

Regional Financial Interconnectedness & Financial Sector Reforms



September 2012

Nita Thacker

International Monetary Fund

Issues addressed

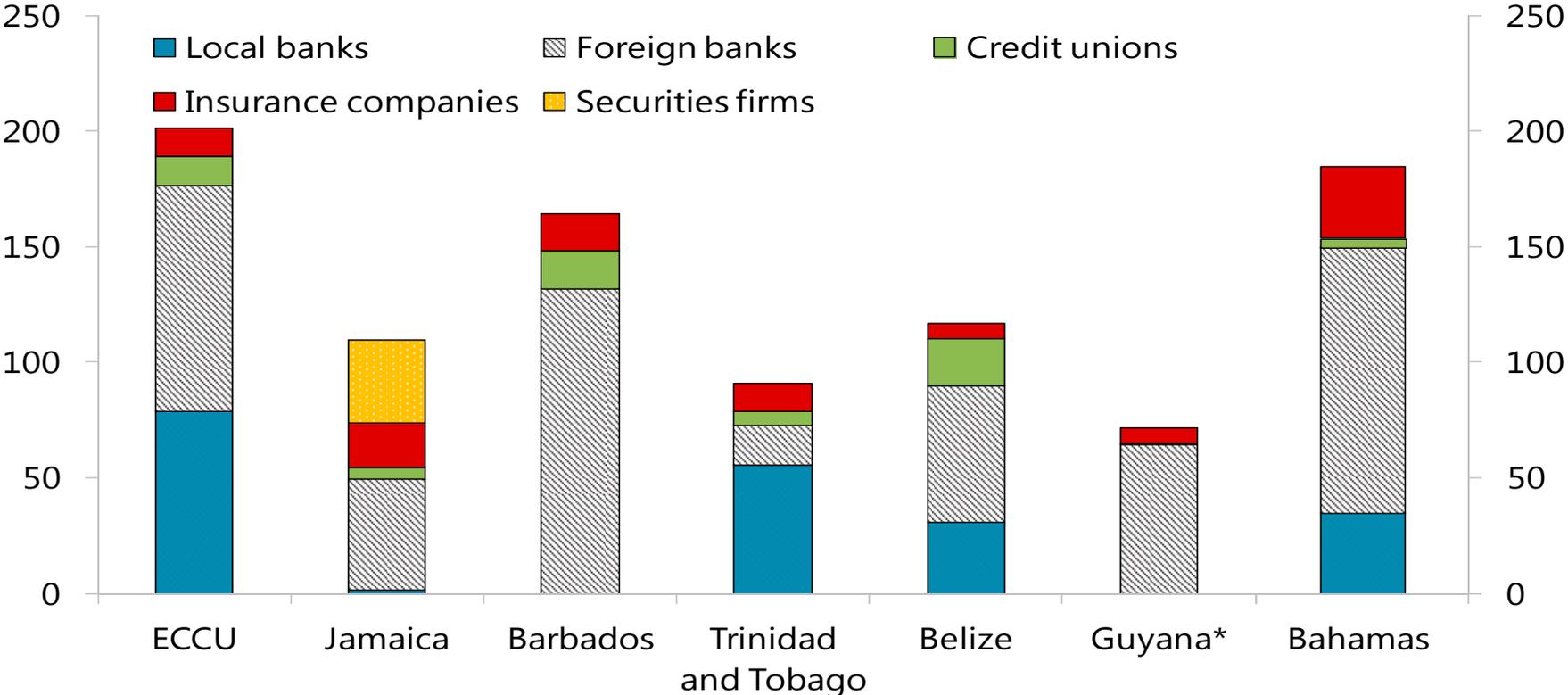
2

- Structure of the financial sector
- Interconnectedness
- Recommendations for reducing systemic risk
- Supervisory challenges

Onshore financial sector is dominated by the banks

Total Assets of the Onshore Financial Sector

(In percent of GDP)



* Breakdown for local and foreign banks are not available.

