Financial Regulation and Supervision in the Wake of the Pandemic

Remarks by **Governor Cleviston Haynes**
at the XXXIX Caribbean Group of Bank Supervisors Annual Conference

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Good day.

It is my honour, as host Governor, to extend a heartfelt welcome to everyone at this XXXIX Annual Conference of the Caribbean Group of Banking Supervisors (CGBS).

The CGBS serves as an organ of CARICOM Central Bank Governors, and it has been pivotal in helping to secure and maintain financial stability within the region. The capacity of regional jurisdictions to regulate banking institutions in line with global supervisory standards benefits from the collaborative efforts of members in the design of micro-prudential regulatory policies and the delivery of cost-effective training for regional supervisors.

These annual conferences, therefore, represent a critical component of our effort to ensure that our supervisors are better prepared for the challenges ahead. This year's conference coincides with the Central Bank of Barbados' celebration of its 50th anniversary, and its timing adds to the intellectual fare which a celebration such as this merits.

We had hoped that all of you could be here with us physically for the occasion but, with the persistence of the COVID-19 pandemic, we meet once again in a virtual setting. This creates, however, the potential for us to reach more of our supervisors at a time when they face new challenges that will require new perspectives and skillsets. It is an opportunity, therefore, for a wide cross-section of the regional family of regulators to stay current on emerging issues so that our regulatory frameworks can be appropriately adapted.

I wish to commend the Group for the work it has undertaken during this period of COVID-19 and, on behalf of the Governors, I wish to acknowledge the contribution of the outgoing CGBS Chair, Ms. Karen Rolle who, together with the Secretariat, has worked to sustain the momentum of the Group over the past three years.

I take this opportunity also to thank Ms. Maurene Simms, the outgoing Head of the CGBS Secretariat. Maurene has provided stellar service to this Group over the years and is demitting office as Deputy Governor of the Bank of Jamaica. Her characteristic forthright interventions will be missed. On a personal note, I will certainly miss the counsel which she has provided to me over the past two decades. Maurene, enjoy your retirement. I have no doubt that your successor, Dr. Jide Lewis, will maintain the high standards of his predecessors.

I alluded earlier to the emerging challenges that our banking supervisors face. These come at a time when many of our regional economies are encountering macro-economic difficulties. Regional economies, especially those heavily dependent on the provision of tourism services, were hard-hit by the effects of COVID-19. Businesses registered reduced sales and unemployment levels trended upwards. These economies are now making a gradual recovery from the sharp contraction in 2020, and the IMF in its recent forecast estimates that regional growth in tourism dependent economies will pick up from 2.8% in 2021 to 3.2% in 2022.

However, the pace of the recovery faces ongoing threats from the persistence of the pandemic, supply chain disruptions, geopolitical events, and the potential impact of monetary policy tightening caused by rising inflation in key source market economies. The risk of a prolonged Russia-Ukraine conflict on the global economic recovery has heightened vulnerabilities, as pre-existing inflationary pressures have been aggravated in recent months by a surge in food and energy prices, the result of reduced supply of commodities globally.

Our financial systems withstood the COVID-induced challenges because of the counter measures implemented in 2020. For example, in Barbados, financial institutions provided cash flow relief to borrowers and temporarily eased provisioning standards, policies that were mirrored across the region. The Central Bank of Barbados also extended regulatory relief on capital and large exposures to institutions impacted by the 2018 sovereign debt restructuring. This relief expires at the end of October and all institutions are expected to be compliant with statutory requirements. Financial institutions were also offered liquidity support through lower interest rates at the discount window, but no institution availed itself of the facility because of the high level of excess liquidity.

Most of the moratoria arrangements implemented by our banks at the height of COVID have been phased out, and the financial system remains stable, with rising capital adequacy ratios and falling NPL (non-performing loan) ratios. The vulnerability associated with high household debt has tapered off, as individuals have been able to pay down debt, particularly on credit cards.

With the recovery to pre-pandemic levels incomplete, the financial sector will have a critical role to play in financing the resumption of growth. We are concerned, therefore, that the rise in the capital adequacy ratio reflects an ongoing weak supply of credit to the private sector.

