests.** As of December 2001, the Barbados Stock Exchange (BSE) capitalization was estimated at US$1.8 billion or 71 percent of GDP. Since then, market capitalization has reached US$5.6 billion or close to 150 percent of GDP despite the number of issues traded on the regular market not having materially expanded, and, on a net basis, only one additional company being listed as of December 2007[15, 16]

29. **The stock market has not yet been as significantly affected by the current global turmoil as other markets.** The BSE index increased by 12 percent in 2007, reversing the 6 percent losses registered in 2006 and has lost less than 5 percent to November 2008 despite the wider global turmoil.

---

[15] There were three new issues over the period and two delistings. Each of the three new offerings was of a substantial size, the most significant one being a demutualization of a local insurance company, producing more than 40,000 individual shareholders.

[16] If cross-listed shares are included, the market capitalization at the end of 2007 reached US$ 9.4 billion or 250 percent of GDP.

30. **To address the low liquidity and limited number of listed companies, the Barbados, Jamaica, and Trinidad and Tobago stock exchanges have developed the Caribbean Exchange Network (CXN) to be implemented in two phases**. Phase I involves a high speed communications network and common trading, clearing and settlement rules to facilitate trading across the three exchanges, although it does not integrate the three trading books. Trades will be cleared and settled between the exchanges' central securities depositories, with payments processed through a major bank operating in all three countries. Phase II would consolidate the three order books, with automated order routing. The linking of the exchanges may create operational interdependences across the jurisdictions. As trading volumes increase, the interconnections will place greater demands on the relevant regulators across jurisdictions, for effective and coordinated oversight of the exchanges, central depositories and clearing facility.

31. **The mutual fund industry is small, but has more than doubled in size between 2003 and 2007, aided by tax preferences.** In 2003, there were 12 funds with total net assets of BDS$298 million. At the end of 2007, there were total net assets of BDS$759 million in 14 mutual funds, including one closed end property fund listed on the BSE and 13 open-ended funds. Investments in mutual funds and credit unions that are held for at least five years attract a tax credit.

32. **Debt markets are underdeveloped.** From 2003 to 2007, there have been 28 public issues of corporate debt securities for a total of BDS$1,370 million, with slightly over 35 percent of the total being raised in 2006. The BSE facilitates secondary market trading of corporate and government debt securities, but trading is almost nonexistent. The yearly average total value of secondary market trades in government debentures and treasury bills recorded by the CBB as registrar between 2003 and 2007 was BDS$22.4 million. The average number of transfers recorded was 188 per year.

Regional Linkages and the Offshore Sector

33. **As in the rest of the Caribbean, the importance of regional and global financial linkages has continued to increase.** Motivation for financial linkages includes risk diversification, search for yield, and a desire to increase scale and achieve economies. Financial conglomerate activity in Barbados has accelerated in size and heterogeneity. The authorities also value the offshore sector as a source of employment for the professional sector and revenue for the government through license fees.

34. **Offshore financial institutions saw a rapid growth in 2007.** Total assets of offshore banks grew 15 percent in the first nine months of 2007 to BDS$94.78 billion and represented about 1,285 percent of GDP. Although there are currently 54 offshore banks, there is considerable concentration. The four largest offshore banks, all members of Canadian groups,[17] represent 75 percent of the system's assets, and the ten largest represent 91 percent. At the end of 2006, there were 441 insurance companies registered to carry on exempt or qualifying business in Barbados. However, of these only 181 exempt and 61 qualifying companies were active. The majority of these insurers is of U.S. and Canadian origin and is associated with either financial institutions in those domiciles or industrial firms. In the case of the industrial

[17] The four largest banks (in order) are CIBC Offshore Banking Services Corporation, Barrick International Bank Corp., National Bank of Canada (Global) Ltd and Bank of Montreal (Barbados) Ltd.

firms, the insurer is most likely to be a captive. In the case of the firms associated with financial institutions, some will be captives and some will be companies providing cover to the customer base of the institution.

35. **Offshore banks are a heterogeneous group.** They differ significantly in terms of size, capitalization structure, activity and presence in the region. Operations of the offshore service providers include: banks that take non-Barbadian third party deposits; those that offer treasury functions for their related organizations; wealth managers for high-net worth individuals; and a commodities broker.

36. **Offshore banks are insulated from the domestic banking system.** Their deposit-taking activities are highly circumscribed, thereby limiting their potential to destabilize the domestic financial system, and effective "Chinese walls" appear to exist between affiliated on- and offshore banks. Although some financial groups have both types of operations incorporated in Barbados, transactions between their on- and offshore entities appear to be limited or nonexistent. Domestic banks conduct operations only with residents while offshore banks are prohibited from doing business with local residents and operate only with international clients. Strict prohibitions on activities between on- and offshore banks and the incentive to comply, given the risk the loss of tax incentives (through the loss of their license), promote a distinct and separate offshore sector.

37. **Reputation risk is a concern among offshore financial institutions.** Foreign banks choose to establish an offshore subsidiary in Barbados not only for its tax advantages, but also for its reputation. Given the importance of reputation to the health of this sector, the CBB is advised to increase the number of staff at the CBB qualified to deal with the complexities of the offshore sector, and to establish closer working relationship with the home supervisors of foreign banks.

38. **Supervision of the offshore insurance sector is almost nonexistent.** Apart from filing the company's financial statement with the SOIP, little if any contact exists between the SOIP and the sector. Timely information from the sector appears to be problematic, as 2006 financial data had not been compiled at the time of this assessment. Due to resource constraints, there have been no onsite inspections or offsite analytical reviews of these entities. Given the number of entities, and the importance of maintaining reputation, then the opportunity to revisit the processes and build up the supervision of the offshore sector would seem important.

