

**The Role of Regional Central Banks in the  
Supervision of Credit Unions and Insurance Companies**

**Introduction**

Mr. Chairman, fellow bank examiners, colleagues. I am honoured to be able to address this conference to impart some of my views on the role that Regional Central Banks can play in the supervision of credit unions and insurance companies. Firstly, I am going to focus on credit unions and then move on to insurance companies. However, before I begin I would like to extend greetings on behalf of Mr. Manuel Vasquez, who was unable to attend this conference and who as most of you probably know will be leaving shortly on a two year study leave to further his education. I would also like to take this opportunity to thank the Central Bank of Trinidad for their kind invitation to participate in this meeting and for the opportunity to be able to share some of my views with you today. I should stress at the outset, however, that my remarks today reflect my personal views and do not necessarily reflect the views of the Central Bank of Belize.

Increasingly, credit unions and insurance companies have begun to play a more significant role in our financial systems and to a large extent it appears that these institutions have been allowed to operate with little or no regulatory supervision. The growth of these institutions has reached a point where we are no longer able to ignore them. The big decision facing us today then, as I see it, is whether and to what extent our Central Banks will become involved in the supervision of these institutions. Will we go the full nine yards and encompass both credit unions and insurance companies under our supervisory net or

will we concentrate solely on one or the other? Then again, will we fully assume the responsibility of regulating and supervising these institutions or will we work along with the present authorities to ensure that these institutions are adequately supervised? If we decide we would prefer to assume total responsibility, what kind of opposition will we face from the bodies that presently regulate these institutions? In Belize for example, persons responsible for the supervision of credit unions have been known to say that they would "fight us tooth and nail to ensure that they continue to regulate and supervise credit unions." These are just a few of the questions we will have to answer before we decide what role our Central Banks will play, if any, in the supervision of these institutions.

### Supervision of Credit Unions

Credit unions have been with us for a long time now but for the most part their role in our financial systems has been considered insignificant. However, more recently credit unions have been expanding quite rapidly to the point where for example in Belize, the largest credit union is reporting almost as much total assets as the smallest bank.

Where credit unions have begun to play a more significant role in our financial systems, perhaps the decision to become involved in the regulation of these institutions is not too difficult. In the lending area, there are many similarities in the operations of credit unions and banks so that for us the process of crossing over should not be a difficult one. Most of

the systems presently in place for supervising banks should prove adequate for credit unions.

However, there are other factors that will have to be addressed before we can become involved in the supervision of these institutions. First and foremost will be the extent of our participation. The recently concluded report on the "Study of Bank Supervisory Practices in the Caricom Region" calls for financial legislation in the region to include provisions for central banks to regulate and supervise the operations of institutions such as credit unions, building societies and the lending business of some insurance companies, where their operations are considered large enough to impact on the financial system. However, the study is not clear on what type of impact these institutions should be having on our financial systems and this might need to be addressed before long. The study also calls for central banks to work closely with the Registrar of Cooperatives and the Supervisor of Insurance to ensure that such institutions are properly monitored.

In most Caricom territories it is generally agreed that credit unions are not supervised as closely as commercial banks. Consequently, there is a need for us to work more closely with the Registrar of Cooperatives or assume full responsibility to ensure that credit unions are adequately supervised. It will probably only be necessary to supervise or assist in supervising the operations of larger credit unions. However, wherever possible it would be highly recommended that Central Banks take a more active role.

A second factor and perhaps even more important will be the need where necessary to revise and strengthen the laws governing credit unions. In Belize for example, our Credit Union Act dates all the way back to 1947. Some might argue that old laws are the best laws but in an era of rapidly evolving financial systems these laws might not be effective enough. Barbados as recently as 1990 passed a revised Cooperatives Act which includes specific provisions for regulating the operations of credit unions. Perhaps our colleagues from Barbados could share some of their views with us on whether the decision to revise the laws was a popular one and whether it has been successful in allowing closer supervision of credit unions. In any event, strengthening the laws and regulations governing credit unions seems to be of primary importance whether or not we eventually play a more active role in the supervision of these institutions.

Let's assume for one moment that we decide to become active in the supervision of credit unions. How would we be able to help? Perhaps the most obvious area is that of on-site examinations. Most if not all Caricom territories already have on site-examination programs for banks in place. This would provide a good basis to either assist in training those who are presently responsible for overseeing the operations of credit unions or with some minor modifications we could examine these institutions ourselves.

Gathering information from credit unions is another area in which we could provide a great deal of assistance. At present in Belize, only the largest credit union submits regular reports on its operations to the Central Bank of Belize. The information is provided only as a

matter of courtesy as under the law they are not required to do so. In addition, the information they do report is scant and would need to be upgraded significantly. This is where we can provide assistance as most of us probably have some type of off-site surveillance system in place. With the ultimate objective being the receipt of complete, accurate and timely data on the operation of credit unions, the Registrar of Cooperatives could benefit greatly, not to mention bank examiners, the Research Department and Government statisticians.

