# *The Importance of the Banking and Finance Sector in Jamaica*

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# Outline



- History of the Financial Sector
- Key Developments within the Banking Sector
- Key Risks within the Banking sector
- Fraud
- Improvements
- Bank Supervision Developments
- Areas/Job Opportunities

# History of the Financial Sector

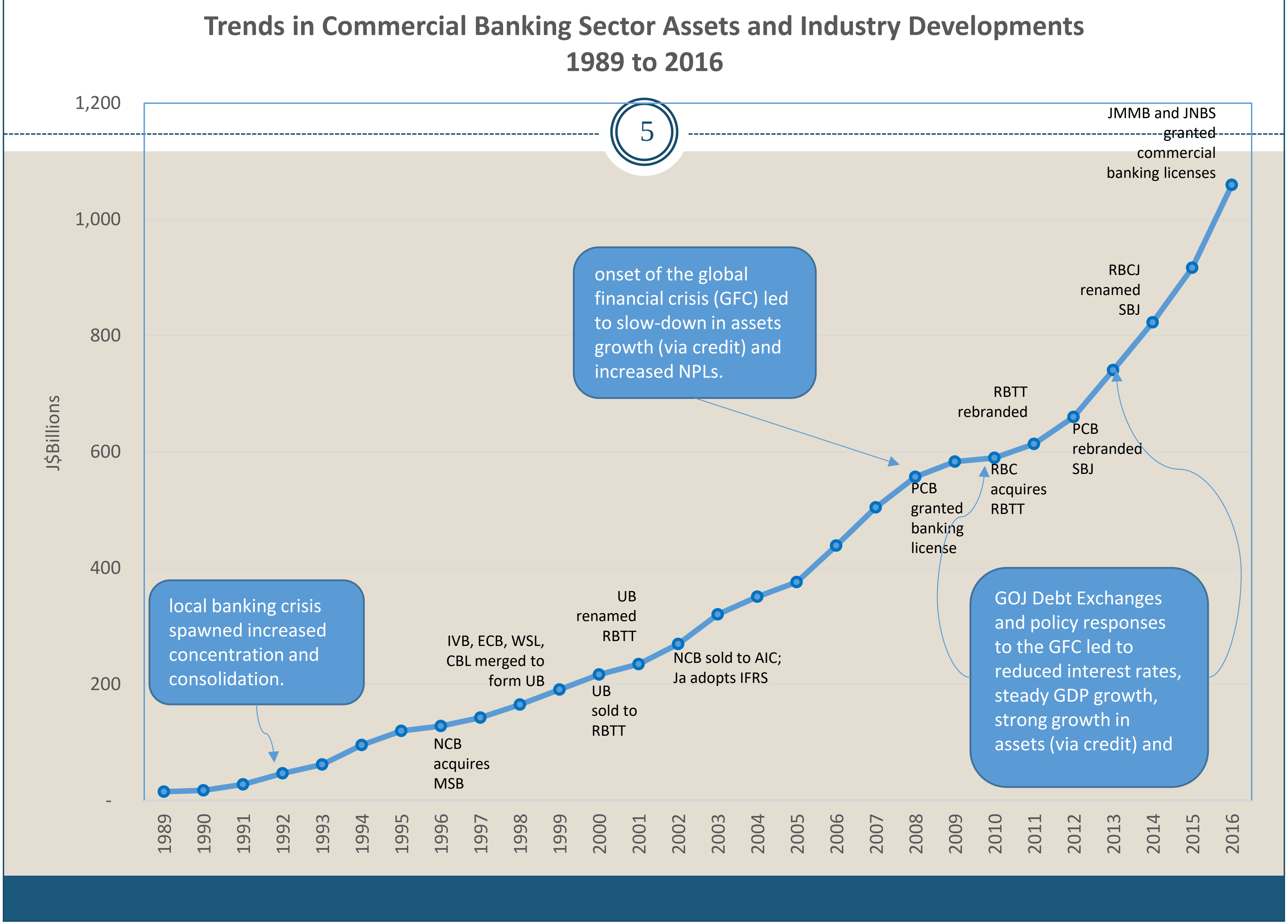


- Comprises deposit taking institutions (DTIs) and non-DTIs.
- DTIs include commercial banks, merchant banks, building societies, credit unions.
- Non-DTIs include Securities Dealers*, Insurance companies, Pension Funds and other collective investment schemes.
- The Bank of Jamaica (BOJ), by way of the Banking Services Act has regulatory oversight of all DTIs (incl. those the financial groups that contain a DTI)
