



CAYMAN ISLANDS  
GOVERNMENT

## Financial Services Sector – Challenges in the Caribbean

*Presented at the EU-CARIFORUM*

Presented by:

**Dax Basdeo** PhD  
(Acting) Chief Officer, Financial Services  
Ministry of Finance

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Good morning distinguished guests, ladies and gentlemen.

Thank you for the opportunity to address the first EU-Cariforum.

On behalf of the Cayman Islands Government, it is my pleasure to be here with you to share our thoughts about financial services, as I am sure that many of you can appreciate the hard work and constant effort it takes to make the Caribbean financial sector an international success.

# Agenda

- The Environment
- Experiences
- Opportunities
- Final Thoughts



My talk this morning will focus on four key areas [read from slide]. My intention with the final thoughts section is to hopefully bring about further discussion from the panel and the audience, as with all things related to financial services, there are many perspectives to consider.

## A Challenging Environment for Global Financial Services



- International standards evolving – need to keep pace
  - ~ OECD Global Forum, Insolvency II, Basel II, FATF, FSB, IOSCO, IAIS all actively reviewing current standards
- Individual governments considering new policies involving foreign jurisdictions
  - ~ US: HIRE Act, Congressional debates
  - ~ EU: EUAIFM, EUSD II

On the global environment for financial services, I think to call it challenging is an understatement. As part of discussions at the G-8/G-20 level in response to preventing a repeat of the global financial crisis, virtually all international standard settings are either reviewing their standards or are in the process of taking steps to update or change them.

In the area of tax information sharing for example, the OECD has introduced a Peer Review Group to develop terms of reference for standards of transparency and exchange of information for tax purposes – the Cayman Islands, Virgin Islands and The Bahamas are active members of this group. Cayman is also an active participant in the OECD Global Forum, as members of the Steering Group. In the area of risk in particular, Basel II and Insolvency II are driving changes in how risk is being managed and viewed.

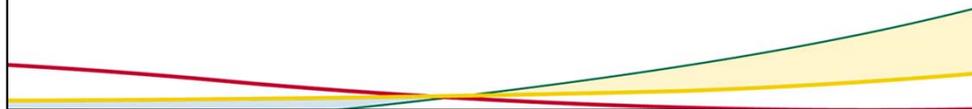
These international initiatives will continue to have significant impact on areas such as compliance and market access for the foreseeable future. The second bullet touches on the activities of individual governments where policy proposals are identifying rules that may need to be implemented by foreign jurisdictions – such as the HIRE Act in the U.S. which will require greater reporting by foreign banks to U.S. authorities on financial activities with U.S. interests – or the various directives being considered by the EU which seek to protect members states from perceived risks associated with doing business outside of the Eurozone.

Both will undoubtedly have implications for Caribbean jurisdictions and will require diligence and engagement on a number of levels to help mitigate any detrimental impacts these may have – such as closing off markets to certain countries or creating an unlevel playing field in a particular areas of the financial services industry.

## Changing Market Dynamics



- Financial crisis will bring more regulatory and policy reviews and may affect flow of capital and economic recovery
- Greater influence from nations not as impacted by economic crisis (i.e., Asia, emerging markets)
- Significant opportunities continue to exist in Brazil, India, Russia, China, Middle East



In addition to an evolving global policy and public affairs environment, the dynamics of the financial services industry are also creating both challenges and opportunities.

An unwanted byproduct of the implementation of changes to legal and regulatory regimes of traditional markets may mean changes to how capital flows around the world. It is decidedly Cayman's experience that capital flows to areas and structures which allow it to move most fluidly which may suggest that markets like the U.S. and Europe – which were traditional pillars of financial stability – could face competition from other larger markets that offer competitive alternatives to institutional investment.

We will also likely see greater influence from large countries with significant growth prospects for capital investment activities, namely China, Brazil and India, among others.

Caribbean jurisdictions with significant financial services capabilities will need to be actively engaging on a global level to ensure we remain top of mind among existing markets, while building awareness among the cohort of emerging markets.

## Cayman's Experience



- Need to be in the game – not on the sidelines
  - ~ OECD Peer Review; CFATF Mutual Evaluation Programme; 19 TIEAs in place, several others pending
- Consistent approach to global policy environment:
  - ~ Secure an understanding of global environment at all times
  - ~ Work with stakeholder community to inform policies
  - ~ Focus on strengths and build plans around them
  - ~ Engage with influencers and global standard setters
- Links with economic development as part of future focus:
  - ~ National Planning Initiative and National Investment Council
  - ~ Financial services identified as core area for growth/diversification

I want to take a moment to focus on the experience of the Cayman Islands and how we have approached some of the challenges I've outlined.

At the heart of our strategy is the objective of being at the table wherever we can to help inform and bring perspective to global standards, from the perspective of a small country that punches well above our weight in terms of the size and scope of our financial services industry. This is reinforced by our ability to 'walk the talk' and fully support third-party evaluations – our most recent being the 2009 review by the IMF of our regulatory framework -- as well as driving implementation of international standards to which we subscribe, such as engaging in bi-lateral agreements on tax information in support of our OECD commitment and evidenced by our 'white list' status and close to 20 TIEAs.

