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**CHANGING PATTERNS IN OWNERSHIP  
OF FINANCIAL INSTITUTIONS AND  
THE IMPACT ON  
THE REGION'S FINANCIAL SYSTEM**

**CENTRAL BANK OF BELIZE**

# **CHANGING PATTERNS IN OWNERSHIP OF FINANCIAL INSTITUTIONS & THE IMPACT ON THE REGION'S FINANCIAL SYSTEM**

*The Case of Belize*

## **Introduction**

This paper examines the changing pattern of ownership of commercial banks in Belize from 1968 to 1994 and the impact it has had on the country's financial system. It focuses on the effect which the introduction of the International Business Companies (IBC) Act 1990 has had on the status of bank holding companies in Belize and the resulting impact on the Central Bank of Belize in carrying out its duties as regulator of banking activity in Belize. I will begin with a general overview of the composition of the banking system and then concentrate on the emergence of bank holding companies in Belize and their contribution to the change in the ownership structure of commercial banks in Belize.

Presently, the financial system in Belize is comprised of seventeen active credit unions, thirteen active insurance companies, one building society, a development bank, and four commercial banks. The Central Bank of Belize is responsible for regulating and supervising only the commercial banks. Last year, however, it examined the operations of the development bank following discussions between the development bank, Caribbean Development Bank, World Bank and the Central Bank of Belize and it is envisaged that periodic examinations will be undertaken in the future.

Up to 1970, there were only three commercial banks conducting banking business in Belize. All three banks were branches of international banks, namely, The Royal Bank of Canada, Barclays Bank PLC, and The Bank of Nova Scotia. In 1971, however, the first locally incorporated bank, Atlantic Bank Ltd., began operations. Atlantic Bank Ltd. is owned jointly by Belizeans and Hondurans with its majority shareholdings held by Sociedad Nacional de Inversiones S. A. (Sonisa) incorporated in Honduras. In 1988, The Royal Bank of Canada sold its banking operations in Belize to Belize Holdings Ltd. - a locally incorporated IBC holding company owned by local and foreign investors. This was the introduction of bank holding companies in Belize. In 1992, Sonisa was incorporated under the IBC Act and, as the holding company of Atlantic Bank Ltd., became the second bank holding company in Belize.

At this time, therefore, of the four commercial banks presently operating in Belize, two of these remain branches of international banks and the other two are locally incorporated and owned by holding companies.

## **International Business Companies in the Offshore Business Sector**

The Government of Belize, in an attempt to promote the expansion and development of the financial system into an international financial services center, has enacted a series of new legislation to provide the legal framework for off-shore business activities. The legislation includes the Registration of Merchant Ships Act (1989), The Belize Trust Act (1992) and The International Business Companies Act (1990).

The Merchant Ships Act provides for ship owners and operators to register their vessels under the Belizean Flag, whilst the Belize Trust Act, which is said to be one of the most modern and innovative in the world, provides for the creation of trusts. The piece of legislation which has changed the status of the holding companies of the two indigenous commercial banks, however, is the International Business Companies Act. This act makes provision for the creation of IBCs and Public Investment Companies (PIC) as a special kind of IBC.

IBCs are off-shore companies that engage in activities that do not produce income in Belize. They are incorporated in Belize by registered agents who can register these companies by phone and later fax the related documents to the Deputy Registrar. All IBCs are exempted from (a) income tax in Belize, (b) taxes in respect of dividends and other distribution, capital gains, interest, (c) all forms of gift and inheritance taxes and (d) from payment of stamp duties. Some of the minimum requirements to register an IBC are:

- 1) only one subscriber is necessary, either singularly or jointly with others;
- 2) only one director is required;
- 3) no minimum paid-up capital is required;
- 4) an IBC may issue bearer shares and no par value shares; and
- 5) it must have a registered office and a registered agent in Belize.

IBCs are not required to file the names of shareholders and directors, submit annual audited financial statements and are not required to hold annual shareholders meeting.

There are certain restrictions that have been attached to the activities of IBCs. IBCs are not permitted to engage in the following:

- 1) carry on business with residents in Belize except for a) maintaining deposits with a company incorporated in Belize and carrying on a banking business within Belize, b) maintaining professional contact with solicitors, barristers, accountants, bookkeepers, trust companies, administration companies, investment advisers or other similar persons carrying on business within Belize, c) maintaining books and records within Belize, d) holding meetings

within Belize of directors and members, e) holding shares, debt obligations or other securities in a company incorporated under this Act or under the Companies Act, or f) shares, debt obligations or other securities in the company are owned by any person resident in Belize or by any company incorporated under this Act or under the Companies Act;

- 2) own an interest in real property in Belize except for holding a lease of property for use as an office from which to communicate with members or where books and records of the company are prepared or maintained;
- 3) carry on banking business in Belize; and
- 4) carry on insurance or underwriting business.

The IBC Act of Belize, unlike other IBC Acts in the region, has a unique feature which allows IBCs to be registered as Public Investment Companies (PIC). A PIC is an IBC with special rights and benefits to encourage PICs to invest in Belize through ownership of companies and the purchase of real estate. These special rights and benefits include:

1. exemption from all form of taxes and duties in Belize for up to 30 years;
2. exemption from exchange control requirements for a) the issuing of shares or

securities in PICs to residents of Belize, b) entering into loans and other liabilities with the group holding company, and c) repayment of interest and principal and repatriation of profit and dividends;

3. exemption from withholding taxes on its dividends to shareholders;
4. treatment of the members of the PIC group as one local entity for tax purposes and preferential tax rates of 25%.