- The Financial Services Commission (FSC) by way of the FSC Act, Securities Act and Insurance Act has the oversight over non-DTIs

# History of the Financial Sector (DTIs)



- Commercial banks make up approximately 90% of the DTI sector with respect to total assets.
- Total commercial banks' assets amounted to just over 1 Trillion based on the most recent data.
- There are currently 8 commercial banks; 2 of which entered the space in 2017.
- The top 2 banks account for 70% of total market share.
- Balance sheets of commercial banks typically comprise loans and investments, which are largely funded by customer deposits.
- All except two banks are part of a financial group (i.e. comprising a mix of DTIs and non-DTIs, with an established holding company at the group level)


Trends in Commercial Banking Sector Assets and Industry Developments
1989 to 2016
J$Billions
1,200
1,000
800
600
400
200
-
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
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2011
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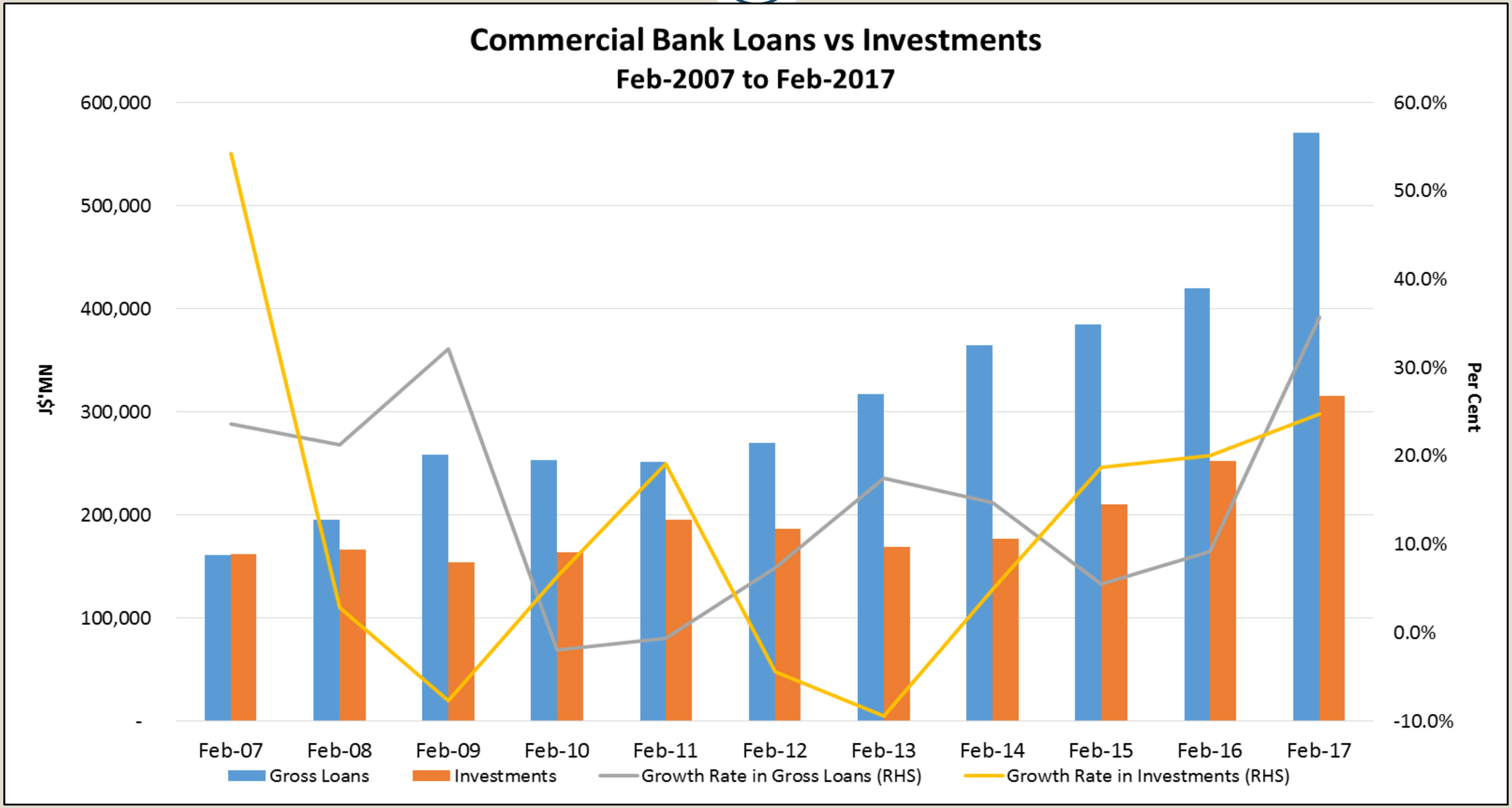
2013
2014
2015
2016
local banking crisis spawned increased concentration and consolidation.
NCB acquires MSB
IVB, ECB, WSL, CBL merged to form UB
UB renamed RBTT
UB sold to RBTT
NCB sold to AIC; Ja adopts IFRS
onset of the global financial crisis (GFC) led to slow-down in assets growth (via credit) and increased NPLs.
PCB granted banking license
RBTT rebranded
RBC acquires RBTT
PCB rebranded SBJ
RBCJ renamed SBJ
JMMB and JNBS granted commercial banking licenses
GOJ Debt Exchanges and policy responses to the GFC led to reduced interest rates, steady GDP growth, strong growth in assets (via credit) and