39. **The benefits of global and regional linkages have to be balanced with the risk of contagion, requiring greater cross-border supervisory coordination.** To avoid regulatory arbitrage and contagion risk, harmonization among regulators is paramount. Given the regional and international structure and operations of the commercial and offshore banks, the CBB has entered into a few MOUs that facilitate the sharing of information. A regional MOU was signed May 2004 among most of the Caribbean jurisdictions, with a number of jurisdictions, including the Eastern Caribbean Central Bank not yet a signatory. Despite the long standing presence of foreign banks in Barbados, the CBB does not yet have an MOU with either Canada or Bermuda. Also, closer communication with the Canadian financial sector supervisor (OSFI) in the case of banks and with the insurance supervisory staff in Trinidad in the case of insurance will provide the local authorities with a better understanding of the risks associated with the institutions that they supervise.

IV. Financial System Supervision and Regulation

40. **At the time of the mission, the authorities are reviewing a blueprint to reform the regulatory architecture by establishing a Financial Services Commission.** The previous Administration recommended the establishment of an FSC, which would bring together three supervisory agencies (the Supervisor of Insurance and Pensions, the Securities Commission, the Cooperatives Department) and the unit in the International Business Division of the Ministry of Economic Affairs and Development (MAED). Economies of scale and the strengthening of supervision of the non-bank financial sector were the main motivations for this initiative.

Bank Supervision

41. **The Bank Supervision Department (BSD) is shifting its scope of operations and the structure of its office to more effectively conduct risk-based supervision.** Currently, it is in a transitional phase, shifting from a pure off-site/on-site model to a portfolio approach. Responsibility for many institutions has been recently re-assigned, and guidelines addressing the existing risks are in various stages of development;[18] risk-based supervision is being implemented and the BSD is preparing to implement the Basel II capital accord.

42. **The BSD plans to implement Basel II from 2009 although it indicated a possible delay.** According to the BSD's plan, all licensees are required to implement the Standardized Approach for credit risk and market risk, and the Basic Indicator Approach or Standardized Approach for operational risk from 2009. The BSD intends to consider a possible transition to the Advanced approaches for credit risk after 2012. It is recommended that the BSD considers the results of a full-scale qualitative impact study and the risk weightings for retail credit and residential mortgage loans, as well as strengthening Pillar 2, in the planed implementation of Basel II; to prevent any undue reduction in the capital level of the Barbados banking system.

43. **In spite of progress since the 2002 FSAP, there is still room for improvement in bank regulation and supervision.** Some weaknesses identified in the BCP assessment include (i) outdated regulations (e.g., capital adequacy, asset classification and provisioning), (ii) deficiency of prudential rules on large exposures and exposures to related parties, (iii) the incomplete state of the supervisory framework (e.g., risk assessment model, prompt corrective actions) for risk based supervision, (iv) the lack of a broader scope for onsite inspections that would review banks' risk management activities, (v) a weak legal framework for consolidated supervision of banking groups and financial conglomerates, and (vi) the insufficiency of cross-border home/host cooperation.

44. **Improving the legal framework would facilitate improved consolidated supervision of banking groups and financial conglomerates**. In the short-term, it would be beneficial to complete MOUs with OSFI, Bermuda and other jurisdictions, expand and document home/host information sharing on risk profiles of parents and subsidiaries to assess the impact of parent/related party on Barbados banks, and conduct comprehensive scope, coordinated cross-border inspections of Barbados-based banks. In the medium-term, there is a need to establish

[18] Since the 2002 FSAP, 12 guidelines have been issued as of April 2008 and three more guidelines are expected to be issued. The current guidelines range from corporate governance, operational risk, outsourcing, AML, foreign exchange and settlement risk, electronic banking, liquidity risk, credit risk, country risk, and market risk.

clear legal framework for consolidated supervision of banking groups or financial conglomerates including explicit provisions on legal definition of a bank group and consolidated prudential rules or limits, strengthened surveillance of regional cross-border financial groups through more frequent and comprehensive group-wide risk assessment taking account of risk contagion across the region, and the development of multilateral MOUs specific to the most important holding companies or groups.

45. **There is no aggregate limit on banks' large exposures.** Exposures to a single person or group are limited to 25 percent of a bank's stated capital and reserves, and 10 percent of its stated capital and reserves for unsecured exposures. Although the authorities monitor large exposure limits for groups, there is no explicit legal provision dealing with an aggregate large exposure limit. The CBB indicated that it is working on introducing a regulation for an aggregate limit for such exposures. In addition, the CBB is encouraged to expand the guidelines on credit risk management to address concentration risk.

Securities Markets

46. **In 2001, a new SA was enacted leading to the creation of the Securities Commission, which is in charge of supervising and regulating the securities markets.** Market intermediaries, public companies, the BSE and the Barbados Central Securities Depository Inc. (CSD) all are required to be authorized under the SA by the Securities Commission. In 2002, the new MFA was proclaimed, governing the licensing and operation of mutual funds and mutual fund administrators.

47. **Owing to regional initiatives, such as the formation of CXN and IOSCO developments, the need for improvements in and harmonization of the relevant legislation has been recognized.** A committee has been meeting regularly to identify needed updates. In particular, gaps in the Commission's authority with respect to on-site supervision and information sharing were noted. The Securities Commission does not have rule-making authority or a general ability to grant exemptions and so cannot react quickly to changing market demands.

