



2023 Financial Stability Report Highlights

Inside this Issue

- ⇒ *Macroeconomic Environment*
- ⇒ *Analysis of the Financial System*
- ⇒ *Current And Emerging Risks to Financial Stability*
- ⇒ *Banking System Resilience*
- ⇒ *Policy Initiatives*



Introduction

The Financial Services Commission ensures the stability of the Turks and Caicos Islands (TCI) financial system by identifying and assessing potential risks. The ability of the system to withstand shocks and continue providing essential services is a key feature of financial stability and a priority for the Commission. This report highlights key developments and vulnerabilities in TCI's financial system, focusing mainly on the risks to its stability. The effectiveness of the system is crucial for the economy, as it supports credit and payment systems which keep the wheels of the economy turning. Therefore, close monitoring is essential to ensure the system can absorb losses and manage risks effectively.

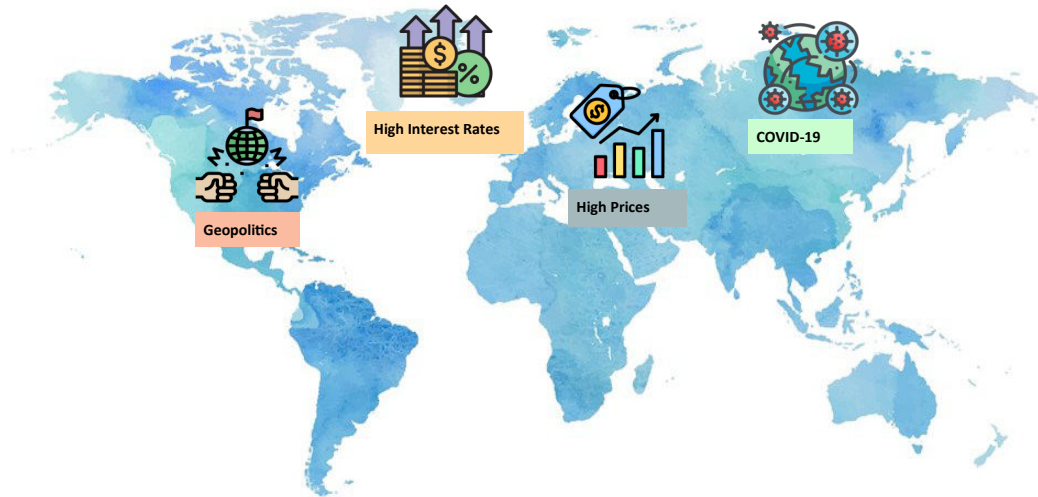
Objectives

Overview of Risks and Threats: Analysing the potential risks and challenges to the financial sector stability in the TCI and evaluating the system's resilience in response to these challenges.

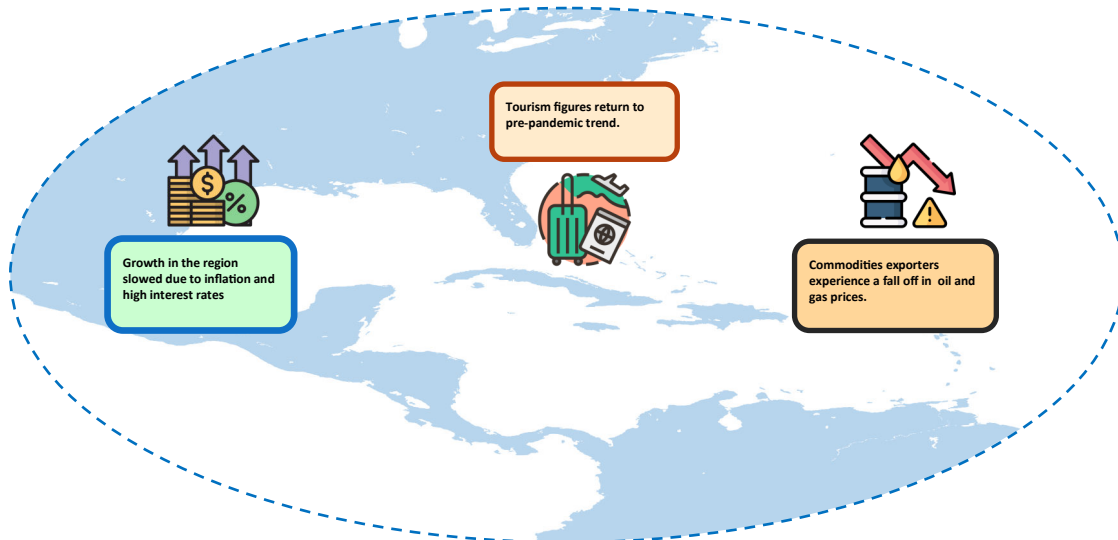
Assessment of Risk Indicators and Stress Test Outcomes: Evaluating trends in specific risk indicators and reviewing the results of stress test exercises to gauge the system's robustness.

Examination of Emerging Risks: Identifying and assessing new risks to the financial system's stability and considering likely implications for the future.

Global Developments



Regional Developments



Local Developments



Economic growth decelerated modestly in 2023 to 13.7% from 14.1% in 2022. The economy was buoyed primarily by tourism.

Unemployment fell to 7% from 8% in 2022.



Inflation remained elevated in 2023 which pressured the purchasing power of businesses and consumers.

Current account balance increased in 2023 due to a higher service balance supported primarily by robust tourism activity.

