



JBA Annual AML/CFT Seminar

Recent Enhancements in Jamaica's Financial Sector Oversight Framework

Address by
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Ladies and Gentlemen,

It has been a significant year for financial sector regulation in Jamaica. We have seen this in the progressive relaxation of limits on foreign currency-denominated investments by securities dealers, in the strengthening of protection for retail repo investors by moving ownership of repoed securities into a trust for the benefit of the repo investor and in the designation of additional credit information providers and a build-up in credit reports issued by credit bureaus. The Banking Services Act, passed in 2014, was brought into effect by the Minister of Finance last month. This Act paves the way for the introduction of a code of conduct for bankers regarding how they treat their customers and the introduction of an agency model for banks, which holds the promise for easier access, greater convenience and lower cost for the consumer of banking services and which also will enhance financial inclusion for marginalised Jamaicans.

Initiatives to Enhance Financial Sector Oversight

The BSA updates and consolidates the supervisory framework for banks and other deposit-taking institutions (but not credit unions). It brings Jamaica into closer compliance with international supervisory principles such as supervisory autonomy and consolidated supervision, including rules for financial holding companies.

A Supervisory Committee of five is now in place and has principal responsibility for the supervision framework for DTIs. It has replaced the Minister's role in the previous legislation and has also introduced collective decision-making to responsibilities and powers that were previously the exclusive domain of the Governor of the Bank. Three members of the committee are executives of Bank of Jamaica and two others are outsiders appointed by the Governor General on the advice of the Minister of Finance. The Supervisor of Financial Institutions, who is the Governor of the Bank, chairs the committee. The committee has already had meetings to consider and approve regulations that were recently affirmed by Parliament.

Also now in place under the BSA is a new statutory committee called the Financial Regulatory Committee. This is a committee of financial sector regulators and policy makers

that meets regularly to facilitate information sharing, coordination and cooperation among regulatory agencies and is also chaired by the Governor of the Bank. It strengthens the previous arrangement by providing a statutory basis for the Financial Regulatory Council that has been working since 2001 with the same members and similar mandate.

Parliament currently has before it a bill that seeks to give a statutory base to macroprudential supervision in Jamaica. The bill proposes to amend the Bank of Jamaica Act to give responsibility to Bank of Jamaica for oversight of financial system stability in general. It does this by providing Bank of Jamaica with powers relating to information gathering, monitoring and rule-making under the auspices of a statutory committee (the Financial System Stability Committee) made up of financial sector regulators, the Ministry of Finance and two non-executive members appointed by the Minister of Finance. The Governor of the Bank chairs this committee which will make periodic reports to the Minister of Finance and the public on threats to financial system stability and the policies needed to mitigate or neutralise those threats.

These proposals have been persistently and erroneously described by some elements in the media as establishing Bank of Jamaica as a super-regulator for the financial system. This is false and misleading. The proposed amendments leave existing regulatory arrangements for each of the regulated financial industries (insurance, banking, securities markets, pension funds, etc) unchanged. For example, the Financial Services Commission's mandate, responsibilities and powers will remain undiluted. The purpose of the amendments is to provide oversight that is not fully covered by the existing architecture so that, for example, the system is able to respond with greater speed and effectiveness when the gaps in regulation that are inevitable in any system begin to be exploited in ways that are systemically threatening. Most importantly, the proposed financial system stability arrangements allow for threats to financial system stability that arise from seemingly unrelated economic developments to be identified early on and mitigating policy actions identified and implemented in a timely manner thus contributing to maintaining the stability of the financial system overall.

The new supervisory architecture – the coordination of prudential supervision between the BOJ and the FSC, the dedicated safety net focus of the JDIC and the establishment of new statutory committees – is a major enhancement to Jamaica’s financial regulatory structure. It allows dedicated focus on specific industries while deepening the opportunities for coordinated action by the authorities. Even as Parliament completes its consideration of the proposed financial system stability amendments and we work through the implementation of the new architecture, we are now reviewing and upgrading the crisis management and resolution framework and working on how to bring greater focus on market conduct (including financial consumer protection). You can expect to hear more about these initiatives in the coming year.

AML/CFT¹ Issues

The changes that I have described will undoubtedly impact the AML/CFT regime as well and it is my expectation that the new arrangements will facilitate the continued integration of AML/CFT policies and regulatory requirements into the mainstream of financial regulation and supervision in Jamaica.

Much legislation has already been implemented to strengthen the AML/CFT framework and more upgrades are to come. Since 2005, Jamaica has passed amendments to the Proceeds of Crime Act and the Terrorism Prevention Act, among others. We have also implemented AML/CFT oversight mechanisms for services falling within the category of non-financial businesses and professions (the DNFBPs). The regulators, as we speak, are revising their oversight mechanisms to monitor the compliance of the financial sector with their respective AML/CFT obligations.

Jamaica has recently undergone a Mutual Evaluation by CFATF² using the procedures developed by FATF³. The results will be finalised later this year. The preliminary findings reflect that Jamaica (and particularly the regulated financial sector) has a good appreciation and awareness of its AML/CFT risks but more needs to be done to ensure that our regime is as

¹ Anti-Money Laundering/Counter the Financing of Terrorism

² Caribbean Financial Action Task Force

³ Financial Action Task Force

effective as it is intended to be. For example, Jamaica needs to complete its national risk assessment. This is especially important if we want to consider and implement reduced customer due diligence for low risk categories of persons or transactions, something that is vital for increasing access to finance for the financially excluded as well as for improving the ease of doing business for Jamaican enterprises.

Recent developments with respect to the actions of Jamaica's US correspondent banks has created concerns for us with the most recent development being the notice given by a major correspondent bank, who is the principal provider of foreign currency bank note services to Jamaica, that it will stop accepting cash emanating from cambio operations. We have also seen de-risking actions in overseas jurisdictions disrupt the operations of remittances to Jamaica in some cases. These developments are part of a wave of de-risking that has been spanning the globe and do not appear to be related to any assessment or judgment of the quality of Jamaica's AML/CFT regime. Instead, it seems to be driven by assessments by international banks that the revenues from this business are exceeded by the costs, in particular high compliance costs and compliance risks.

I have just returned from the annual meetings of the World Bank and the International Monetary Fund in Lima, Peru and can report that the search for a solution has achieved some prominence on the international agenda. The Jamaican authorities are also seeking to find solutions by engaging in direct dialogue with authorities in the United States as well as our counterparts in CARICOM. But even as we work to find solutions with our international partners, one thing remains very clear and that is that we need to step up our monitoring and compliance in relation to money laundering and terrorism financing risks and improve our image and standing in the international community with increased communication with our stakeholders overseas. I therefore urge domestic financial entities of all kinds to continue to adhere to the required pillars of AML/CFT programmes and demonstrate that the region has a strong AML/CFT culture. There should be no room left for doubt about the extent of firm adherence by financial entities in Jamaica.

Thank you.