For banking supervisors, the macroeconomic developments will no doubt provide a sobering reminder of the challenges and vulnerability of our small, open, interconnected economies, particularly as it relates to our financial systems. With the ongoing uncertain economic environment, the need for continuous regulatory vigilance is therefore crucial.

The theme of this conference, "*The Road to Recovery and Growth in the Wake of the Pandemic: What this Means for Regulation and Supervision,*" is therefore pertinent to how we go about enhancing the regulatory framework while strengthening the capacity of the financial system to assist in the revival of economic activity.

As we consider how the financial system helps in the economic recovery, it is important to recognise that banking models are changing globally, as banks respond to the opportunities and challenges created by the financial technology revolution. Competition from non-traditional players and the adoption of mobile and web technologies by customers are altering how banks interface with customers. By drawing on the rich data sets that the technology provides in real time, these developments will also impact how we, as regulators, interface with our licensees.

Our region has lagged behind in the adoption of some of the technologies. Over the past 30 years, we have witnessed the transformation in the delivery of banking services through the adoption, for example, of ATMs, point of sale services and internet banking in Barbados. Access to mobile transactions is not yet universal, while the smart ATM is only now coming on-line. However, change is inevitable.

COVID-19 unleashed a major thrust towards e-commerce and digital financial transactions. This development has the potential to enhance productivity and improve efficiency in the financial system. Already, new players are emerging in the payment systems space and they will be regulated under the new National Payment Systems Act. The Bank considers that competition in this space, facilitated by interoperable networks, will enhance financial inclusion as new product lines come onstream, and it will help to reduce transaction costs.

The Bank has also authorised the *de novo* entry of a digital bank which has the potential to alter the delivery of banking services and enhance competition in the domestic banking system.

The government of Barbados is supporting this ecosystem through the creation of a digital national ID, which will serve as a single source of verification of customer identity. Additionally, given the access to personal data which this enables, together with ongoing digitisation in the financial sector, the Data Protection Act will serve to regulate the collection, processing, retention and dissemination of personal data, and to protect the privacy of individuals in relation to their personal data. These issues are also engaging action by international standard setters.

The financial technology revolution has also fostered a wave of virtual assets, the regulatory framework for which is now evolving, as regulators come to grips with the implications of these assets on financial stability.

Understanding the differences between Central Bank Digital Currencies (CBDCs) and other virtual assets that are not sponsored by central banks will be important as we go forward. For example, our member central banks in the Eastern Caribbean, the Bahamas, and Jamaica are testing the feasibility of CBDCs playing a role in fostering financial inclusion by providing consumers with a digital alternative to cash. Indeed, only last week, the Jamaica Senate amended the Bank of Jamaica's Act, authorising the Central Bank as sole authority for the issuance of a CBDC and for the CBDC to become legal tender.

Central Bank digital currencies differ from other virtual assets that have entered the payments space such as bitcoin and stablecoins which, at least for the time being, are speculative assets and for which regulatory procedures are now being developed. Public education will be important in helping potential investors to understand how these currencies and assets work.

I am therefore particularly keen to see the focus on virtual assets and payments oversight as part of the agenda, for these are issues which, together with the Group's ongoing work on crisis preparedness, climate risk, and the greening of financial systems, cyber risk and correspondent banking are of interest to us all.

How will this digital transition impact the regulation of banks? How will reporting systems change? And how will we manage the cyber risks arising from a more digital system? What new skillsets will we, as regulators, need to manage these rapid changes?

Taking advantage of the regional and international presence at this conference, your discourse on experiences to date and recommendations for the next steps will augur well for those of us who are yet to take that step formally.

As your virtual host, we promise an engaging event that will stimulate your thinking on the challenges that confront us.

I trust that as we all proceed along the road to recovery and growth in the wake of the pandemic, this year's conference will provide us with additional tools for regulation and supervision of the constantly changing financial sector, which, too, is navigating the economic recovery while responding to demands for improved efficiency.

I thank you.