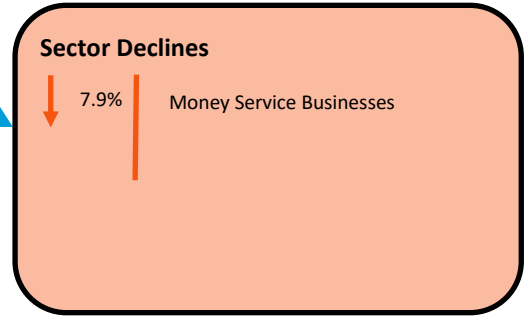
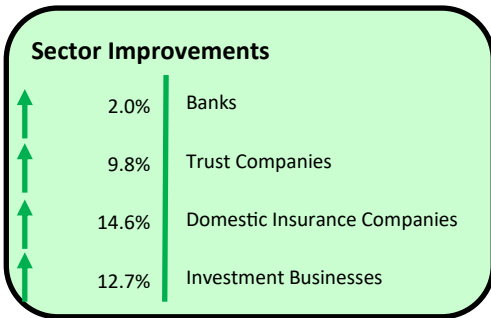
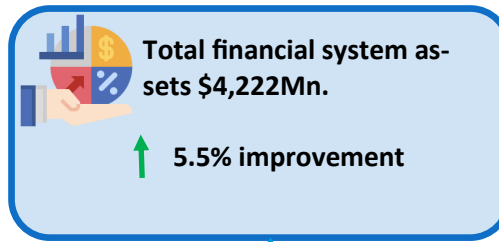


Strong economic activity and prudent fiscal policy efforts continued to translate into a low and stable debt-to-GDP figure.

S&P Global Ratings adjusted TCI's outlook from Stable to Positive, and affirmed its 'BBB+' rating.



Financial System Overview



Financial Sector Performance



Banking

Banking industry performance continued to improve in 2023. Profitability improved while asset quality remained strong. Liquidity and capital remained robust.



Insurance

Combined profitability for insurance surged due to several factors. Solvency and liquidity indicators remained strong.



Money Service Businesses

The MSB sector improved its profit outturn in 2023 due to growth in revenues. The total value of funds remitted also increased for the review period.



Investments

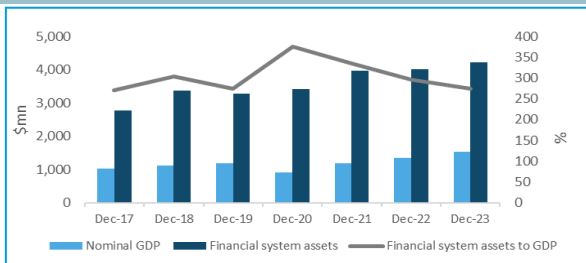
Assets managed by investment businesses for clients increased in 2023. Equities remain the predominant investment product, followed by mutual funds and bonds.



Trust Companies

Trust sector on-balance sheet assets increased in 2023. Income for the sector increased, which outpaced the rise in expenses, resulting in a growth in the bottom line.

Financial Intermediation



The banking sector's assets remained highly concentrated within the three Canadian-owned banks, accounting for approximately 97% of the total market share.



Banking assets concentration, measured by the Hirschman-Herfindahl Index (HHI), declined for a second consecutive year signalling a slight reduction in asset concentration risk in the sector.

Banking System Resilience



Solvency Stress Test

Solvency stress test results indicate that the banking industry remains resilient and will continue to be so for the medium term. Under both the moderate (inflation) and severe (stagflation) stress scenarios, capital remained above the 11% regulatory requirement.



Liquidity Stress Test

For the second consecutive year, two banks showed weaknesses under the liquidity stress scenario (7-day bank run) and may be required to use contingent lines or external sources of funding to meet stressed outflows.

Risks to Financial Stability



Lack of Deposit Insurance

No deposit insurance exists in the TCI, which is a risk to financial system stability in the event of a bank failure. However, systematically important banks remain highly liquid.



Climate Change

Potentially irreversible, changes to the planet at a global level, can severely impact financial stability. A significant risk for TCI, emanates from reinsurance companies de-risking from the region given the severity of natural disasters and insurance claims resulting from climate change.



Cyber Risks

The unchecked proliferation of increasingly powerful, general-purpose Artificial Intelligence (AI) technologies could lead to increased cyber risk and radically reshape economies and threaten financial stability.



Decline in Correspondent Banking

Several Caribbean countries have experienced a decline in correspondent banking relationships (de-risking) due primarily to AML/CFT and reputational risk.

Key Policy Initiatives

Stress Testing

Collaborate with Caribbean Regional Technical Assistance Centre (CARTAC) to enhance the stress testing framework for liquidity.

Digital Asset Framework

The Commission aims to build out a framework for the regulation of digital assets. The objective is to define and implement digital asset legislation and regulation.

Publication of the RPPI

The Commission, in partnership with the International Monetary Fund (IMF), will continue its work on developing a residential property price index (RPPI) for the TCI to monitor changes in the aggregate price for comparable residential dwellings. The Commission aims to publish the index in 2025.

Enhancing Supervisory Framework

- Revise operational risk guideline
- Transitioning to a risk-based supervisory (RBS) framework
- guidance for credit union supervision
- enhancing the supervisory framework for investment businesses
- Coordinating for the establishment of deposit insurance.

