



BARBADOS' FINANCIAL SYSTEM REMAINS SOUND

Barbados' financial system remains sound and is capable of withstanding adverse shocks, the 2015 Financial Stability Report published today by the Central Bank of Barbados confirmed.

The Report revealed an improved performance for deposit taking institutions (banks, credit unions and trust and mortgage finance houses) with the results for the commercial banks being particularly noteworthy. The domestic insurance recorded a mixed performance with the life insurance being more successful than general.

The Report stated “ the performance of the local banking sector improved over the twelve months to September 2015. Write-offs of bad loans fell sharply from their peak in 2013 and the non-performing loan (NPL) overhang displayed significant signs of recovery for commercial banks in particular. There was also a substantial recovery in profitability due not only to improvements, in the quality of the credit portfolio, but also to a wider gap between interest paid out to depositors and interest received on loans. However, loan growth remained weak.”

The document affirmed that the commercial banking sector is central to the financial system, and with all the banks foreign owned, the health of their parents (all the parent banks were assessed as investment grade) continued to be critical to the stability of the domestic banking sector. Moreover, the report indicated that given that most interbank exposures take the form of cross border exposures to their parent entities, the health and soundness of the parent banks would mitigate the likelihood of reputational risk generating spill over into the domestic banking sector.

Stress tests on the banking sector, in the areas of liquidity risks, contagion exposures, the ability to absorb credit shocks, foreign exchange exposure and interbank exposures, confirmed the resilience of the banking sector. “Overall, these results indicated that the system is stable and would be able to overcome an adverse range to shocks,” the Report stated.

Commercial banks' dominance in the market was reflected in their owning more than half of total assets in the financial system some 60 percent. They also facilitated the majority of savings and transaction services to other institutions. Trust and finance companies, credit unions and insurance companies' exposure to banks was approximately 23, 44 and 21 percent of their capital, respectively. Conversely, commercial banks' exposure to all other financial institutions combined only represents 12 percent of their capital, with more than half being held with affiliated trust and finance companies.

Commercial banks also accounted for the lion's share of the three percent growth in total liabilities in the financial system in the past year. Their deposits during the review period increased by \$440 million, of which \$367 million was deposited to the Central Bank of Barbados and \$33 million was placed in other investments.

Loans represented 60 percent of commercial banking assets, with mortgage debt accounting for almost half of this credit.

Trust and Finance Companies

Like commercial banks trust and finance companies experienced increased profitability due mainly to lower provisioning and higher fee income. Their deposits with other financial institutions also rose by \$36 million.

Insurance Sector

Insurance is the second largest player in the financial services sector, with assets of \$3.02 billion or 34 percent of GDP. At the end of 2014, the last year for which data for the sector is available, a decline in overall assets was recorded.

Life insurance companies account for just over three quarters of the industry's total assets, and these assets are held mainly by one company, while the non-life market is more competitive. The largest insurance group, which accounts for 60 percent of the total industry, has both life and non-life operations in several countries, including the USA.

While assets in the sector declined, strong growth in premiums for both the life and general insurance subsectors was registered.

The general insurance industry recorded losses in underwriting for the second successive year, which along with significant declines in investment income, led to lower net income levels.

As stipulated by law, insurance companies invested mainly in Barbadian debt securities.

Again stress testing in this sector, taking into account the impact of recessionary, pandemic and natural catastrophe shocks, increased claims, and reinsurance default manifested strong resistance to shocks in those areas.

There are six licensed life insurers and 15 general insurers in Barbados at end-2014.

Credit Unions

Credit unions recorded an increase in both their members' share, deposits and lending portfolios of \$120 million, \$93 million and \$15 million, respectively. This increased lending by credit unions was mainly for consumer and personal credit. Credit unions also saw their total assets increase to \$1.9 billion, a seven percent increase over 2014.

On the downside non-performing loans (NPLs) rose but the majority of these increased NPLs were in default for three to six month, the least severe category for non-performing loans. Owing to significantly higher lending however, their NPL ratio was slightly lower than a year earlier. Their capital adequacy ratio remained above regulatory requirements, despite falling below the levels of the previous year.

The report also identified concentration, interconnectivity and cross-border linkages as the key characteristics of the domestic financial landscape. According to the document, concentration is a structural feature across both deposit-taking and non- deposit taking institutions.

All five banks operating in Barbados are affiliated with parents domiciled in other jurisdictions, with the three Canadian banks account for 75 percent of total bank assets. Similarly, the credit union sector is heavily skewed, as just four of the thirty-five credit unions account for more than 83 percent of total assets, membership, loans and deposits.

2016-02-02