



TURKS & CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Press Release

Providenciales – April 2015

IMF VISIT TO THE TURKS AND CAICOS

An International Monetary Fund (IMF) mission, headed by Hiroko Oura, visited Providenciales, Turks and Caicos Islands (TCI), during April 14-27, to conduct a financial stability assessment under the IMF's Financial Sector Assessment Program (FSAP).

The mission met with Governor Peter Beckingham, Financial Services Commission (FSC) Managing Director Kevin Higgins, Minister of Finance, Trade, and Investment Charles Washington Misick, Chief Financial Officer Stephen Turnbull, Permanent Secretary, Finance Sonia Thomas-Been, senior officials from the FSC and other agencies, as well as representatives of financial institutions and professional bodies. The preliminary findings of the mission are summarized as follows.

The financial system is been gradually recovering from the 2008 economic crisis. Banks continue to show high levels of Non Performing Loan (NPL) ratios and credit growth remains negative. But high levels of capital buffers should help them withstanding a range of adverse shocks. While the economy is recovering, the FSC should remain vigilant and monitor asset quality and liquidity conditions, and ensure the capital buffers remain. The domestic insurance sector is small and do not appear to pose systemic risks. The offshore insurance sector has little link to the domestic financial system.

However, small depositors and policyholders suffered substantially from the lack of standard safety net tools. The territory does not have lender of last resort (namely, a central bank) or a deposit insurance scheme (DIS). Without government support, small depositors of a systemically important indigenous bank, failed in 2010, lost significant amount. Policyholders of a failed local insurance company (originally a branch of failed Trinidad-and-Tobago-based CL Financial) are expected to lose a considerable sum as well.

P.O. BOX 173,
HARRY E.
FRANCIS
BUILDING,
POND STREET,
GRAND TURK,
TURKS & CAICOS
ISLANDS,
TEL: (649)
946 – 2791/2550
FAX: (649)
946 – 1714/2821

P.O. BOX 140,
CARIBBEAN
PLACE,
LEEWARD
HIGHWAY,
PROVIDENCIALES
TURKS & CAICOS
ISLANDS
TEL: (649)
946 – 5314/
941 – 8311
FAX: (649)
941 – 8379

EMAIL:
fsc@tcifsc.tc

WEBSITE:
www.tcifsc.tc



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At this moment, the Turks and Caicos Islands authorities are not ready to introduce a DIS. A DIS can function properly when its two preconditions are met: a strong supervisory framework and a special resolution regime for banks that are not viable. While progress has been made in the first area, more needs to be done in the second area. More specifically:

- **Enhance regulation and supervision:** The FSC has made notable progress since the previous IMF assessment in 2003 and now has better governance, ample financial resources, and supervisory power. Nonetheless, there remains a need for modernizing key legislations urgently, strengthening the Board's oversight, filling key senior management positions, implementing supervisory guidelines, and more intrusively examining the nature of risks.
- **Introduce a Special Bank Resolution Regime:** Such a regime empowers the FSC to directly take a whole array of actions to deal with non-viable banks before they become insolvent. It includes power to remove and replace senior managers, restructure or wind down the bank, establishing a bridge bank, and transfer the bank's assets and liabilities.

Nonetheless, there are other tools that can protect small depositors and policyholders, and these should be introduced urgently.

- **“Preference” for depositors and policyholders:** The Company Ordinance should be modified to pay out small depositors and insurance policyholders ahead of larger and wealthier creditors when a financial institution is liquidated.
- **Funds earmarked for depositor and policyholder payout:** For banks, create a Special Purpose Reserve Fund that holds a portion of total customer deposits in high quality liquid assets, earmarked exclusively for protecting small depositors in case of a failure of the particular bank. For insurers, the new draft domestic Insurance Ordinance will require setting up a statutory segregated trust in TCI, which is dedicated to pay out policyholder claims.

Coordination with various stakeholders is important for the FSC. TCI should create a Financial Stability Committee, including the representatives from the Governor's office, the Ministry of Finance, and the FSC, to ensure interagency coordination in both regular and crisis periods. Since TCI's financial system is dominated by foreign-owned institutions, there should be adequate cross-border collaboration with relevant supervisors. Communication and consultation with the industry need to be formalized to facilitate dialogues.

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