48. **The Securities Commission and BSE are both responsible for licensing and overseeing the activities of broker-dealers.** The Securities Commission does not perform an on-site visit prior to the applicant being licensed. The BSE confirms the appropriate books and records before granting approval to an applicant. Neither imposes a specific requirement that firms have adequate internal controls and risk management procedures or a compliance function. The Securities Commission has carried out limited on-site examinations of firms in collaboration with the CBB and is building capacity to perform regular inspections on its own. The BSE is developing an inspection program for its members.

49. **A recent takeover bid highlighted the need for updating and harmonizing the regulatory regime across the region and the application of local rules in a cross-border context.** The takeover bid regulations were made under the 2002 Companies Act and had functioned acceptably for friendly bid transactions. They proved to be less robust during a recent cross-border multiple bidder hostile takeover. The transaction also brought to the surface material differences between the requirements in Barbados and in Trinidad and Tobago, gaps in the overall regime and limits on the Commission's authority to obtain information. Also, the requirements of companies and insiders to disclose material transactions were brought into

question. Several industry members commented that the transaction, and how it was handled, had eroded market confidence.

Credit Unions

50. **The Registrar of Cooperatives and Friendly Societies is charged with the supervision and regulation of the credit unions and other cooperatives, and is slowly building capacity to conduct adequate supervision.** The Registrar's office has a staff of five supervisors responsible for the oversight of 34 institutions. The authorities have carried out joint Registrar-Cooperatives Department CBB inspections on an annual basis for each of the largest credit unions during 2003–2007. However, there were no planned inspections for 2008 which, given the capacity limitations of the Cooperatives Department, exposes the sector to inadequate oversight.

51. **The Cooperative Societies Act was amended in December 2007 and its regulations updated in January 2008.** In 2002, the authorities were weighing some amendments to the Act, among other things, to strengthen the supervision of credit unions. As an alternative, and recognizing their focus on financial services compared to the rest of the cooperative societies, the mission recommended the issuance of a specialized credit unions law. Specifically, such a law would better tailor the prudential oversight of credit unions, including through credit union-specific inspections, well-targeted regulations and guidelines, clear identification of permissible and prohibited activities, improved definition of the operations a credit union could undertake, and improved loan origination policies. It is unlikely that the amendments will serve as a good substitute for a dedicated Act.

Insurers

52. **The supervisory and regulatory standards with respect to the insurance sector in Barbados have, hitherto, relied primarily on the good faith of industry participants.** This approach exposes the sector to important risks. A single negative event may significantly damage the reputation of a jurisdiction in an increasingly regional and global market. Steps to formalize and improve regulation would help to protect the reputation and the charter value of the insurance business in Barbados from negative shocks.

53. **The authorities are in the process of improving supervision and regulation of the insurance sector.** The one material regulatory project that has been advanced since the 2002 FSAP is the development of additional capital requirements based on risk assessment. This includes the introduction of the Minimum Continuing Capital and Surplus Requirements for life companies, the Minimum Capital Test for general companies, and the Branch Adequacy of Assets Test for branches of foreign companies operating in Barbados. These provisions are part of the SOIP's proposed amendments to the Insurance Act Cap 310 and are expected to be finalized this year.

54. **Insurance supervision has added resources and commenced a limited on-site inspection program, but continues to need more resources and redesigned processes to enforce the current provisions in the law.** On-site inspections commenced in 2004, although they need to be supported by a more analytical, rather than compliance oriented, off- site analysis. This, in turn, will require better content and more timely information collection. Supervisory independence should be enhanced by greater transparency and public reporting and through the transition to the proposed FSC.

55. **Attention to the development of several standards and circulars would further enhance the observance of the IAIS principles.** In particular, standards on corporate governance, market conduct, internal controls (including asset and derivative controls, particularly in the case of the offshore market), asset and liability valuation, and a solvency standard for life insurers would lead to a considerable improvement in the observance of the principles.

Safety Nets and Crisis Management

56. **The CBB is the Lender of Last Resort. The authorities introduced a compulsory deposit insurance scheme in mid-2007 jointly funded by the CBB and DIC members.** The deposit insurance corporation (DIC) was established as a distinct separate entity from the CBB to manage the deposit insurance fund. This Fund covers up to BDS$25,000 (US$12,500) per depositor and per institution. Membership of the relevant institutions in the DIC is compulsory.

57. **Even though the Deposit Insurance Act also gives powers to the DIC to act as a liquidator of failed institutions, the CBB would continue to lead the liquidation process.** The 2006 FIA amendments grant the CBB more bank intervention and resolution powers. The DIC and the CBB are also drafting an MOU, which would include several cooperation areas and would clarify relations and procedures, including in case of an institution's failure. Going forward, both the CBB and the DIC will need to work on the design of early warning systems, a prompt corrective action framework, and resolution procedures to complete the safety net framework.

58. **Beyond the immediate steps required to diagnose and contain a financial crisis, the authorities need to have clear procedures for the subsequent process of resolving a crisis.** Ideally, such procedures should rely on least-cost criteria. There should be a clear understanding of the circumstances in which emergency lending arrangements for individual institutions should be used; when the provision of such assistance should give way to measures aimed at resolving a solvency problem; how alternative options for resolving such a problem should be selected and implemented; and various institutional arrangements, such as asset management corporations, or bridge banks should be designed and used in the resolution process. In addition, the authorities could establish protocols, based on regular "fire drills" with Caribbean and Canadian financial system supervisors, regarding crisis management procedures and the treatment of a failure of internationally active financial institutions.

