FINANCIAL SYSTEM SOUNDNESS CONTRIBUTES TO JAMAICA’S INVESTMENT INFRASTRUCTURE

Presentation made at the 8th Annual International Business Expo
Lauderhill Regional Chamber of Commerce
Lauderhill, Florida, USA

06 October 2011

Presenter: Antoinette McKain
Chief Executive Officer, JDIC
Banks and other Financial Institutions have a special place in the Economy

- Bring savers, borrowers and investors together in the economy.

- Convert liquid deposits and investment funds into long term less liquid loans and investments.

- Risk is thereby created.

- Role in the economy makes them subject to regulation.
MINISTRY OF FINANCE

[Minister of Finance – Cabinet Minister of Government]

Responsible for policy, licensing and regulation of deposit-taking institutions: commercial banks, merchant banks, building societies (DTI’s)

- Intervention of failed banks

JAMAICA DEPOSIT INSURANCE CORPORATION

- Management of Deposit Insurance Fund
- Limited guarantee of deposits in deposit-taking institutions:
  COMMERCIAL BANKS
  MERCHANT BANKS
  BUILDING SOCIETIES (DTI’s)

BANK OF JAMAICA

Regulation and supervision of deposit-taking financial institutions:
- COMMERCIAL BANKS
- MERCHANT BANKS
- BUILDING SOCIETIES (DTI’s)
- Intervention action by Supervisor of Banks and Financial Institutions

FINANCIAL SERVICES COMMISSION

Regulation of Supervision:
- Insurance companies, securities dealers,
- Investment companies,
- Pension funds, unit trusts

FINANCIAL REGULATORY COUNCIL

Financial Secretary, Supervisor of Banks and Financial Institutions,
Executive Director of FSC and Chief Executive Officer of JDIC

JAMAICA STOCK EXCHANGE
Compares to the financial system regulation in the United States

- U.S. Department of the Treasury
  - Secretary of the Treasury
- Federal Reserve Bank
- Federal Deposit Insurance Corporation
- U.S. Securities and Exchange Commission
WHY DEPOSIT INSURANCE?

To protect depositors and guarantee payment where banks fail.

Deposit Insurance helps to build confidence in the financial system as it provides certainty to depositors as to their exposure in bank insolvency.

Provides a tidy framework for resolution of failing or failed banks.
DEPOSIT INSURANCE IN THE WORLD

Over 120 countries in the world with explicit deposit insurance schemes. Many of these, including the Jamaican scheme were set up after a banking system crisis.
THE DEPOSIT INSURANCE SCHEME IN JAMAICA

The JDIC’s primary role is to manage the Deposit Insurance Scheme to protect depositors from loss.

- Levy premiums on Policyholders
- Issue Deposit Insurance Policies to Policyholders and monitor compliance
- Manage the Deposit Insurance Fund
- Facilitate the efficient solutions for failing banks
- Conduct payouts to depositors if bank fails
INSTITUTIONS INSURED UNDER THE SCHEME - POLICYHOLDERS

Only deposit taking financial institutions regulated and supervised by the Bank of Jamaica:

- COMMERCIAL BANKS
- MERCHANT BANKS
- BUILDING SOCIETIES

IT’S CUMPULSORY
WHAT ARE THESE DEPOSITS INSURED?

- Savings and Chequing Accounts
- Certificates of Deposits
- Money Orders and Drafts
- Foreign Currency Deposits
- Prepaid cards where the cardholder has a beneficial right to the bank balances on cards
COVERAGE LIMIT

- Coverage – up to $600,000
- Per depositor per institution
Test of Jamaica’s Financial System Stability

- Global financial crisis of 2007 – 2009 or credit crunch the worst financial crisis since the Great Depression of the 1930’s.

- US Financial Crisis Inquiry Commission reported its findings in January 2011.
How did the Jamaican Banking System fare during this period

- Jamaican bank regulations required a higher than internationally recommended levels of capital.

- Prudential requirements monitored closely.

- Separation of banking and investment business to minimize the risk of contagion.
The net effect of these safeguards that existed in the regulations allowed the banking system to remain resilient during this period. No financial institution failed in Jamaica.
Other Features which promote a favorable Investment Climate

Jamaica Trade and Invest (JAMPRO)

- Government sponsored institution promoting multi-sector investment and trade promotion.
- Guides investors through steps, approvals to making their projects possible.
Trade and Investment Incentives Laws

- Shipping Act
- Modernization of Industry Programme
- Urban Renewal Act
- Factory Construction Law
- Jamaica Export Free Zone Act
- Accelerated Depreciation/Special Capital Allowance
- International Technical Assistance Programme
- No Exchange Controls - Free movement of capital
Private Sector Organization of Jamaica

- Corporate Governance Committee - facilitate implementation of best practices through a Code of Corporate Governance
Comments on the Jamaican Economy

Progress under the economic programme is already being reflected in an extended period of almost unprecedented stability in the macroeconomic environment and improving business confidence.

(Extract from the Governor of the Bank of Jamaica’s address to the Institute of Chartered Accountants Forum “Stability, Interest Rates and Economic Growth” Wednesday, 5 Oct. 2011)
Law Reform

- Reform of laws to facilitate company restructuring where businesses meet difficulties.
- New laws to facilitate formation and management of offshore companies
Government has introduced a comprehensive reform of the tax system aimed at:

- Reducing distortions, removing inefficiencies and stimulating growth
- Reform will simplify the tax system
- Widen the tax base and improve equity mainly through the rationalization of tax waivers, exemptions and incentives.