

DeLisle Worrell: In praise of foreign banks

Address by Dr DeLisle Worrell, Governor of the Central Bank of Barbados, at the Re-opening of CIBC FirstCaribbean's Wildey Branch, Wildley, Bridgetown, 9 August 2011.

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Barbados is fortunate to have banking system composed entirely of foreign banks:

- Canadian banks in particular are of high repute internationally, and they dominate our system;
- Canadian banks have survived the international financial crisis in better shape than most large financial institutions in the industrial world;
- their size relative to the Barbados market means that they can contemplate projects of a magnitude that a domestically owned bank could not;
- the impact of recession on credit quality is more easily absorbed, with no real danger of severe loss of capital or danger of insolvency, when a bank has the backing of a large parent;
- local subsidiaries and branches of Canadian banks have to meet the regulatory standards of the Canadian Office of the Supervisor of Financial Institutions, so there is an additional guarantee of internationally acceptable standards of lending, asset management, risk management and financial reporting. I say additional, because the Central Bank of Barbados supervises the local subsidiaries according to the standards of the Basel Committee of Banking Supervision. Over the years The Central Bank of Barbados has had very good relationships with commercial banks.

The principle which undergirds our policy making is one of cooperation, based on a common understanding of the economic and financial circumstances the country faces. This approach has served us well in the past. For example, during the 1991 balance of payments crisis short term foreign currency borrowings from commercial banks filled in the gap in the Central Bank's Foreign exchange reserves during an interim period of several months while a programme of financial assistance from the IMF was under negotiation.

More recently, we have stepped up our collaboration with banks and other financial institutions, as well as with other financial regulators. Last year in October we held a one day conference of all financial institutions and financial regulators in Barbados, to discuss presentations on topics of immediate importance to the performance and resilience of the financial system. This is intended to be an annual event and we are planning for this year's conference, to be held on November 3. At that meeting we will discuss the health of the financial sector, our common interests as financial institutions, regulators and citizens, and what policy changes may be helpful in charting the way forward. The conference supplements meetings that the Central Bank arranges with commercial banks as a group and one-on-one, quarterly and on an ad hoc basis.

The Central bank of Barbados is very conscious that policy is about creating the right incentives to guide the actions of corporations and individuals in directions which will add value to the economy, by virtue of their mutual transactions and with those with whom we do business abroad. The GDP is, after all, the sum of the value created by the actions of individuals and corporations. It is the job of the policy maker to provide incentives which guide decisions about economic transactions in directions which add value.

It is for this reason that we place so much emphasis on information and analysis, and in sending a clear message about our understanding of the economy and how it functions. This has to be an evolving process, because we live in a very dynamic world where established norms and practices become outmoded, and where we have no choice but to chart our

course in uncertain waters. Just last Friday the lowest-risk securities in the world, those issued by the Government of the USA, no longer became the lowest risk securities in the world, at least in the view of one authority on these matters. The best way to deal with unavoidable uncertainty is through thorough discussion of all the information that can be had on the issue of interest, and that is the spirit in which the Central Bank interacts with the banking system.

We are pleased that FCIB continues to be a leading partner with us and other financial institutions in our collaborative management of our nation's financial affairs, and we welcome the reopening of the Wildey branch of your bank as evidence that your parent's long-established commitment to the Barbadian economy remains as strong as ever. We look forward to many more fruitful years of collaboration. I trust your bank will continue to prosper and be profitable, and that you will find irresistible incentives to deploy those profits right here in the Caribbean.