Banking sector is highly concentrated compared to other regions

4

Top 3 Banks' Share (%) in Total Assets

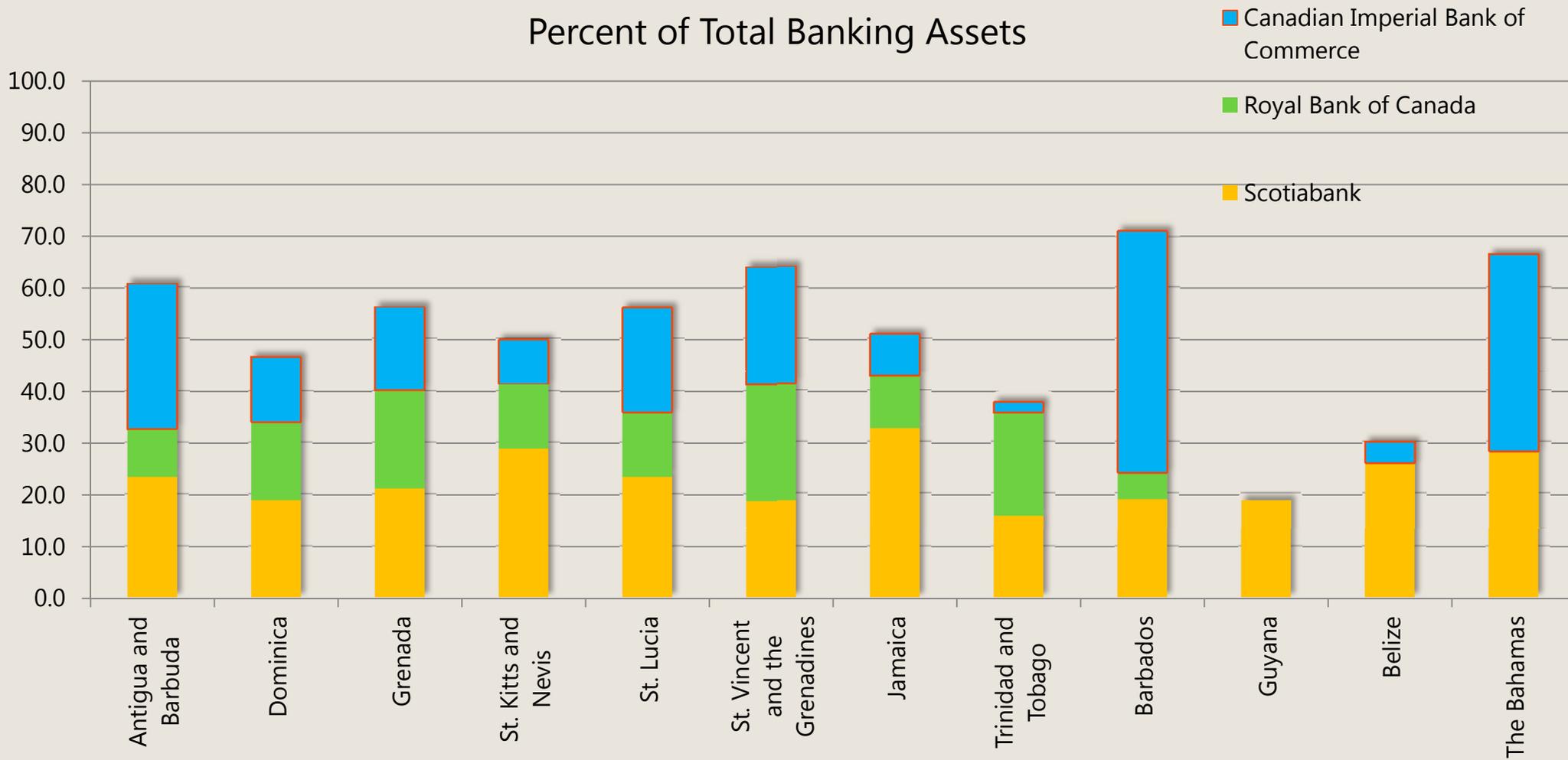


Sources: Caribbean countries: Caribbean Centre for Money & Finance (March 2012), Other countries: World Bank FinStats 2012

