INTERVENTION POLICY FRAMEWORK

1. INTRODUCTION

The Financial Institutions Act Cap 324A (FIA) and the International Financial Services Act 325 (IFSA) provide the Central Bank of Barbados (Bank), with discretionary intervention powers to address identified areas of weaknesses in the financial condition or operational practices of licensees, or their non-compliance with applicable laws, regulations or supervisory instructions. The intervention process is intended to identify areas of concerns early and to minimize potential losses to depositors or other creditors as well as maintain the overall stability of the financial sector.

The Bank, in furtherance of its responsibility for the regulation and supervision of licensees under these Acts, has developed this Framework to provide general guidance to licensees on the procedures that the Bank will follow when there is cause for concern with respect to the operations of its licensees or non-compliance by licensees with applicable legislation, regulations, guidelines or other directives of the Bank.

Licensees are encouraged to maintain an open dialogue with the Bank and they have a duty to report any concerns arising from their operations or breaches of legislation, regulations, guidelines or directives to the Bank in a timely manner. The Framework establishes the broad framework for intervention, the nature and timing of which will take into account factors such as:

a. The potential loss or impact on the capital of the licensee and the likely impact on the various stakeholders, in particular depositors and third parties;
b. The frequency of occurrence, nature and magnitude of the situation;
c. The degree to which remedial action can be used to rectify the problem;
d. The compliance history of the licensee and its willingness and ability to cooperate with the Bank;
e. The extent to which the directors and officers have not acted in a fit and proper manner;
f. Whether there are a number of issues which, when considered independently, may not require action but which when considered collectively indicate a pattern of imprudent and improper behaviour; and
g. The possibility of civil and/or criminal proceedings against the licensee, its shareholders or directors as a result of a breach.

Licensees should be aware that the Bank might, in exercise of its statutory responsibility, effect decisions outside those noted in this framework if it considers that the public interest would be better served.

2. STAGES OF INTERVENTION

The Bank has identified 4 stages of intervention, each of which will be followed by specific actions. Where the Bank considers that the licensee's risk management practices, capital, liquidity and earnings are adequate to enable it to withstand business and economic shocks, it may not be necessary to implement the stages outlined below.

The Bank, however, reserves the right to intervene even in instances where the licensee's risk management practices, capital, liquidity and earnings may appear adequate.

2.1 STAGE 1: EARLY WARNING

This stage of intervention occurs when the Bank is aware of problems that, if left unchecked, could deteriorate to those identified at stage 2. These include inter alia:

a. Deficiencies in policies or procedures; or
b. The existence of practices, conditions and circumstances that could lead to deterioration in the financial condition of the licensee. These deficiencies may be evidenced by:

    i. Breaches to statutory and regulatory requirements;
    ii. Declining asset quality, liquidity or capital; or
    iii. Weaknesses in corporate governance or risk management.

To address these problems, the Bank will impose Early Warning Intervention measures that include:

a. Formal letter outlining the Bank's concerns to the Board of Directors and Management;
b. Meetings with the licensee's senior management and/or Board of Directors to outline the Bank's concern and discuss the possible remedial actions. This meeting may include the external auditors;
c. Submission of a formal action plan by the licensee indicating the time frame in which deficiencies will be rectified;
d. Ongoing monitoring of remedial actions by periodic review of compliance with stated action plan, request of additional information and/or follow up onsite inspections; and
e. Placement of the institution on *phase one of the Bank's watch-list*, resulting in:
    i. Written notification to the licensee that it is being placed on the Bank's watch-list and the reasons for its placement;
    ii. A possible increase in the frequency of reporting and the level of detail specific to the area of concern; and

iii. The sharing of this information with the Barbados Deposit Insurance Corporation (BDIC).

