

Timothy Ridley: Look forward briefing - 2005/2006

Remarks by Mr Timothy Ridley, Chairman of the Cayman Islands Monetary Authority, to the Cayman Islands Bankers Association, Grand Cayman, 20 July 2005.

* * *

I hope this will be the first of regular annual look forward briefings to the industry at the beginning of the Authority's fiscal year in July.

First, let me be contrarian by looking back over the past year. The Authority and the financial sector held up well after Hurricane Ivan and all credit must go to everyone who played a part in that process. The banking and fiduciary services divisions had a relatively flat year; investments and securities and insurance provided the growth. We anticipate that these two divisions will continue to perform dynamically.

Total collected licence fee revenue increased to CI\$47 million, up from CI\$46 million for the prior year. Our costs increased from CI\$8.08 million to CI\$9.40 million. When the income on the currency reserves and the currency exchange facility of CI\$1.875 million is included, the Authority provided net revenue to the Government of CI\$38.48/US\$46.93 million. This is a significant direct contribution.

Now let me turn to the immediate future. We estimate licence fee income increasing by about CI\$2 million to CI\$49 million driven principally by continued growth in the insurance and investment and securities divisions. Investment income on the Currency Reserve should also increase as US\$ interest rates continue to rise. Our costs are currently budgeted to increase by about CI\$2.8 million to CI\$12.2 million, primarily driven by the hiring of additional staff to enable us to fulfil our statutory functions and to handle the growth in the captive and fund industries.

The principal statutory functions of the Authority are:

- Monetary function, namely to issue and redeem currency notes and coins and to manage the Currency Reserve;
- Regulatory function, namely to regulate and supervise financial services business, and to monitor compliance with the Money Laundering Regulations (2003 Revision);
- Co-operative function, namely to assist overseas regulatory authorities;
- Advisory function, namely to advise the Government on the foregoing matters, and
- in particular with regard to their consistency with other jurisdictions, and with
- regard to the recommendations of international organisations.

The mission of the Authority is to enhance the economic wealth and reputation of the Cayman Islands by fostering a thriving and growing, competitive and internationally recognised financial services industry through appropriate, responsive, cost-effective and efficient supervision and a stable currency.

In 2004, the Authority set the following goals and execution plans in order to achieve its mission:

1. **GOAL: Create a high quality and effective regulatory environment to attract users and providers of financial services.**

Objective I:

- To ensure that the laws and regulations and scope of supervision are in line with international standards that are appropriate for the Cayman Islands.

Strategies

- Implement a process to evaluate existing legislation and propose, as necessary, changes in relation to international standards relevant to the Cayman Islands financial industry.

- Implement an on-going process of review in order to ensure that the supervisory process is competitive in comparison with other offshore jurisdictions.

Tactics

- Establish working parties (on a cross divisional basis) headed by a representative from the Management Committee ("MC"); conduct comparative studies of the laws and regulations of other jurisdictions; identify shortcomings of own legislation (from compliance cases, on-site inspections etc) in the review process; advise the Cabinet, through the Financial Secretary, of proposals to amend or introduce legislation to address any deficiencies identified.
- Set up working parties (on a cross divisional basis) headed by a representative from the MC; conduct comparative studies of the supervisory process in other jurisdictions in order to evaluate the appropriateness of the supervisory process in respect of both international standards and from a competitive stance.

Important current projects 05/06

- Complete submission of internal task force reports to Government
- Continued assessment of regulatory laws and regulations against international benchmarks relevant to the Cayman Islands industry
- Enactment of technical amendments to regulatory laws (as agreed with industry and Government)
- Complete and implement the recommendations of the Mutual Fund Working Group
- Consult with industry and Government on Post-Ivan Insurance Report
- Working Group on Insurance Law (to review and report on proposed recommendations for change)
- Working Group on Unregulated & Exempt Entities and Corporate Service Providers
- Creation of data base of laws and regulations of competitor jurisdictions
- Creation of data base of competitor jurisdiction fees
- Issue of Statement of Guidance on Business Continuity Plans
- Issue of Rules for filing of statutory returns by all licensees
- Consultation with industry on Basel II
- Consultation with industry on proposed Rules for banks regarding credit risk, interest rate risk, large exposures, loan loss provisioning, liquidity risk, country risk and investments risk
- Consultation with industry on proposed Statement of Guidance or Rule on market risk for banks

Objective 2:

- To assist overseas regulators in a manner consistent with Cayman Islands laws.

Strategy

- Enhance international regulatory co-operation through the development and application of a clear and transparent process for providing assistance under the laws of the Cayman Islands.

Tactic

- Negotiate and devise Memorandum of Understanding ("MOU") and other agreements, which are congruent with Cayman laws, with relevant parties.