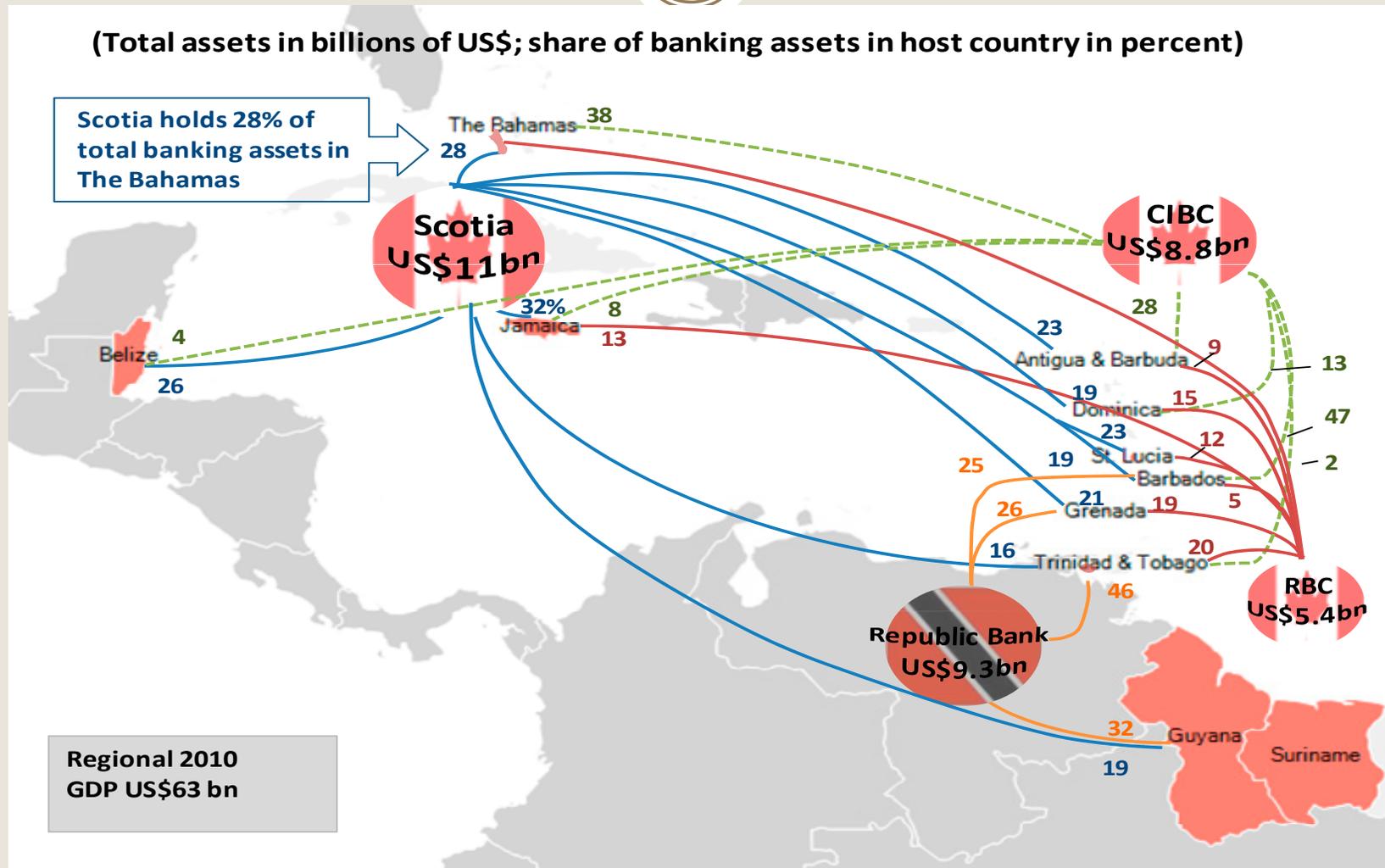
International banks have a sizable market share

