

Opening Statement

delivered by

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International Financial Services Sector

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Good morning ladies and gentlemen,

I would like to thank the Caribbean-Central American Action (CCAA) and the Caribbean Export Development Agency (CEDA) for organizing this workshop on Caribbean Banking and the Caribbean International Financial Services Sector and for inviting me to give a brief opening statement this morning.

As you all know, the financial system is crucial to supporting economic growth. Financial intermediaries, including banks, play a pivotal role in efficient allocation of resources and assessment of credit risk prerequisites for sustainable economic growth. However, experience with the international financial crisis of 2008 reemphasized the importance of a sound financial system. Consequently, to strengthen the financial system and make it more resilient, a comprehensive set of reforms has been enacted over the past few years, at both the international and the domestic levels.

A central element of this financial sector reform has been strengthening the quantity and quality of capital held by commercial banks through tighter supervisory regulation. Furthermore, international cooperation and coordination in the area of financial sector supervision has increased substantially. Meanwhile, the international financial services sector has been facing increasing pressure from the United States, Europe, and supranational bodies for greater transparency to reduce tax evasion.

In the case of the Caribbean economies, the exposure of our financial sector to the international financial crisis was limited because of the sector's relatively secure funding base, high capitalization, and limited foreign exchange exposure. However, the great recession that resulted from the financial crisis had a negative impact on real GDP growth in the Caribbean. To date, the region's economic recovery has been slow. Although the Caribbean economy is expected to expand this year, the pace of expansion remains fragile and uneven across the region.

Meanwhile, the Caribbean countries had to introduce new regulations and increase the quality of supervision to comply with global regulatory standards. Also, given the high level of interconnectedness of the Caribbean financial sector--reflecting the dominance of three Canadian banks and two regional insurance conglomerates--coordination and cooperation in the area of financial sector supervision has increased in our region. Despite these efforts, however, the financial

sector in the Caribbean is still facing some challenges that create a downside risk to our growth prospects. One of these challenges, which will be dealt with during today's workshop, is the ending of correspondent bank relations.

Ladies and gentlemen, the ending of correspondent bank relations with Caribbean financial institutions can be ascribed to the so-called "de-risking" by financial institutions, particularly in the United States. De-risking occurs when financial institutions end or restrict business relationships with certain categories of customers. When banks establish correspondent bank relations, they must perform normal customer due diligence on the respondent banks. Furthermore, they are required to gather information about the respondent bank to determine its soundness and the quality of supervision. With the implementation of global regulatory standards, including AML and CFT rules, banks have faced increased compliance costs in providing correspondent bank relations. In addition, tax information-sharing agreements that also result in more costs for the banks have added to the de-risking trend, which results in the ending of correspondent bank relations. Both the domestic banking sector and the international financial services sector in the Caribbean face this challenge.

More specifically, in the case of the Caribbean banking sector, the cost for the correspondent bank to perform the customer due diligence and gather all required information is too high given the relatively small size of our banks, making the business not profitable enough for the correspondent bank. Meanwhile, in the case of the international financial services sector, many correspondent banks have ended relations because of the high perceived risks of some clients, particularly clients from some Caribbean and Latin American countries.

Ladies and gentlemen, a correspondent bank relation is crucial for financial institutions in the Caribbean given their limited access to foreign financial markets. Also, without a correspondent banking relation, Caribbean financial institutions cannot properly service clients' accounts. Therefore, actions are needed to address this issue effectively. In this context, the financial institutions should be the first to take the necessary steps. Because of the relatively small size of our institutions, collective actions through, for example, the Caribbean Bankers' Association, are recommended. These actions should include lobbying to maintain correspondent bank relations. Furthermore, the financial sector supervisory authorities should communicate the progress made in implementing international rules and recommendations to strengthen the financial sector, including

the AML and CFT rules. This information will reduce considerably the transaction costs related to information gathering by correspondent banks. In the case of the monetary union of Curaçao and Sint Maarten, the Centrale Bank van Curacao en Sint Maarten (CBCS) as the financial sector supervisory authority has informed correspondent banks on the regulations that are in place for combating money laundering and countering the financing of terrorism, and the assessments of the Caribbean Financial Action Task Force.

Ladies and gentlemen, cybercrime is another development that is increasingly affecting the Caribbean financial sector, comprising, among other things, phishing and skimming practices and the misappropriation of a person's identity for financial fraud. Although progress has been made in addressing this issue in the Caribbean, cybercrime remains a significant threat for the financial services industry worldwide. Cooperation in this area also is crucial. Caribbean countries should share with each other lessons learnt and best practices regarding cybersecurity and should join forces in the area of technical capacity building.

In closing, I would like to emphasize that one of the main lessons of the international financial crisis was that international policy coordination and cooperation is crucial to reduce the risk of future crises. This lesson continues to be important today. If we want to address the challenges the Caribbean financial sector is facing, including the ending of correspondent bank relations and cybercrime, we need to join our forces and take collective actions. This gathering provides an excellent platform to take the necessary steps.

I wish you all a productive workshop.