59. **An important consideration in planning the response to a crisis would be consultation and co-ordination with overseas authorities, especially from Canada.** In the event of a crisis affecting a Barbadian financial institution with overseas affiliates, it would be important that foreign host authorities be informed. Likewise, in the event of a problem overseas affecting an affiliate of a Barbadian financial institution, it would be important to obtain information from the host and home authorities. In either case, all authorities need to establish a clear understanding regarding their respective roles, information needs, and co-ordination of actions. Exchange of information and consultation with regulatory authorities in Canada does not seem to be as fluid as it should be given the important presence of Canadian banks in Barbados.

V. Policy Priorities

60. **The key challenge for the authorities is to maintain the balance between the hitherto successful reliance on a conservative approach that has ensured both the stability and reputation of the Barbadian financial sector, and a dynamic response to the more regionally integrated future.** Currently, Barbados is able to maintain a leadership role in the region however, depending on how well it is able to respond to and take advantage of regional initiatives; it risks being overtaken in the longer term by more aggressive and flexible jurisdictions. As a result, whilst maintaining caution, proactive opportunities to ensure continuing leadership in the region could be beneficial.

61. **In the short term, Barbados' role in regional leadership will continue to be enhanced by proactively ensuring the fullest opportunity is taken from current and near term initiatives,** for example, as the authorities ensure that the CXN initiative is one that is lead by the Barbados authorities jointly with the other partners, and avoid any external perception that Barbados is follower. This will include the need to promptly resolve all outstanding regulatory issues in a proactive manner. Barbados can also leverage the usefulness of doing domestic crisis preparedness fire drills and contingency planning (recommended on stability grounds in any event) and improving home host supervision in the banking and insurance sectors by hosting regional discussions and initiatives on these issues. Thirdly, Barbados could take the lead in revisiting takeover regulations in the light of recent experience.

62. **In the medium term, continuing to enhance the regulation and supervision of the domestic financial sector will be the cornerstone of regional leadership. This will also support continued domestic stability and financial security from a shorter term perspective.** Key initiatives to enhance the regulation and supervision of the domestic sector that can be commenced in the short term include:

- **Updating regulations**. This includes, for banks, updating capital adequacy regulations, classification of assets and loss provisions and issuing new regulations on large exposures; related party transactions; licensing activities—to include holding companies. Enhancing the statutory powers of the Securities Commission to make legally binding rules, give exemptions, inspect and access information, and share information and otherwise cooperate with domestic and foreign supervisors. Requiring all registered securities market firms to have adequate internal control and risk management policies and procedures. Leading an initiative to update and harmonize takeover bid rules across the region at the exchange and statutory levels. Efforts to improve insurance supervision through the timeliness and usefulness of supervisory returns, and the development of standards and circulars to enhance the observance of the IAIS principles should have a high priority.[19] A specialist credit union law could be beneficial.

- **Accelerating development of risk based supervision** in the banking sector including the development of a risk assessment model and associated delineated supervisory strategy, and in the insurance sector through enhanced analysis capacity and processes.

[19] In particular, standards on corporate governance, market conduct, internal controls (including asset and derivative controls, particularly in the case of the offshore market), asset and liability valuation, and a solvency standard for life insurers would lead to a considerable improvement in the observance of the principles.

- **Implementing and maintaining a proper level of onsite inspections for banks,** insurers, credit unions, and firms registered under the securities acts.

- **Expanding and deepening information exchanges, supervisory cooperation, and coordinated cross border review** of institutions between Barbados and Canada (with respect to banks) and Trinidad and Tobago (with respect to insurers).

63. **The development of longer term investment markets would be beneficial to the wider economy.** A well targeted study to develop a strategy to improve both the supply and effective delivery of investable long term assets for the NIS and the life insurers would be a useful starting point for policy development. Both the NIS and the insurers have a substantial unmet need for longer term investable assets. The NIS's investment strategy should be also revisited in the light of their amended investment outlook as a result of the reforms. Both initiatives could be resourced through technical assistance that was oriented toward identifying and proposing recommendations to address limitations on capital market development.

64. **With a view to the longer term**, the following initiatives will enhance the financial sector reputation and capacity and provide a platform for development:

- **Increased independence and flexibility for the financial sector supervisors** to support a risk based supervisory model and to reflect the need for greater flexibility. In particular it is suggested that, for example, the authorities could be give rulemaking authority for the domestic market similar to that already in place in the International Financial Services Act; clearer, delegated authority from the MoF for the CBB; and elimination of the Minister's exemptive power under the MFA.

- **Specific improvements to facilitate group wide and consolidated supervision**: Establish clear legal framework for consolidated supervision of banking groups or financial conglomerates including explicit provisions on legal definition of a bank group and consolidated prudential rules or limits; strengthen surveillance of regional cross-border financial groups through more frequent and comprehensive group-wide risk assessment taking account of risk contagion across the region; and develop multilateral MOU for specific holding company or group.

ANNEX

Table 2. Selected Economic, Financial, and Social Indicators

I. Social and Demographic Indicators (most recent year)

Population (people in millions)	0.274	Adult literacy rate	99.4
Per capita GDP (in US$)	12,426	Population share below poverty line	13.0
Life expectancy at birth in years	75.4	Gini coefficient	42.0
Rank in UNDP Development Index	31	Unemployment rate	7.4

Main products, services and exports: tourism, financial services, rum, sugar, and chemicals.