Second, we have gone to great lengths to ensure a framework is in place in the Cayman Islands that looks at international initiatives strategically, recognising both their inherent challenges and opportunities. This involves four key elements [READ SUB BULLETS FROM SECTION 2]

Looking towards economic development, our overall goal for the future is to take the Cayman Islands to another level and to do that, we are putting resources into looking at ways to stimulate growth in this industry, in ways that benefit market participants and our country. Over the past few months, we have introduced new Immigration policies to stimulate growth in the financial services sector and to retain top talent, which will in turn help continue to drive business in that sector and keep the Cayman Islands at the forefront of the global financial markets.

The National Planning Initiative aims to focus on long term economic strengthening and diversification while the National Investment Council will serve the interests of investors. The Cayman Islands Monetary Authority has developed a five year rolling strategic plan to focus specifically on the regulatory needs of the financial services industry, which seeks to elevate our status as a well-respected and top-ranked international financial centre.

## Perspectives from BVI



- Secure recognition from international standard setters
  - ~ CFATF, IOSCO, OECD
  - ~ High AML/CFT standards
- Show evidence of commitment to international standards
  - ~ 17 TIEAs in place, member of OECD Global Forum Steering Group
- Provide an outlook for the future
  - ~ High level of cross sector expertise resident in the territory will help ensure success
  - ~ Strong relationship with the private sector within a diversified financial services sector

BVI has been recognised by international bodies including the Caribbean Financial Action Taskforce (CFATF), the International Organization of Securities Commissions (IOSCO) and the OECD. Through the FATF's International Co-operation Review Group process, the jurisdiction was found to have high standards against money laundering and terrorism financing.

Similar to most Caribbean 'offshore' countries, BVI has signed 17 TIEAs to adhere to the OECD's principles for effective exchange of information and transparency and is on the OECD 'White List'. BVI is also on the Peer Review Group which was formed at the OECD Global Forum.

The jurisdiction focuses on diversifying their financial services to encompass high level of cross sector expertise resident in the territory, supported by strict adherence to competency requirements. A strong relationship with the private sector, as well as high levels of regulatory compliance demonstrate the strength of the BVI, which is grounded in its internationally acknowledged standards of good governance and adherence to the principles of an established rule of law.

## Opportunities for Improved EU-Caribbean Relations



- Capitalize on EGFP membership
  - ~ Presents an opportunity to interact with EU counterparts, build on existing relations
- Need to build awareness and secure equivalency among EU member states for regimes of EU Overseas Territories
  - ~ Each evaluated on an individual basis
- Cayman Islands as incoming CFATF Chair
  - ~ Represented at the FATF
- OECD Global Forum
  - ~ Represents partnership between Caribbean and EU member states
- Private sector firms should seek opportunities to collaborate with regional bodies on third party initiatives

Opportunities for improved EU-Caribbean Relations are great because the Caribbean already has the regional structures in place for financial supervision: Caribbean Group of Banking Supervisors, Caribbean Group of Securities Regulators, Caribbean Association of Insurance Regulators.

I see a significant opportunity to build a stronger, more vibrant voice as part of Caribbean member nation participation in the European Global Financial Platform. There is also significant relationship building opportunities that exist within this construct which may also help open commercial channels in the financial services sector.

Another opportunity we see specific to the Cayman Islands is our role as incoming chair of the CFATF. The Cayman Islands will be responsible for setting the work program and assisting in matters relating to Caribbean financial services. They will also be represented at FATF meetings, which could provide insight into EU-Caribbean relations.

The Caribbean is also represented at the OECD Global Forum, as Bermuda is Vice Chair and Cayman and BVI are members. This, in conjunction with other EU financial platform, are opportunities to further discussions and be actively involved in implementing international standards in the global financial market.

Our focus has been to turn international challenges into opportunities that help continue to build our product and service offerings.

This is driven by private sector support and a sharing of perspectives to help ensure that Government upholds its high level of regulatory compliance while not compromising the commercial environment. To build on this, private sector firms should seek opportunities to collaborate with regional bodies on third party initiatives and further develop relationships to benefit their financial services sectors.

## Final Thoughts



- Success will require careful navigation of the global environment
  - ~ Engagement with governments, regulators and even competitors
- Need among Caribbean jurisdictions in particular for effective, informed strategic plans that are globally-minded
- Continue to gain credibility through continued participation in international fora and reviews

I will leave you with the following three thoughts for discussion:

First, we have to have a solid understanding of the global environment and collaboration with governments, regulators, even competitors becomes increasingly important.

Second, Caribbean counterparts need to develop effective, informed strategic plans and help reinforce our contributions to the global financial system as markets continue to evolve, particularly in a highly competitive and fluid environment.

Third, we need to continue to demonstrate the effectiveness and resilience of our legal and regulatory regimes through support and participation in external evaluations and being a voice at the table. This will require constant engagement and participation.

Thank you for the opportunity to address you this morning.