### Supervision of Insurance Companies

When I first received notification of the topic for this presentation, I must admit that I almost turned it down due to my lack of familiarity with the intricacies of this industry. However, after some thought I came to the conclusion that it was an excellent opportunity to explore the nature of the activities of insurance companies and the level and scope of supervision over their operations. Of particular importance to me as a banking supervisor was the lending activity of these entities and their use of public funds to do so. Besides their insurance underwriting activities, the former is much like the core of banking business, that is, accepting public funds and investing in credit. Therefore, there is a public interest that needs to be safeguarded and a new role for Central Banks in places where supervision or regulation is lax, ineffective or non-existent.

In Belize, insurance companies are regulated under Chapter 208 of the laws of Belize and the Supervisor of Insurance is responsible for overseeing insurance companies. There are sixteen insurance companies operating in Belize of which eleven are local companies and five are branches of foreign companies. The accounts of insurance companies are not audited by the Supervisor, however, they are required to submit audited statements each year.

It is a fact that there is little oversight over their operations and from all indications it would appear that even those within the industry are not presently satisfied with the regulation and supervision of the industry. In a recent article published in Belize on the insurance industry, one insurance executive commented that "the insurance industry in Belize is not being properly regulated and there is a scarcity of statistics and many dark areas." The article also goes on to say that there are insurance companies in Belize which are operating as agents and brokers without representing a parent company. This means that they could be operating in contravention of the insurance law, and could therefore be selling insurance contracts that are not enforceable. Clients who are insured with these companies run the risk of not having adequate security.

So what role will Central Banks play in the monitoring of insurance companies? As was mentioned before when we were discussing credit unions, we could either a) assume full responsibility ourselves or b) assist the Supervisor of Insurance. However, if we decide to assume full responsibility, it would be highly recommended that we oversee the entire

operations of the company and not confine ourselves to just the lending business. This would require supervisors to become experts in the insurance industry as we are in the banking business but we could assist more fully in this way. We could also opt to assist the Supervisor of Insurance but without having knowledge of insurance underwriting, our assistance would be limited to the lending area. This would mean then that a large segment of their operations may lack proper supervision.

The insurance industry is also one where a review of insurance laws may be necessary to determine their applicability and adequacy in today's financial system, especially in the area of prudential requirements and regulation. In Belize, a Bill was recently proposed to amend the insurance laws. Under the proposed Bill, insurance companies which carry on long-term and general insurance will be required to have a minimum paid up share capital of BZ\$250,000 up from BZ\$100,000. For companies incorporated abroad they will be required to have paid up share capital of BZ\$500,000. Another important amendment will hold every director, manager, secretary or principal responsible for any illegal offence committed by the company unless he/she can prove that the offense was committed without his/her knowledge or consent. Insurance companies will also be required to report in greater detail on their financial status on every area of their insurance business and to provide details of gross premiums, gross claims and commissions paid. While this is still a proposal, it is hoped that this bill will pass through our House of Representatives and if successful that the capacity to monitor these insurance companies is upgraded to ensure compliance with the laws.

## Conclusion

In conclusion, I would like to reiterate some of the main issues that have been discussed. Firstly, there is a definite need for Central Banks to become involved in the supervision of credit unions and insurance companies. To what extent we will be involved will have to be determined by each Central Bank. If these institutions are having a significant effect on our economies, then we will have to decide whether or not we will assume full responsibility of overseeing these institutions or we will just assist those regulatory bodies in which the responsibility now lies. The first option would definitely require additional resources especially in the area of training personnel. Furthermore, we could also meet some opposition from those who are presently responsible for supervising these institutions since they might feel that they are already doing an adequate job. The second option would probably be less expensive than the first and would probably meet with a lot less opposition. However, with this option we would not be able to fully control the supervision of these institutions and having the mind set of a bank examiner this situation would not be an easy one for us to deal with.

Regardless of the extent we become involved, however, it is imperative that the laws governing credit unions and insurance companies be reviewed for possible reform where necessary. Working with ineffective laws and regulations can be very cumbersome and frustrating as we all know from our experience in the banking industry. This then would be a good first step for us to assist in. Similar to banking laws, we would have to include



provisions in the laws which would allow us to supervise or assist in supervising from a position of strength.

Finally, information being gathered from these institutions is sparse and unreliable. With the systems we presently have in place in the banking industry this could provide a good framework from which reporting systems for these institutions could be developed. Adequate reporting systems for these institutions would allow us to keep abreast of the changes occurring and would provide hard data from which supervisors, economists and statisticians could assess the effect these institutions are having on our economies.