II. Economic Indicators

	2004	2005	2006	Prel. 2007	Proj. 2008	2009
	(Annual percentage change)					
National accounts and prices						
Real GDP	4.8	4.3	3.3	3.3	2.3	2.0
Deflator	-0.2	2.3	2.8	3.5	8.7	5.7
Nominal GDP	4.5	6.7	6.2	6.8	11.2	7.8
CPI inflation (average)	1.4	6.1	7.3	4.0	9.0	5.9
CPI inflation (end of period)	4.3	7.3	5.7	4.8	8.6	3.2
Domestic demand (contribution to growth)	7.8	-2.8	-2.7	0.8	1.9	3.5
Foreign demand (contribution to growth)	-3.1	7.1	6.0	2.5	0.4	-1.5
External sector						
Exports of goods and services	5.5	21.8	8.6	7.8	8.3	5.4
Imports of goods and services	14.8	17.9	2.0	5.6	11.5	6.0
Real effective exchange rate (average)	-5.2	1.3	3.8	3.7	...	...
Terms of trade	-3.4	-5.9	-3.8	-0.3	-3.5	0.8
Money and credit (end of period)						
Net domestic assets	43.5	14.1	14.2	9.3	0.2	15.8
Of which: private sector credit	16.7	21.7	13.2	6.4	2.5	7.8
Broad money	17.4	6.9	11.3	13.2	2.8	13.7
Velocity (GDP relative to broad money)	1.2	1.2	1.1	1.1	1.2	1.1
Interest rate on deposits (average in percent per annum)	2.5	4.1	4.7	5.1	4.8	4.6
Interest rate on loans (average in percent per annum)	9.8	10.6	10.7	10.7	10.7	10.7
	(In percent of GDP, unless otherwise indicated)					
Public finances (fiscal year)						
Nonfinancial public sector overall balance	1.4	-3.6	-3.7	-5.0	-4.0	-3.0
Central Government						
Revenue and grants	33.1	35.1	34.2	34.9	35.3	35.1
Expenditure	35.7	36.4	36.3	38.9	37.5	37.3
Interests	4.6	4.8	5.0	4.9	5.2	5.1
Balance	-2.5	-1.3	-2.0	-4.0	-2.2	-2.2
NIS	3.6	3.7	4.2	4.2	3.8	4.3
Public enterprises	-1.0	-4.2	-2.0	-3.3	-3.6	-3.3
Off-budget activities	1.3	-1.9	-3.9	-2.0	-2.0	-1.8
Primary balance	4.5	-0.1	0.0	-1.4	-0.1	0.7
Debt						
Total external debt 1/	39.5	41.3	43.4	39.6	41.2	42.6
Public sector (fiscal year)	87.1	91.6	92.8	94.6	95.7	96.7
External	27.3	28.9	27.6	24.2	26.0	25.6
Domestic	59.8	62.8	65.2	70.4	69.7	71.1
Savings and investment						
Gross domestic investment	23.7	24.8	26.6	26.8	22.1	22.1
Public	7.5	6.9	7.6	7.5	5.6	5.6
Private	16.2	18.0	19.0	19.4	16.5	16.5
National savings	11.2	12.0	17.9	19.6	13.6	13.8
Public	8.9	3.2	3.9	1.0	1.6	2.5
Private	2.4	8.8	14.0	18.7	12.0	11.2
External savings	12.4	12.8	8.7	7.2	8.5	8.3
Balance of payments						
Current account	-12.4	-12.8	-8.7	-7.2	-8.5	-8.3
Capital and financial account	6.9	13.6	8.1	12.4	9.2	7.8
Official capital	-1.8	3.4	1.5	-1.2	1.7	1.5
Private capital 2/	8.6	10.2	6.6	13.6	7.5	6.3
Of which: long-term flows	1.2	1.0	13.7	9.7	4.9	4.0
Overall balance	-5.6	0.8	-0.7	5.2	0.7	-0.5
Memorandum items:						
Exchange rate (domestic currency/U.S. dollar)	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP (in millions of Barbados dollars)	5,634	6,010	6,382	6,818	7,582	8,173

Note: Table 2 shows data as prepared at the time of the mission. Most recently, the IMF World Economic Outlook projects GDP growth of 1.7 percent in 2008 and 1.0 percent in 2009.