2.2 STAGE 2: HEIGHTENED SOLVENCY RISK/ INCREASED OR CONTINUED REGULATORY BREACHES

The second stage of intervention is initiated when there are situations or problems that the Bank considers could deteriorate into serious problems if not addressed promptly. These include:

a. Concerns about the licensee's ability to meet capital requirements on an ongoing basis i.e. a declining capital adequacy ratio (CAR) that is approaching the minimum CAR required by the Bank. For instance, a ratio of 2% above the minimum required CAR may be used as a trigger and a basis for intervention;
b. Continued deterioration in the asset quality or value;
c. Low level of accessible liquidity or poor liquidity management;
d. Excessive off-balance sheet exposures;
e. Marked deterioration in profitability or operating losses that undermine compliance with target capital ratios;
f. Substantial weaknesses in management and/or internal controls;
g. Breaches of statutory and regulatory requirements, including adequate provisioning;
h. Qualifications to the audited financial statements;
i. Failure to implement remedial action to address:

    i. Deficiencies highlighted in the inspection report,
    ii. Deficiencies discussed under stage 1 early intervention, or
    iii. Other actions as directed by the Bank or BDIC; and

j. Other concerns including:

    i. Rapid growth relative to the other players in the industry;
    ii. Financially weak parent/owner;
    iii. Credit rating downgrades; or
    iv. Systemic issues.

Intervention measures at this stage include, in addition to the measures at the preceding stage:

a. Requiring the Board of Directors or senior management to enhance governance and risk management processes via the development and implementation of policies and procedures to address weaknesses in internal controls and procedures; and

b. Elevation of the licensee to phase two of the watch-list which could include:

   i. Notifying the licensee that it has been elevated to stage 2 of the Bank's watch-list and identifying the reasons. In the event that this is a recurring issue, the notification may be signed by the Governor or Deputy Governor depending on the magnitude of the risk;
   ii. Expanding the scope and/or frequency of onsite inspections;
   iii. Requesting that a special audit be undertaken by either the licensee's external auditors or auditors selected by the Bank, at the licensee's expense, where the scope would reflect the areas of deficiencies highlighted by the Bank;
   iv. Informing the licensee's home/host regulators as applicable of the circumstances and status of any supervisory action taken; and
   v. Notifying the BDIC of the action and discussing its implications.

2.3 STAGE 3: HIGH SOLVENCY RISK/ SEVERE REGULATORY BREACHES

This stage of intervention is initiated when situations or problems described at Stage 2 have worsened and are at a level where the licensee, in the absence of mitigating factors such as access to financial support from its parent, or without effective application of corrective measures, faces a material threat to its future viability or solvency.

The likely intervention at this stage includes, in addition to the measures at preceding stages:

a. Requesting the removal or substitution of a director(s) or senior officer(s) of the licensee;
b. Restrictions on the licensee's business activities or undertakings including but not limited to:

   i. The payments of dividends or management fees;
   ii. Lending or investing activities;
   iii. The level of deposits and other debts;
   iv. Expansion of branches and the lines of business;
   v. Principal or interest payments on new subordinated debt; and
   vi. Other restrictions tailored specifically for the given circumstance.

c. Directives to cease and desist any activities that the Bank sees as hazardous to the financial soundness of the licensee or that are in breach of the regulatory or statutory requirements under which the licensee operates;
d. Requesting capital injections by the shareholders to increase the licensee's capital base in line with its risk profile;
e. Suspension of license for a period not exceeding three months; and

f. Informing the licensee's home regulator or other host regulators of the circumstances leading to supervisory action and the intervention measures employed; and
g. Increased contingency planning with the BDIC.

2.4 STAGE 4: IMMINENT INSOLVENCY OR NON-VIABILITY OF A LICENSEE

This final stage of intervention is initiated when there is severe financial difficulty or regulatory breaches resulting in:

a. Failure or imminent failure to meet regulatory capital or liquidity requirements in conjunction with the licensee's inability to rectify the situation within a short period of time as specified by the Bank;
b. Failure to develop and implement an acceptable business or strategic plan within a short period of time to avert failure or in solvency; and
c. Prolonged and consistent failure to comply with the Bank's directives.

Likely Intervention at this stage would include:

a. Seizure of management and control of the licensee in accordance with Section 59 Part V of FIA or Section 67 Part III of IFSA; and
b. Informing the licensee's home and/or host regulators of the supervisory action taken.