- Establish a centralized internal filing system for the accurate maintenance of overseas requests for assistance, MOU's and other documentation facilitating ease of access and retrieval for appropriate Authority users.
- Establish internal procedures and performance standards for responding to information requests.

Important current projects 05/06

- Pursue membership in IOSCO
- Actively negotiate MOU's with various qualified foreign regulators. We have recently signed MOU's with Bermuda and Jersey and an Agreement with the SEC.
- Analyse cross-border exchange of information regimes in other relevant jurisdictions

Objective 3:

- To be responsive to appropriate needs of the market.

Strategy:

- Monitor the local and international market in order to identify and understand the needs of stakeholders both locally and internationally.

Tactic:

- Conduct regular meetings with stakeholders; monitor developments in local and international markets; conduct cost benefit analyses in order to identify appropriate action.

Important current projects 05/06

- Review and report of Guidance Notes on the Prevention and Detection of Money Laundering in the Cayman Islands (to assess the effectiveness and cost-benefits of the Guidance Notes with the aim of developing a more sophisticated risk-based approach.)
- Issue specific AML guidance to money service businesses
- Issue enhanced guidance to the insurance industry on customer identification
- Working Group on trust company and company managers' fees
- Consideration of new Category of Trust Licences (for special or single purpose vehicles, debt-issuing trustee, and for unit trusts)
- Issue of consultation paper on licensing policy and criteria for privately owned banks

2. GOAL: to operate the Authority in the most efficient way possible.

Objective 1:

- To secure adequate resources and deploy them efficiently in the fulfillment of the Authority's mandate.

Strategy:

- Identify the resources needed to satisfy Authority's mandate.
- Enhance dialogue with the Cabinet in order to ensure that the Cabinet is fully aware of the resource needs of the Authority.

Tactic:

- Monitor and evaluate the effectiveness of existing resources in meeting the agreed outputs of the Authority against pre-determined performance and efficiency indicators. Identify any shortfalls and/or inefficiencies in resource utilization.
- On-going review of agreed outputs and adequacy of resources to meet increasing demands.
- Formalise the dialogue process with the Cabinet through a MOU with the Portfolio of Finance.

Important current projects 05/06

- Implement effective budgeting process with Government through annual Ownership and Purchase Agreements
- Implement regular meetings with the Financial Secretary and Cabinet representatives
- Implement enhanced methodology for determination of staffing needs
- Implement enhanced risk-based approach to supervision of licensees
- Improve fee collection procedure
- Implement time management system
- Actively pursue Cat 5 building
- Complete business continuity plan
- Analyse possibility of fee charging for specific services/functions
- Review and upgrade of information systems
- Consideration of electronic reporting system for audited accounts and prudential returns

3. GOAL: To preserve the value and integrity of the Cayman Islands' currency.

Objective 1:

- Maintain and safeguard adequate reserves.

Strategy

- On-going review of the Authority's investment strategy.

Tactic

- Periodic review of investment strategy
- Monitor adherence to the investment strategy and advise of any deviations.

Objective 2:

- Deter counterfeiting.

Strategy

- Educate and train Currency personnel and the general public.

Tactic

- Training of Currency personnel in fraud and counterfeiting detection to ensure they are kept abreast of the latest trends; continuation of relationship with Commercial Crime Unit; education of the general public via website advisories, press releases and workshops.

Important current projects 05/06

- Research paper with analysis and recommendations regarding design and security features for currency
- Research paper with analysis and recommendations regarding design of vaults and cash handling facilities

Objective 3:

- Provide adequate stock and facilities for the physical safeguarding of the currency.

Strategy

- Advise the Cabinet on what constitutes appropriately secure facilities for the safeguarding of the currency.
- Ensure that the working environment is safe and conducive to an efficient operation.
- Ensure that stock levels are adequate to meet demand in all circumstances

Tactic

- Identify suitable accommodation.
- Identify and implement an appropriate electronic vault management system

Important current projects 05/06

- Research paper with analysis and recommendations regarding disaster recovery back up stocks
- Paper establishing proposal(s) for methodology of ordering new currency

4. GOAL: To raise the profile in order to increase understanding of the Authority both locally and internationally.

Objective 1:

- Strengthen relations with regulatory counterparts, and all other stakeholders (the government, the industry and the public).

Strategy:

- Involvement in relevant international fora; coordination with local private sector organizations and Government bodies (e.g. the Secretariat) to address the regulatory aspects of the international initiatives.
- Establish an educational campaign to educate general public on role and responsibilities of the Authority; work with the Complaints Commissioner in ensuring that the Authority is cognizant of the opinions of the general public and how the Authority is perceived.