# Key Developments in the Banking Sector

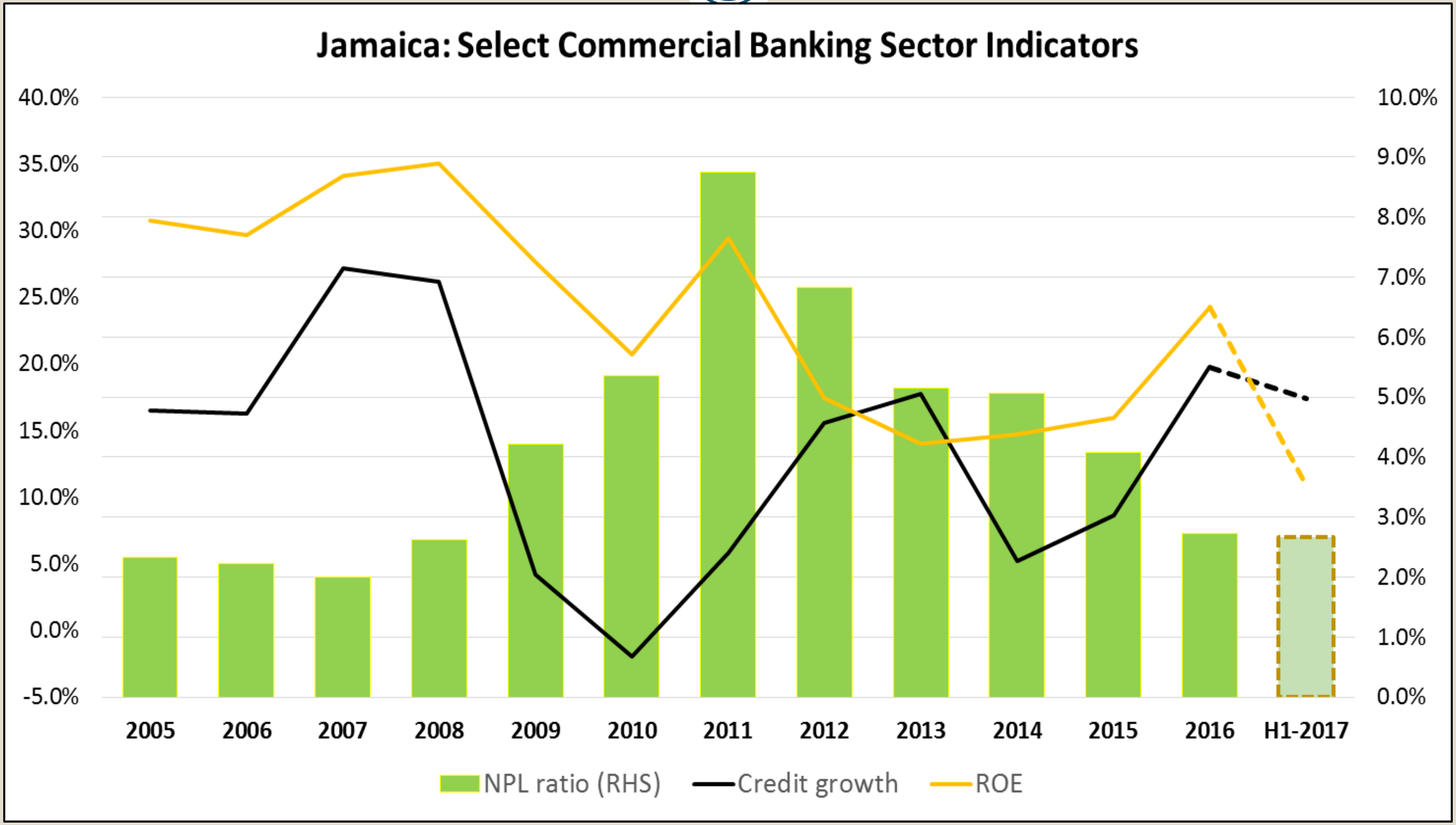





- A favoring of Loans to Investments since the turn of the decade (2008 to present).

