DeLisle Worrell: Developments in the global financial sector with implications for regulators and financial institutions

Introductory remarks by Dr DeLisle Worrell, Governor of the Central Bank of Barbados, at the 4th Annual Domestic Financial Institutions Seminar, Bridgetown, 11 September 2013.

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The conference offers an opportunity to reflect on developments in the financial sector at home and abroad, and on their implications for policy changes by regulators, and for the strategies of financial institutions. The presentations at conferences such as this one may serve as background material for policy making and strategic planning, and they may suggest to us topics to be added to our agenda for further study. On some topics we will be reporting on recent developments, while on others we will be sharing thoughts and ideas that are yet in the process of development. Among the major challenges of today's world is the challenge of change, and an occasion like this one provides a forum for us to share perspectives on where changes to the financial sector are heading, and what we may need to do about them, at the individual and at the regulatory levels. In addition to the topics on which formal presentations will be made, participants are encouraged to raise any pertinent issue which we might fruitfully discuss, and put on our agenda for further discussion.

On the whole we may be satisfied that we have a financial system that suits our needs, performs well and is well supervised. We keep up to date with international best practices and we keep our eyes on all the circumstances and developments, domestic, regional and international, that could have adverse effects on our financial system.

Our financial system has a full range of services for the needs of households, for savings, mortgages, purchase of consumer durables, insurance and payments. Established businesses are also well served, with finance for equipment, office space and working capital.

These services are delivered by financial institutions in which consumers may have confidence. They are all supervised either by the Financial Services Commission (FSC) or the Central Bank, and they report regularly to the supervisor on their operations. We the supervisors carry out examinations to verify that our financial institutions operate to standards of international best practice.

The Central Bank and the FSC collaborate closely to maintain oversight of the financial system as a whole. This collaboration, recently formalised in a Memorandum of Understanding signed jointly between the Bank and the FSC, predates the FSC, and was reflected in links between the earlier regulatory bodies. Twice per year the regulators conduct a comprehensive evaluation of the health of the financial system, and put in place any measures that may from time to time be necessary to address any elevated risks to the system, whether from internal sources or from abroad. Each year a Financial Stability Report is published, reporting on the health of the system, with an update at mid-year. Today we share with you the report of our mid-year assessment.

We are well aware that there are ways in which our financial system needs to be improved. We have never had a perfectly competitive financial system, and if we are realistic we will admit that our financial sector is too small to attract many players. We should think of other ways to encourage higher levels of service and efficiency on the part of financial institutions.

As you know, individual savers do not do very well at commercial banks, earning 2.5 percent on savings only because the Central Bank stipulates that minimum. It is no secret that banks are unhappy that there is a minimum at all. I am suggesting to individuals that, for all their rainy day savings, they consider Government savings bonds instead. Savings bonds are just as convenient as savings deposits, because you buy them at commercial banks, and they are just as liquid as savings deposits, because you can cash them in at any time. However, if you hold them for the full five years of their maturity you earn an interest rate in the region of 5 percent, compounded over 5 years.

One area which our financial sector does not serve very well is the financing of innovation and of small and medium enterprises. This is an area of exceptionally high risk, into which conventional financial institutions no longer have any incentive to enter. The stipulations for reserves and provisions against possible loss are now so stringent that even small portfolio allocations for high risk high return propositions may no longer be viable. Conventional institutions, even insurance companies and others with a long horizon, may not be the best sources of funds for SMEs in their initial years. New firms should start with equity funding, so as to avoid debt service obligations during the formative period of the enterprise, before it has a regular clientele and a dependable cash flow. Some new firms have been successful in finding equity, in spite of the absence of an organised market for venture capital in Barbados, and some capital has been provided, over the years, by NGOs and others. We need to continue the search for better arrangements for equity funding of new ventures.

There are issues which are of current importance which are not on today's programme because we need to give more thought to them. An important one is the unanticipated consequences of international financial reform for emerging market economies like Barbados. We are discussing this issue at the Regional Consultative Group for the Americas of the Financial Stability Board, and we will place this item on our agenda going forward.

Also for the future agenda are ongoing projects to improve regional financial surveillance and to put in place formal mechanisms to actively manage any future difficulties of financial institutions that are regional in scope. These efforts are being coordinated by the Caribbean Centre for Money and Finance.

As we look forward to a day of fruitful discussion, I urge everyone to view this as a waystation in our ongoing journey of financial development. This is an opportunity for thoughtful reflection about what we have achieved since last year, and about what lies ahead. I trust we will all leave this meeting with a clearer vision for our future.