Table 3. Financial Soundness Indicators of the Onshore Banking System 1/

	2003	2004	2005	2006	2007 2/
Solvency indicators					
Capital adequacy ratio 3/	-	14.5	13.0	12.0	10.8
Core capital adequacy ratio 3/ 4/	-	13.7	11.5	10.7	10.1
Nonperforming loans net of provisions to capital	16.3	21.2	21.1	17.4	10.1
Off-balance sheet obligations, percent of liabilities	2.5	1.8	2.5	3.4	2.1
Liquidity indicators					
Loan to deposit ratio	53.0	54.7	58.3	64.2	57.5
Demand deposits, percent of total deposits	37.9	39.1	38.5	36.6	35.3
Liquid assets, percent of total assets 5/	15.3	13.3	9.0	4.6	7.2
Credit risk indicators					
Total assets, annual growth rate	8.7	6.3	13.6	9.3	21.9
Loans and advances, annual growth rate	-2.3	15.8	22.0	15.5	11.4
Total mortgage loans, percent of loans and advances 6/	18.9	21.1	21.0	23.1	27.1
Nonperforming loans, percent of total loans	8.2	7.2	5.5	4.4	2.9
Provisions to nonperforming loans, percent of NPL	30.1	26.1	25.7	31.4	37.0
Sectoral distribution of loans to total loans					
Agricultural	1.5	1.0	1.1	1.1	1.0
Commercial	17.0	18.7	19.2	18.7	19.2
Construction	7.3	8.0	7.8	7.8	7.6
Consumer	43.3	43.5	44.3	45.9	47.3
Industrial	3.5	2.9	2.7	2.9	2.8
Tourism	24.2	21.5	22.7	20.8	19.9
Others	3.2	4.3	2.3	2.9	2.3
Foreign exchange risk indicators					
Global position in foreign currency to regulatory capital	17.1	7.7	-28.1	-5.0	-11.4
Share of foreign currency deposits in total deposits	17.8	18.8	21.8	22.5	22.4
Share of foreign currency loans in total credit	8.6	7.6	10.7	8.8	8.3
Deposits in Foreign Exchange, percent of total deposits 7/	13.2	14.4	16.7	14.2	17.3
Net foreign assets, percent of total assets	13.5	12.7	11.6	9.6	12.3
Profitability indicators					
ROA	2.1	2.4	2.1	2.6	2.3
ROE	21.3	23.2	25.2	27.6	21.4
Gross financial spread to financial revenues	24.0	28.0	28.4	32.8	24.4
Financial revenues to total revenues	71.5	73.3	65.6	55.7	50.8
Annualized financial revenues to revenue-generating assets	69.9	67.0	72.5	75.1	76.4
Profit before tax, percent of total assets	2.0	2.3	2.0	2.5	1.6
Total noninterest expense, percent of total assets	3.5	3.4	3.4	3.0	2.1
Spread between lending rate and deposit rate 8/	7.6	7.3	6.5	5.8	5.6
Operational efficiency					
Nonfinancial expenditure to total revenues	50.4	49.2	46.9	36.7	35.6
Nonfinancial expenditure to total revenue-generating assets	4.3	4.2	4.1	3.8	2.8
Memorandum Items:					
Banks' credit card loans to total loans	3.8	4.0	4.8	4.9	5.0
Banks' consumer loans to total loans 9/	27.2	27.7	28.1	28.6	24.1
Banks' mortgage loans to total loans	18.9	19.9	21.0	23.1	27.1
Banks' mortgage loans (BDS$ millions)	541.7	666.3	858.1	1089.1	1314.8
Trust & mortgage companies ' mortgage loans (BDS$ millions)	598.6	607.5	624.3	692.4	741.9
Banks' mortgage loans, growth rate	17.2	23.0	28.8	26.9	20.7
Banks' credit cards loans, growth rate	-	21.6	47.6	17.6	7.0
Banks' consumer instalment credit, growth rate 10/	-2.4	35.3	27.3	20.0	-2.3

1/ As of Sep. 2007, the two foreign branches are Bank of Nova Scotia and Royal Bank of Canada; and the four foreign subsidiaries are Barbados National Bank, Butterfield Bank, RBTT Bank, and First
2/ Preliminary data as of September 2007.
3/ Does not include branches of foreign banks.
4/ Tier-I capital.
5/ Sum of excess cash reserve requirements and excess of the statutory requirement to invest in government securities in percent of total assets.
6/ Other loans, including personal loans, may be used to finance real estate activities.
7/ It includes both resident and non-resident deposits in foreign currency.
8/ This spread does not fully reflect the intermediation margin due to fees, commissions, etc.
9/ Consumer loans excluding mortgages.
10/ It includes car loans, durable goods loans, home improvement loans and debt consolidation loans.

Table 4. Financial Sector Structure

	2003	2004	2005	2006	2007 1/
Number of Institutions					
Banks 2/	6	6	6	6	6
Domestic private banks	0	0	0	0	0
Public banks	0	0	0	0	0
Foreign banks	6	6	6	6	6
Branches	2	2	2	2	2
Subsidiaries	4	4	4	4	4
Non-bank Financial Institutions	14	13	13	13	13
Credit unions	39	38	37	37	34
Offshore banks	52	55	54	52	57
Insurance companies 3/	-	-	-	31	31
Assets (as percent of GDP)					
Banks	126.4	129.3	134.2	132.2	141.8
Branches	44.9	45.7	53.2	51.3	54.2
Subsidiaries	81.5	83.6	80.9	80.9	87.6
Nonbank financial institutions	20.0	20.9	24.5	22.6	22.5
Credit unions	11.5	12.9	13.6	13.9	14.7
Offshore banks	1164.5	1102.4	1029.4	1202.6	1285.1
Insurance companies 4/	15.7	20.5	28.5	27.8	-

1/ Preliminary data as of September 2007

2/ As of Sep. 2007, the two foreign branches are Bank of Nova Scotia and Royal Bank of Canada; and the four foreign subsidiaries are Barbados National Bank, Butterfield Bank, RBTT Bank, and First Caribbean International Bank.

3/ As of 2006, seven of the 11 life companies, and 16 general insurance companies were actively writing business.
4/ Investment Assets of domestic general insurance and life insurance companies.

Table 5. Onshore Banks and their Parent Institutions

Commercial Banks incorporated in Barbados	Affiliated Financial Conglomerate	Headquarter
First Caribbean International Bank (Barbados) Ltd (FCIBB) [1]	CIBC	Canada
Barbados National Bank Inc. (BNB)	Republic Bank of Trinidad and Tobago	Trinidad and Tobago
RBC Royal Bank of Canada (RBC)	RBC Royal Bank of Canada	Canada
Bank of Nova Scotia (BNS)	Scotiabank	Canada
Royal Bank of Trinidad and Tobago Bank (Barbados) Ltd (RBTT)	RBTT Financial Holdings Ltd	Trinidad and Tobago
Butterfield Bank (Barbados) Ltd (BBL)	The Bank of N.T. Butterfield & Son Ltd	Bermuda

[1] FCIBB is owned by First Caribbean International Bank, a holding company that consolidates regional operations in Barbados.