5

Percent of Total Banking Assets



Strong Interconnectedness through the Regional Banks



Insurance companies also have significant cross border holdings

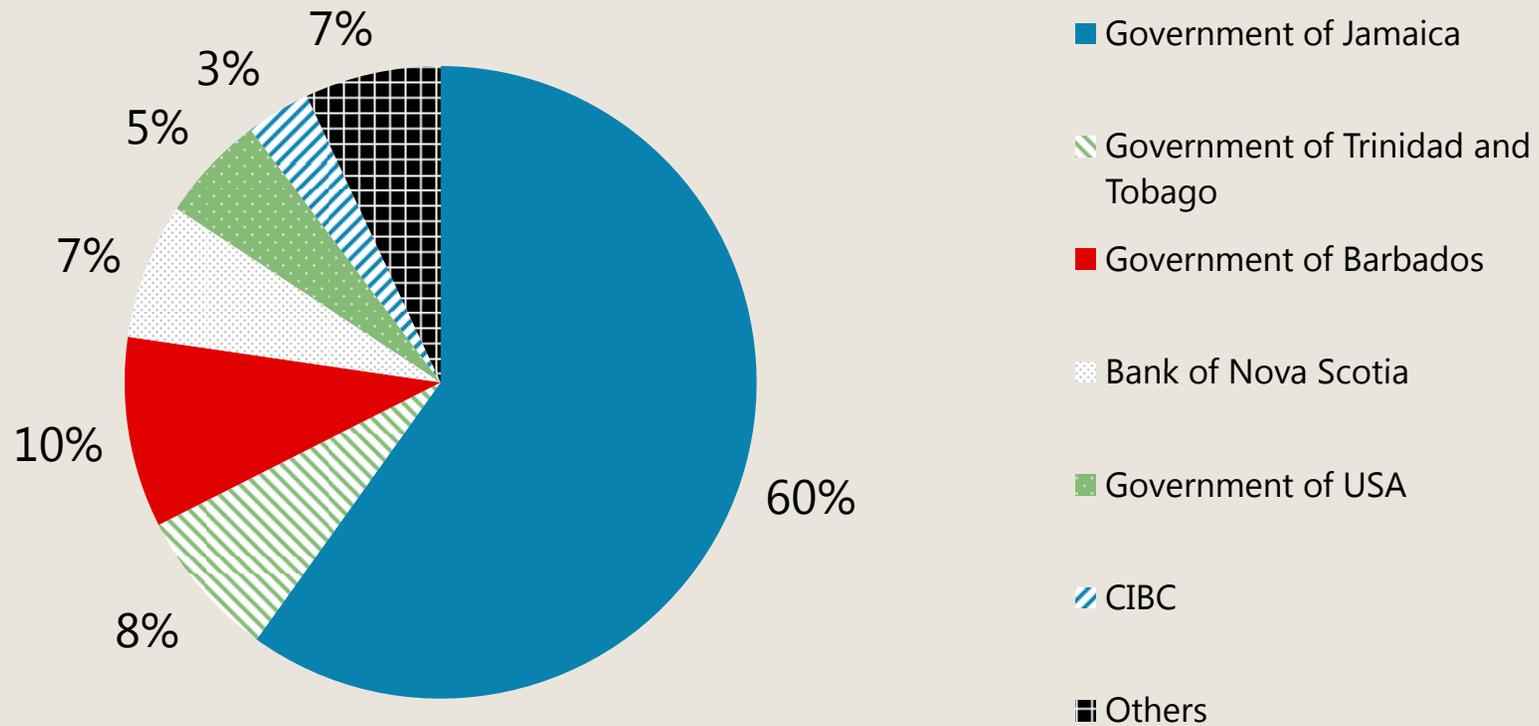
7



Sagicor is exposed to sovereign credit risk

8

Sagicor: Credit Exposure of Investment Portfolio



Sources: Sagicor's annual report (2011)

Implications of Increased Interconnectedness

9

- **Benefits:**
 - Economies of scale to help overcome constraints from small size
 - Facilitate flow of funds and improve financial intermediation
 - Risk diversification
- **Risks:**
 - Significant concentration in banking sector
 - Presence of large financial conglomerates
 - Global deleveraging

Recommendations for Reducing Systemic Risks (Regional Level)

10

- Harmonization of prudential regulations and standards
- Enforcement of existing legal framework
- Introduction of consolidated supervision
- Introduction of resolution framework and safety net
- Enhanced information sharing