Tactics:

- Identify appropriate fora that add value to the regulatory process; ensure that relationships are forged with the Cabinet/private sector and that appropriate information is disseminated.
- Utilise the Authority's website to disseminate information.
- Publish regular features in local and international media to ensure the Authority maintains a high and positive profile locally and overseas.
- Participation of senior management team in local and international conferences/workshops.

- Expand educational initiatives beyond local high school to other educational establishments both locally and overseas. Participate in careers fairs, information seminars, mentoring schemes.
- All Directors to take every opportunity to promote the work of the Authority which would include speaking engagements and attending functions.

Important current projects 05/06

- Implementation of enhanced website
- Addition to web-site of F.A.Q's that provide key guidance and assistance to prospective and existing investors and consumers regarding regulation and consumer protection.
- Publication of Procedure for Complaints against the Authority
- Expand publication of enforcement actions
- Annual update and reissue of Regulatory Handbook
- Continuation of regular lunches with industry associations
- Implementation of regular lunches with industry leaders and Government

Scheduled Meetings and Conferences to be attended by Authority delegates in 2005-06

- Offshore Group of Banking Supervisors
- Caribbean Group of Bank Supervisors
- Association of Supervisors of the Banks of the Americas
- International Conference of Banking Supervisors
- Cross Border Working Group
- Money Laundering Alert Conference
- SEC Enforcement and Market Oversight
- Insolvency Conference
- International Commercial Cash Operating System Conference
- Medical Liability Forum
- American Society for Healthcare and Risk Management
- World Captive Forum
- Risk Insurance Management Society
- International Association of Fraud Agencies
- MAR Hedge Fund Conference
- GAIM Conference
- 11th Annual Money Laundering Conference
- Cambridge Symposium
- Offshore Trust Summit
- Chartered Institute of Professional Development
- XBRL Conference (IT Related)

Objective 2:

- Forge/enhance relationships with local and international media

Strategy:

- Increase networking opportunities for the Public Relations Executive, the Managing Director and other senior members of staff.

Tactic:

- Proactively disseminate information e.g. interviews and articles for leading journals and broadsheets.
- Ensure that the Authority's perspective is accurately conveyed; establish/continue regular briefing meetings with local press and local associations.

Staffing and accommodation

The Authority has a Board of Directors of 9 and staff of 94 persons. We need at least one more locally based Director in order to enable the Executive Committee and other sub-committees of the Board to function effectively. We are currently under-staffed, most notably in the insurance and investments and securities divisions that are critical divisions given the continued growth of the industries. This pressure is exacerbated by the mandate to review the domestic industry in the light of Hurricane Ivan and the additional responsibilities imposed by the Securities and Investment Business Law. This issue is highlighted by the key performance indicators below.

Key Performance Indicators 04/05 & 05/06

Performance Indicators	Banking		Insurance		Investments & Securities		Fiduciary Services	
	2004/05	2005/06 target	2004/05	2005/06 target	2004/05	2005/06 target	2004/05	2005/06 target
Onsite Inspections	18 of a projected 20	20	0*	Tbc**	0^	0^^	4 of a projected 15	10
Prudential Visits	289 of a projected 200	200	323 of a projected 500	500	0^	0^^	22 of a projected 46	60
Licences Issued/ Registrations	10 of a projected 6	6	66 of a projected 60	70	1520 of a projected 1475	1520	9 of a projected 12	12

Notes: The 2004/05 figures represented above are as at 22 June 2005.

* Due to hurricane Ivan and the resources needed to tend to the needs of the domestic market, the on-site inspection programme was suspended. However, accused inspections have been performed as necessary.

** A full inspection programme is expected to commence 4th quarter 2005.

The programme was suspended in July 2003 due to shortage of staff. Prudential visits are scheduled as necessary. Shortage of staff will not permit the re-commencement of the programme during the 2005/06 period.

We are currently reviewing our projected staffing needs in light of the new risk rating and staffing methodology and will be discussing this with Government over the next few months as we negotiate our Ownership and Purchase Agreements and budget for fiscal 05/06 (delayed due to the election in May 2005).

We have also until recently suffered a serious lack of sufficient office space for our staff. In the long term as mentioned above we seek a Category 5 building; in the short term we have now secured additional space at Elizabethan Square which we will occupy very shortly.

Key Challenges ahead

The principal challenges for the Authority are domestically to ensure the regulatory regime is set at the correct level and to secure the staffing, accommodation and funding appropriate to enable it to perform its functions effectively, and internationally to engage with standard setters and regulators to ensure the legal and regulatory regime in Cayman is properly understood and accepted thus enabling the financial industry to flourish.