Table 6. Credit Union Indicators

	Sep-03	Sep-04	Sep-05	Sep-06	Sep-07
I. Structure of the Credit Union Sector					
Number of Institutions	39	38	37	37	34
Number of Members	107,417	118,472	129,129	139,639	148,864
Share of the 3 largest credit unions, percent	73	83	84	84	85
Assets (as percentage of GDP)	11.5	12.9	13.6	13.9	14.7
Assets (as percentage of GDP, 3 largest credit unions)	8.4	9.6	10.2	10.7	11.4
Loans (as percentage of GDP)	8.0	9.5	10.6	10.9	11.5
Loans (as percentage of GDP, 3 largest credit unions)	5.9	7.3	8.3	8.7	9.2
II. Selected Financial Soundness Indicators					
Solvency indicators					
Reserves to total Liabilities 2/	12.4	12.1	11.6	12.3	12
Liquidity indicators					
Loan to deposit ratio	78.0	82.2	87.0	88.1	87.0
On call deposits, percent of total deposits		N/A			36.9
Liquid Assets to short-term liabilities					57.7
Credit risk indicators					
Total assets, annual growth rate	9.2	17.4	15.3	13.6	13.8
Loans, annual growth rate	-	24.1	22.6	14.3	12.8
Total mortgage loans, percent of loans	34.1	34.3	39.9	39.6	N/A
Nonperforming loans, percent of total loans	6.0	5.0	4.0	5.0	6.0
Provisions for Nonperforming loans, percent of total loans		N/A			31

Source: Registrar of Cooperatives.

Table 7. Mutual Funds—Total Assets under Management

(as at end of year, unless otherwise indicated)

	2003	2004	2005	2006	2007
Number of mutual funds	12	12	14	14	14
Net Assets (millions BDS$)	$298.3	n/a	$502.9[1/]	$611.9	$758.9
Number of mutual fund administrators	n/a	n/a	n/a	n/a	4

Source: BSE and Securities Commission.

[1/] As at October 31, 2005.

Table 8. Insurance Sector: Summary Statistics

Year	2001	2002	2003	2004	2005	2006
Domestic sector						
General Insurance						
Gross written premia BDS$ million	310.0	348.9	343.2	360.8	418.0	467.4
As a percent of GDP	6.0	6.9	6.3	6.4	6.8	7.0
Investment assets BDS$ million	280.0	331.2	354.9	400.2	413.8	481.4
As a percent of GDP	5.4	6.6	6.5	7.1	6.7	7.2
Life Insurance						
Gross written premia BDS$ million	141.6	172.0	179.1	186.9	213.6	224.3
As a percent of GDP	2.8	3.4	3.3	3.3	3.5	3.3
Investment assets BDS$ million	492.9	426.0	499.4	754.9	1332.7	1374.6
As a percent of GDP	9.6	8.4	9.2	13.4	21.8	20.6
Offshore Sector [20]						
Net premiums (BDS$ billion)	7.89	5.92	8.84	8.39	8.54	6.30
Assets	17.903	24.075	26.40	39.97	35.39	25.68

Source: Ministry of Finance; Supervisor of Insurance—unpublished data.[21]

Table 9. Insurance Sector: Asset Composition—Life Insurance

Year	2001	2002	2003	2004	2005*	2006**
Bonds and debentures	22.54	21.19	24.23	27.00	34.00	35.59
Ordinary shares	14.43	26.03	26.19	23.00	21.00	16.54
Preference shares	0.03	0.09	0.07	0.00	0.00	0.06
Mortgages and Loans	22.31	20.98	17.69	13.00	21.00	22.74
Real estate and leaseholds	8.51	6.41	10.33	10.00	10.00	9.48
Cash balances	15.35	21.76	18.40	20.00	11.00	12.53
Other instruments	16.83	3.54	3.09	7.00	3.00	3.06
Total	100.00	100.00	100.00	186.9	213.6	100.00

Source: Ministry of Finance; Supervisor of Insurance—unpublished data.

[20] Totals for 2006 only includes companies from U.S. and Canada.
[21] Figures for 2006 are, in some cases, not available and in other cases represent estimates.

Table 10. Insurance Sector: Asset Composition—Non-Life Insurance

	2001	2002	2003	2004	2005*	2006**
Bonds and debentures	24.05	24.17	29.31	32.70	35.63	34.17
Ordinary shares	13.68	10.94	11.50	13.62	12.00	7.03
Preference shares	0.58	0.65	0.60	0.54	0.43	0.00
Mortgages and Loans	5.20	7.89	6.86	5.75	4.11	5.80
Real estate and leaseholds	13.83	14.18	15.10	14.54	11.69	7.65
Cash balances	33.75	31.15	26.71	23.58	25.89	36.66
Other instruments	8.93	11.02	9.92	9.27	10.25	8.69
Total	100.00	100.00	100.00	186.9	213.6	100.00

Source: Ministry of Finance; Supervisor of Insurance—unpublished data.

[1] Figures for 2006 are, in some cases, not available and in other cases represent estimates.

Table 11. BSE Main Indicators 2003–2007

	2003	2004	2005	2006	2007
Number of listed companies—Total	24	24	26	27	26
Number of listed companies—Regular market	22	22	25	26	25
Number of listed companies—Junior market	2	2	1	1	1
Number of cross listed companies	5	5	6	7	6
Number of instruments listed[1/]	25	25	27	28	27
Number of new issues	1	0	1[2/]	1	0
Value of new issues (millions BDS$)	455.0	0	556.1	409.0	0
Number of brokers	n/a	n/a	n/a	9	7
Market Capitalization[3/] (millions BDS$)	9,920.9	12,145.9	22,784.9	20,516.1	18,857.7
Market Capitalization (% of GDP)	184.1	215.0	368.5	299.0	255.7
Total annual trading volume (millions of shares)	130.3	122.3	44.7	643.4	162.4
Total annual trading value (millions BDS$)	394.8	190.1	100.6	2,072.9	597.3
Annual turnover[4/] (%)	3.25	2.21	0.85	10.10	3.17
Nominal GDP (millions BDS$)	5,389.0	5,648.0	6,183.0	6,860.9	7,375.1

Source: BSE and Securities Commission.