In order for an IBC to register as a PIC it must meet certain requirements. These are:

1. an IBC must have a minimum net tangible asset value of \$2.5 million;
2. an IBC must have a minimum gross tangible asset value of \$25.0 million;
3. the company should have reported a minimum net income of \$.5 million for the most recent financial year;
4. the company should have reported a minimum average net income of \$.375 million for each of the two previous complete financial years; and

5. the shares of an IBC must be listed on an approved international stock exchange.

The PIC section of the IBC legislation is the major factor that has contributed to the changing status of bank holding companies as both locally incorporated banks are now members of a PIC group. As a result, the Central Bank of Belize has encountered issues that needed to be addressed so that these issues would not impact negatively on the financial system.

### **Issues Encountered, the Potential Impact on the Financial System and the Response of the Central Bank of Belize**

I will discuss the issues encountered, the negative effects they could have had on the financial system and how these issues were addressed.

1. The PIC section of the IBC Act created an uneven playing field in the banking system as the indigenous banks, which are members of a PIC group, have preferential treatment in the area of taxation. These banks enjoy income tax rates of 25% (on combined net profits of the Belizean subsidiaries) while the branches of international banks pay 35%.



The banks that form part of a PIC Group also benefit from the exchange control exemptions granted to PICs.

The unfairness of the 'uneven playing field' created by the IBC Act has caused friction within the financial system. The exemption from exchange control regulations has created a loop hole that can facilitate capital flight from the financial system.

2. Since PICs are allowed to issue bearer shares, ownership of holding companies of these banks can easily be concealed from the Central Bank of Belize as a change in ownership may occur without notification to the Central Bank of Belize. Presently, this is not the case since the Central Bank is fully aware of the owners of these banks and their directors.

However, the risk of not knowing or being able to monitor the changing ownership of bank holding companies still exists and is against supervisory practices and principles set by the BASLE Committee.

The Central Bank of Belize has indicated that repealing the PIC section of the IBC Act could solve the problems of unevenness in the playing field and possible concealment of ownership of banks. The Central Bank of Belize has attempted to obtain additional

information on the PIC holding companies from regulators in other jurisdictions where they operate.

3. Belize International Services Ltd. (BISL) was appointed by the previous Government to act as Registrar of IBCs. BISL is an affiliate of one of the local banks and has appointed an executive officer of the bank as a Deputy Registrar which creates an inherent conflict of interest.

To avoid the problem of conflict of interest, the Central Bank of Belize would recommend that Government cancels the agreement with BISL and delegates the registration of IBCs to an independent body.

4. The possibility exists of insider dealings between the banks and other members of the PIC group. The possibilities range from the granting of loans at preferential terms and rates to affiliated companies without proper documentation to paper transactions among members of the group of companies which could undermine the capital of the bank.

So far, no major problems have surfaced and the banks have responded positively to specific recommendations made by the Central Bank of Belize in this regard.

5. **The deposit accounts of IBCs are maintained at local commercial banks. Because of the nature of IBCs, it is difficult to apply the ‘know your customer’ principle to these accounts and therefore, these banks are more vulnerable to money laundering activities. From the banks’ point of view, secrecy is fundamental to a successful IBC sector and there has been objections to the Central Bank’s access to information on these accounts.**

**Because the issue of money laundering is very serious, the Central Bank of Belize has recommended that deposit accounts should only be opened for companies whose owners can be identified and are known to the bank. The banks are also required to seek to ensure that the flow of funds through these accounts are not from illicit sources.**

6. **Presently, the Banking Act does not give the Central Bank of Belize the power to regulate and conduct inspections on operations of holding companies. The absence of regulation and inspection of these holding companies may create risks that could be disastrous and may disrupt the banking system.**

**This is to be addressed in the new Financial Institutions Act which is being drafted.**

**In spite of the negative issues derived from the changing ownership of the indigenous banks, a positive contributing factor has also been noted. These two banks have been responsible**

for opening sub-branches in areas that lacked banking activities thereby having a direct impact on the development of the economy especially in tourism and agricultural sectors.

## **Conclusion**

A review of the banking system in Belize clearly depicts a changing pattern in ownership of commercial banks in Belize over the years. From 1968 to 1970 all banks conducting business in Belize were branches of international banks. In 1971, a local bank came into the scene and later an international bank sold its operations to local and foreign investors. At this point, both local banks were owned by holding companies incorporated within Belize or Honduras. However, after the introduction of the IBC Act, the holding companies of both banks decided to become IBCs and then PICs in order to enjoy the special rights and benefits granted to PIC Groups.

It is clear that a changing pattern in ownership of banks has occurred in Belize and has resulted in potentially negative implications. To date, however, most of the issues encountered have been addressed by the Central Bank of Belize through discussions held with the commercial banks.

Taking this into consideration, the Central Bank of Belize has drafted a new comprehensive Financial Institutions Act which aims to provide a stronger framework for supervision and regulation and addresses issues such as capital adequacy, provisions on loan losses, the supervision of holding companies and other financial institutions such as merchant banks, investment banks, and trust companies.

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