

BANK OF JAMAICA

BACKGROUND: Financial System Stability Committee

In December 2010, Cabinet took a decision to assign institutional responsibility to Bank of Jamaica for the stability of Jamaica's financial system and, in October 2015, The Bank of Jamaica Act was amended to provide a statutory basis for the Bank's financial stability mandate. In particular the amendments provided for the establishment of a Financial System Stability Committee (FSSC). The financial stability mandate is consistent with that given to other central banks around the world.

The need for this step was most recently highlighted by the global financial crisis of 2008 which demonstrated in the advanced economies the disastrous possibilities that can stem from systemic financial risk, even in the presence of otherwise sound financial institutions.

In general, financial system stability is characterized by (i) the orderly operation of financial institutions, financial markets and the payment and settlement infrastructure and (ii) the capability of these components to absorb internal and external shocks without substantial impairment to the real economy.

Financial stability oversight primarily involves the detection, monitoring, evaluation and mitigation of various sources of systemic risk and has two main objectives: (i) enhancing the resilience of financial institutions and the whole financial system and (ii) smoothing the financial cycle.

Bank of Jamaica established a financial stability unit in 2002. Subsequently expanded to become today's Financial Stability Department, its work is focused on the development of early warning tools and financial risk assessment models which have been made public over the years in the Bank's annual Financial Stability Report, the most recent of which can be found at http://www.boj.org.jm/uploads/pdf/finstab/finstab_2015.pdf.

Bank of Jamaica is at the forefront of financial stability assessments and macro-prudential oversight in the Caribbean. The Bank has provided capacity development assistance in financial

stability to other Caribbean jurisdictions and has played a leading role in the development and publication of the first regional Caribbean Financial Stability Report in 2015. This was a well-needed initiative, considering the region's interconnectedness and the potential for systemic region-wide weakness highlighted by the collapse of Colonial Life Insurance Company (CLICO) a few years ago. The contagion effect from CLICO was felt directly in eight countries in the Caribbean. Notably, Jamaica was not affected.

The financial stability mandate of the Financial System Stability Committee and Bank of Jamaica provides a statutory foundation for the identification, mitigation and control of systemic threats to financial system stability by the assessment of vulnerabilities within the financial system as a whole as well as those arising from the links between the financial system and developments in other parts of the Jamaican economy and the global economy. Bank of Jamaica, in consultation with the Financial System Stability Committee, is empowered to develop prescriptive rules, standards and codes for financial institutions which specifically address gaps and imbalances that could threaten financial system stability as a whole.

This oversight complements and does not replace the responsibilities and authority of Bank of Jamaica and the Financial Services Commission to supervise and regulate, respectively, the deposit-taking, insurance, securities and pensions industries. Bank of Jamaica and the Financial Services Commission also meet regularly with the Jamaica Deposit Insurance Corporation and the Ministry of Finance on the Financial Regulatory Committee, a statutory committee also established in 2015 to foster timely information-sharing, coordinated policy development and effective crisis management with respect to the financial sector.

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