DeLisle Worrell: An overview of the financial landscape in Barbados

Speech by Dr DeLisle Worrell, Governor of the Central Bank of Barbados, at the Domestic Financial Institutions Conference, Bridgetown, 11 November 2014.

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Barbados has a sound and sophisticated financial system which provides an adequate range and variety of financial services for businesses and households, but there are a few gaps still to be filled. The main impact of the global recession on our financial system has been to reduce profitability among commercial banks, and to arrest the growth of insurance business. The financial landscape is changing largely because of changes in the way that large companies manage their regional and international finance and payments arrangements. My remarks this morning will address these 3 issues.

The main financial providers in Barbados are the banks- by far the largest segment, insurance companies, credit unions and finance companies. Between them, they provide adequately for the needs of households. Banks provide mortgages, short term consumer credit and payments services. Many people hold savings with commercial banks, even though savings bonds and credit union shares are more remunerative alternatives. Banks also provide for the working capital needs of established businesses, and contribute to the funding of projects for larger firms. All banks operating in Barbados are part of international banks headquartered in Canada and Trinidad. They therefore have strong backing. Banks' profitability has declined, but loan write-offs are only a tiny percentage of their credit and have not contributed much to the fall in profitability.

Credit unions are the banks' competition. Because of their mutual ownership, they are able to offer lower interest spreads than the banks, between what members earn on their shares, and the interest they pay on borrowings. Credit unions currently offer most of the services banks offer, and there are no barriers in principle to prevent those credit unions which qualify from providing the remaining services in which they have expressed an interest.

Insurance and pension funds cover the remainder of the financial services most businesses and households need. The insurance industry contracted with the exit of Clico, and there has been little recovery since then. Insurance and pension funds look for investment that will yield a good return over the long run, and they are therefore a potential source of funding for capital formation. The weakness of this segment is the limits on the supply of long term finance. What makes matters worse is a preference for investment in marketable securities rather than equity participation in projects. In Barbados there is a scarcity of marketable corporate instruments available for purchase and sale on an ongoing basis.

All in all, our financial system provides a range of services that pretty much satisfies the needs of Barbadian households and large and well established businesses. However, venture capital is in short supply, and the fixed investment needs of small and medium sized enterprise continue to be a challenge for us. Our session this afternoon will explore this conundrum.

Impact of the crisis

The global recession which is dated from the September 15 2008 Lehman bankruptcy, had little effect on the Barbadian financial system, with the one important exception of Clico. As might have been expected, the weakness of the Barbadian economy resulted in late and incomplete debt service by some firms and households, but in the typical case a workout arrangement was put in place. On the other hand, Government maintained its perfect service record, both for domestic and foreign debt.

Changes in business finance

The most noticeable changes in financial transactions in recent times have been on the foreign exchange market. The interbank market is now inactive, in contrast to the situation up to a decade ago, when daily interbank transactions of a modest size were the norm. Large customers of the banks have corporate treasuries which manage their transactions and exposures in several currencies, matching exposures by currency so as to minimise net exposure in foreign exchange, and reduce the transactions costs of currency conversion. We have looked into this phenomenon at this conference in years past, and when we meet with banks we invariably discuss how the market is evolving. Some businesses appear to have achieved a degree of independence of their bankers, with respect to foreign currency receipts and payments. In so far as this facilitates payment of imports out of private firms' foreign earnings, there is no problem with that arrangement.

Our programme today includes an update on the financial system, a presentation on cyber security, investment options for insurance companies, the view from the credit union sector, a new look at banking subsidiaries, and a panel on equity finance. It is a varied menu, and one that is certain to be instructive. We expect to have a productive day.