1/ One is a closed end fund, the rest are equities.
2/ Cross listing of Jamaican company.
3/ Includes cross-listed securities.
4/ Total Trading Value/ Composite Market Capitalization.

Table 12. Follow-Up on Key Recommendations of the 2002 FSAP

FSAP Recommendations	Status as of April 2008
Banking Sector	
Financial Institutions Act: The FIA should be amended to strengthen the independence of CBB, impose aggregate limits on large exposure and connected lending, facilitate license revocation and distressed bank resolution, and require CBB's prior approval of the external auditor for licensees.	The FIA (Amendment, 2006) did not address the independence of CBB, aggregate limits on large exposure and connected lending and license revocation. Distressed bank resolution and CBB's prior approval of the external auditor were addressed in the amendment. Most of the outstanding items are in a proposed amendment currently being worked on by the CBB.
On-site examinations: Supervisory resources of the CBB should be boosted to enable it to conduct regular onsite examinations of all onshore and offshore banks on an 18–24 months cycle.	BSD's supervisory staff has increased from 28 at 2002 to 32 at March 2008. However, regular on site examination cycle has lengthened due to an increase in other mandates.
Deposit Insurance Act: The potential for financial instability may be contained by a well designed deposit insurance scheme in a properly supervised banking system.	The deposit insurance scheme was introduced in mid-2007 for institutions licensed under the FIA. It covers up to BDS$25,000 per depositor and per institution, and its fund represents about 0.2 percent of total deposits. Aspects related to the organization, the MOU with the Central Bank; and staffing are in progress.
Credit Unions	
CBB assisted on site examinations: A high priority should be assigned to completing the CBB assisted on site examinations of the five large credit unions and such examinations should be made regular.	The focus of the joint inspections has shifted from the largest five to the largest two credit unions. The two largest are not being inspected on an annual basis. Consideration should be given to adding the third largest to the joint inspection process as it has significantly higher assets than its peers (medium sized category).
Credit Union Law: Consideration could be given to introducing a separate credit unions law in light of the experience gained with these examinations. In the meantime, the capacity of the Registrar of Cooperatives to effectively supervise credit unions should be strengthened.	The Cooperative Societies Act was amended in December 2007 and its regulations updated in January 2008, however, the amendments are unlikely to serve as a good substitute for a dedicated Act. Plans are being considered to establish a Financial Services Commission which will bring under one roof the supervision of all nonblank institutions, including the insurance companies, credit unions, and the stock exchange. The IDB project will provide training in risk based supervision to the Cooperatives Department.
Insurance Sector	
Supervisory resources: Supervisory resources need to be increased to allow the instigation of an on-site inspection process supported by a more analytical off-site review using timely and sufficiently detailed returns from companies.	On-site inspections commenced in 2004. However, these inspections need to be supported by a more analytical off-site review, with attention to standard procedures, rather than compliance oriented off site analysis. This, in turn, will require better content and more timely information collection. Staff has increased since the last assessment; however four positions created in 2006 have yet to be filled.
Solvency margins: A solvency margin requirement can be developed for life insurance companies which, if supplemented by a review of provisioning rules and asset requirements will greatly improve the regulatory framework.	Proposed amendments regarding solvency margins and capital requirements have been drafted but not implemented.

FSAP Recommendations	Status as of April 2008
Circulars: The development of several circulars would codify presumed understandings between market participants and the supervisor. In particular, attention to corporate governance and internal controls would offer ready improvement. Such circulars would assist in ensuring that reputational risk is minimized.	Several circulars and standards were recommended from the previous assessment, in particular, standards on corporate governance, market conduct, internal controls (including asset and derivative controls, particularly in the case of the offshore market), asset and liability valuation. Except for one circular covering segregated cell companies distributed in October 2007, no other circulars were issued.
Independence and Transparency: The supervisor has not published information about the operations of the office or the market. A draft has been prepared. Improved transparency would promote independence and would be the most cost effective way to deliver better compliance with the core principles.	Returns from the industry continue to be delinquent. At the time of this assessment, the Supervisor of Insurance's 2005 Report was still in draft form. The 2006 information had not been compiled. The Financial Services Commission (the single regulatory agency of the nonbank sector), which has not been approved as of the date of this re-assessment. If approved, it will increase the independence and transparency of the regulation of the insurance sector.
Capital Markets	
Securities Commission: The new legislation and the authorities' efforts to promote a more efficient and transparent market have been reflected in the assessment of the IOSCO Principles. Full implementation of many of the Principles requires effective exercise of the SC's powers in practice. However, as the SC is not yet fully staffed or operational, this is not yet in place.	The authorities report that inspection and enforcement of the Securities Act has improved since the Securities Commission became fully operational in 2003. Some joint inspections done with CBB. Three new inspection/compliance examiners to be added in 2008 and own inspection program to commence. BSE in process of establishing own inspection program for member brokers.
Public company reporting: Disclosure could be improved by immediate disclosure of material events by public companies and immediate disclosure of transactions in company's securities by insiders of company.	No change.
Securities settlement period: Securities clearing and settlement should move toward DVP principles and T+3 settlement cycle.	Effective January 1st 2006, the securities clearing and settlement cycle was reduced to T+3, or three business days after trade day.