# Key Developments in the Banking Sector

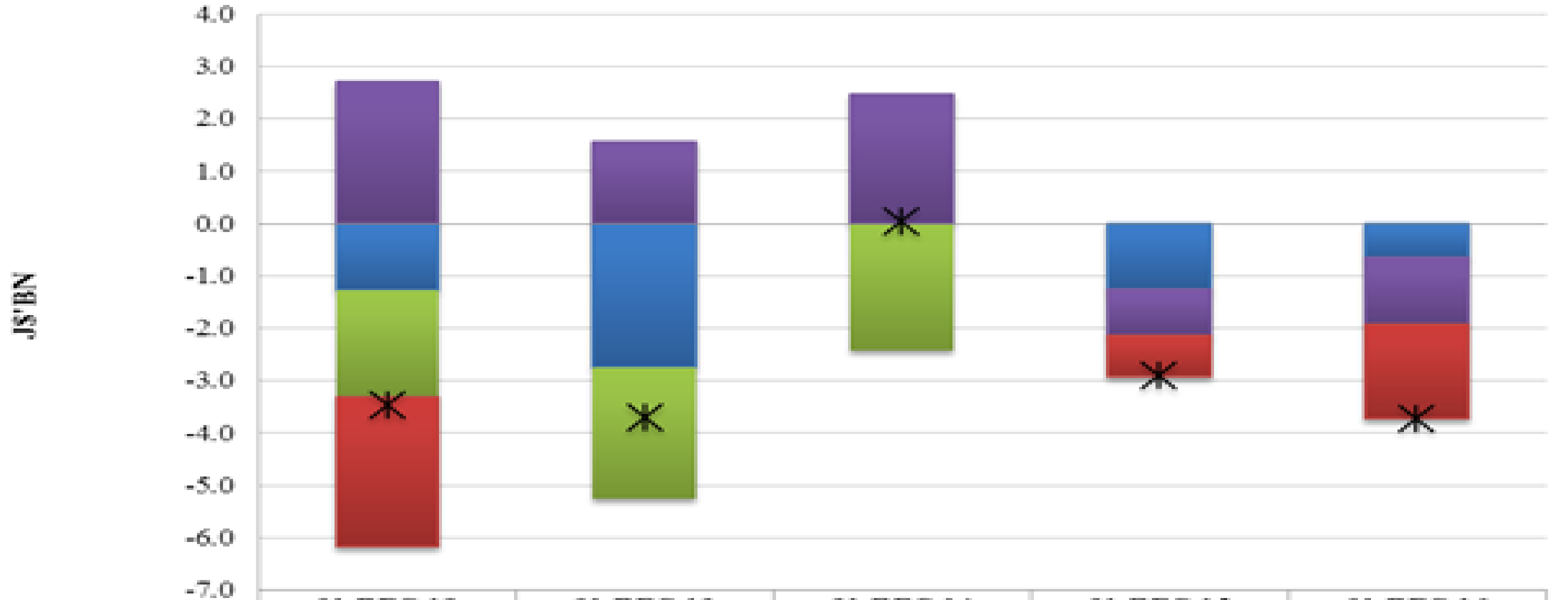




# Key Developments in the Banking Sector



## Decomposition of Changes in NPLs
December 2012 to December 2016

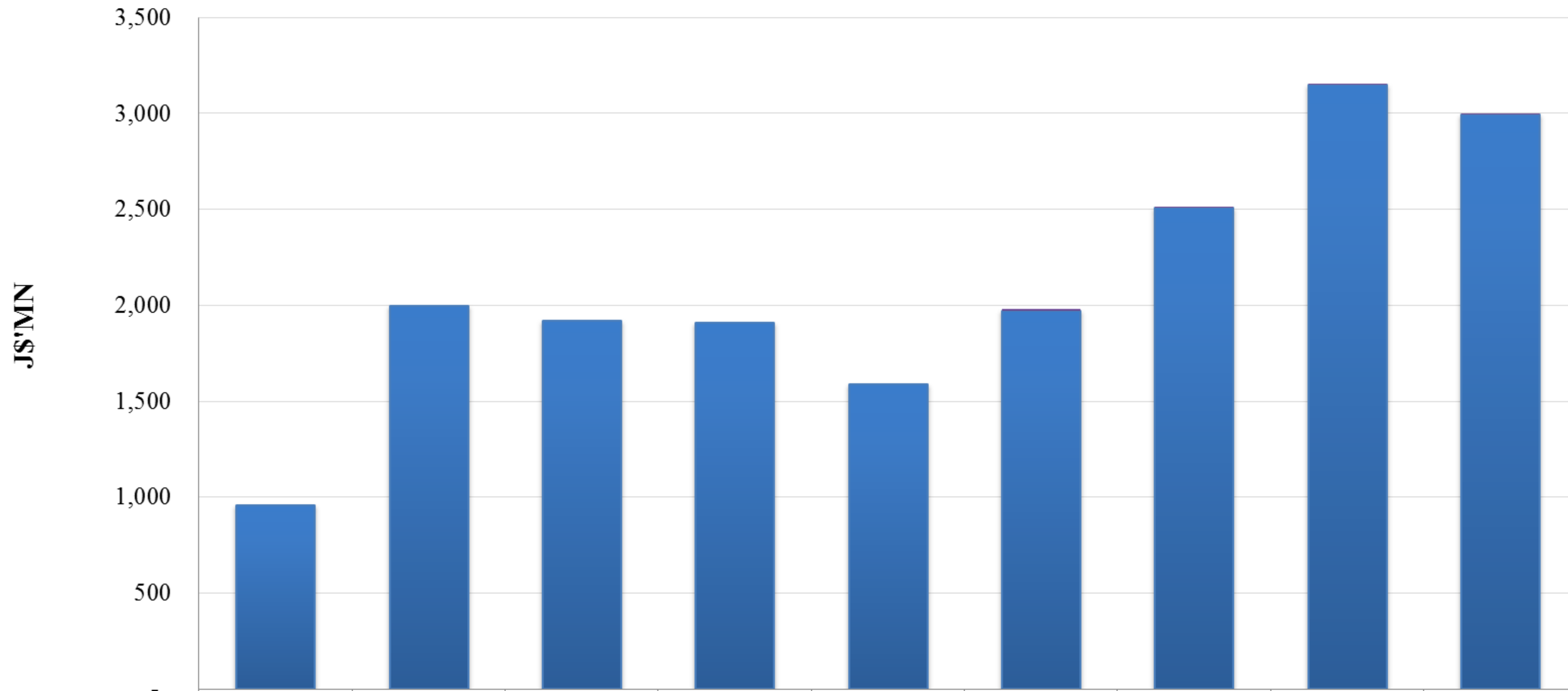



| | 31-DEC-12 | 31-DEC-13 | 31-DEC-14 | 31-DEC-15 | 31-DEC-16 |
|---|---|---|---|---|---|
| Corporate repayments | -2.9 | 0.0 | 0.0 | -0.8 | -1.8 |
| Other (incl. new NPLs) | 2.7 | 1.6 | 2.5 | -0.9 | -1.3 |
| Transfers to SPVs | -2.0 | -2.5 | -2.4 | 0.0 | 0.0 |
| Corporate write-offs | -1.3 | -2.8 | 0.0 | -1.2 | -0.7 |
| Overall Growth Trend in NPLs | -3.5 | -3.7 | 0.0 | -2.9 | -3.7 |

# Key Developments in the Banking Sector



**Trend in Annual Loan Recoveries
2008 to 2016**




| | 31-DEC-08 | 31-DEC-09 | 31-DEC-10 | 31-DEC-11 | 31-DEC-12 | 31-DEC-13 | 31-DEC-14 | 31-DEC-15 | 31-DEC-16 |
|---|---|---|---|---|---|---|---|---|---|
| Merchant Banks | - | - | - | - | - | 14 | 5 | 1 | 3 |
| Building Societies | - | - | - | - | - | - | - | 0 | 0 |
| Commercial Banks | 958 | 1,997 | 1,919 | 1,909 | 1,591 | 1,970 | 2,512 | 3,149 | 2,994 |

# Key Risks within the Banking Sector



- By the very nature of banking (i.e. financial intermediation), Credit and Market risks are the primary risks that banks are faced with. Within market risk, liquidity, foreign exchange and funding risks are of primary concern for banks locally.

- AML/CFT risk has been a topical issue for banks in the last few years as well, so much so that their overseas banking partners (correspondent banks) have begun to pull away from the region due to the perceived high AML/CFT risks associated with criminal activities like lottery scamming, ABM skimming, the drug trade, human trafficking, etc.

- Cyber security risk is also a key risk in light of the increased reports and incidences of cyber attacks reported in the media in recent times. This risk is typically a concern for entities that compete in financial services space. On the local scene, the BOJ is particularly concerned with the protection of customer data, which is becoming more and more a target for hackers and scammers to facilitate their unscrupulous social engineering tactics.

# Key Risks within the Banking Sector



**Macro-prudential risk areas**

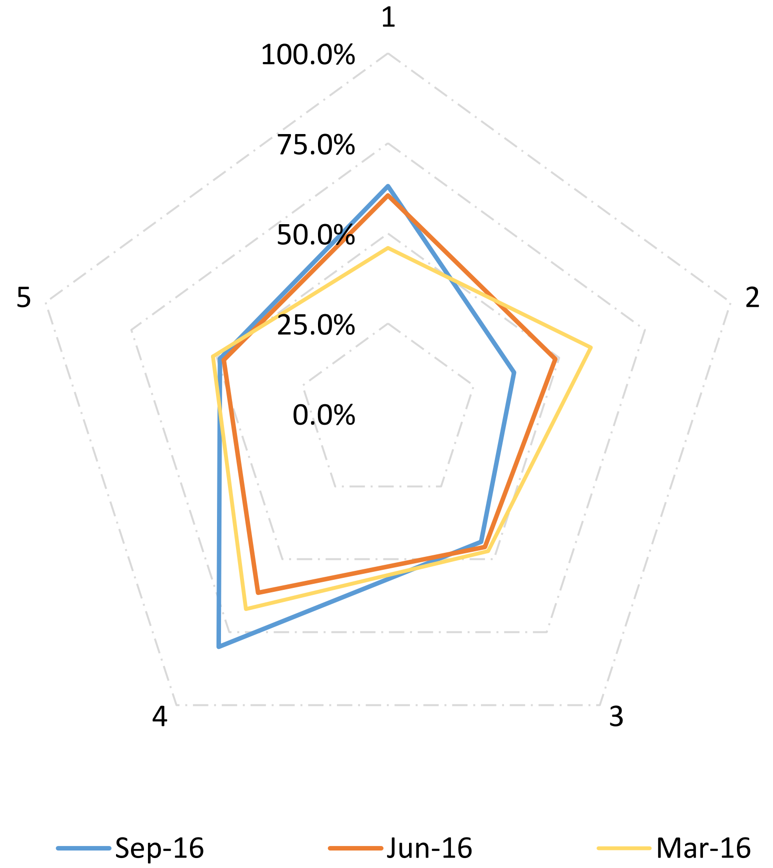
1- Excessive credit growth and leverage

2- Maturity mismatches and market illiquidity

3- Direct and indirect exposure concentrations

4-Interconnectedness and systemic importance

5-Resilience of the financial system



# Fraud



- Incidences of fraud continue to plague financial institutions both locally and globally. To strengthen the framework that governs local financial institutions' fraud risk management capabilities, the BOJ has issued guidance to the industry and has solicited incidence reports to be filed to the Central Bank for further and ongoing analyses.

- As part of its on- and off-site monitoring mechanisms, the BOJ reviews and makes recommendations from time-to-time to their licensees to ensure their fraud detection and prevention policies and procedures are sufficiently robust and aligned to best practices.

# Improvements



- In response to the elevated AML/CFT risks associated with banking in the region, the BOJ has been engaging in technical assistance as well as regional technical working groups to come up with solutions to help stymie the negative effects of ‘de-risking’ by correspondent banks.

- Part of this response involved having the Central Bank’s AML/CFT framework subjected to a mutual evaluation assessment by the Caribbean Financial Action Task Force (CFATF*)

- These assessments are currently being used to inform enhancements to Jamaica’s AML/CFT regime; the hope is that these measures will inform guidance for the DTI sector that is pertinent for DTIs to bolster their internal AML/CFT risk management frameworks.

# Improvements



- In terms of its safety and soundness mandate, the BOJ has taken steps to enhance it capital adequacy regime for DTIs, in keeping with Basel II and III.
- This has become necessary given the need to ensure that banks are capitalizing themselves adequately to mitigate business risks (both on- and off-balance sheet).
- As it currently stands, the banking sector is well capitalized and positioned to withstand any unanticipated shocks (see BOJ 2016 Financial Stability Report).

# Bank Supervision Developments



- Generally, the BOJ conducts on- and off-site examination of its DTI licensees to ensure safety and soundness, both at the individual entity level as well as for the overall financial system (i.e. financial system stability).

- To this end, the Central Bank has taken steps to enhance its supervisory methodology to a risk-based approach – which is more forward looking and gives more credence to the entity identifying, monitoring and mitigating its risks relative to the former compliance-based approach.

- The Risk based supervision approach is widely used globally (e.g. OSFI) and calls for dynamic, investigative and analytical skills to implement effectively.

- Steps are also being taken to implement a special resolution regime, which is a private-sector-centric approach for treating with failing/failed financial institutions that may pose a threat to financial system stability.*

# Areas/Job Opportunities



The BOJ is looking for talent to support the following areas:

- AML/CFT analyses
- Risk-based supervision
- Quality Review and Assurance and
- Supervisory Policy
- Supervisory and Accounting standards