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FEATURED Q&A

How Can Caribbean Countries Strengthen Financial Regulation?

Q In a civil complaint last month, US authorities charged financier R. Allen Stanford with orchestrating a fraud connected to \$8 billion of certificates of deposit sold by Antigua-based Stanford International Bank through a network of advisors. Does this incident show a need for stricter regulation of financial services companies in the Caribbean? What role should Caribbean governments and private sector businesses play in maintaining the integrity of financial services firms in the region?

A Board Comment: Michael Diaz: "Between 2005 and 2007, Stanford International Bank (SIB) sold more than \$1 billion in certificates of deposits which promised double-digit returns based on their 'unique investment strategy.' This sounds eerily similar to the claims made by the good folks that worked for Bernie Madoff. The Stanford International Bank saga has brought to light what all investors should consider before investing in tax havens—if it seems too good to be true, it is. The notion that SIB had a magical formula that allowed greater returns in certificates of deposits than any other financial institution was suspicious from its inception. Whether it was SIB's intention to attract deposits from tax evaders, money launderers or from other illicit sources versus a simple Ponzi scheme remains to be deter-

mined as evidence is publicly displayed in US courts. What is clear however is that Caribbean countries like Antigua must be vigilant in their financial, regulatory and legal systems. The SEC alleges that SIB took great lengths to prevent any independent examination of its portfolios, notwithstanding the fact that it is subject to annual audits by Antiguan regulators, the Financial Services Regulatory Commission. That, however, never occurred. The lax financial regulations in Antigua allowed SIB to steal hundreds of millions of dollars from Latin American

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Citigroup CEO Says Company Has No Plans to Sell Banamex

Citigroup CEO Vikram Pandit says the New York-based company has no plans to sell its Mexican bank, Banamex. Pandit said the companies are 'one and the same.' See story on page 2.

File Photo: Columbia University.

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Mexico's central bank lowered interest rates a quarter point to 7.5 percent. Last month, it began cutting rates with a half-point cut. "The balance of risk has deteriorated more in terms of economic activi-

"The balance of risk has deteriorated more in terms of economic activity than it has in terms of inflation."

— Mexico's central bank

ty than it has in terms of inflation," the bank said in a statement. "The strong fall in US aggregate demand and employment is having a negative impact." The bank said it expects the economy to continue contracting during the first quarter of 2009. The Mexican peso has sunk to record lows and last week, data showed industrial production in Mexico fell 6.7 percent in the fourth quarter of 2008.

Colombia's Central Bank Cuts Interest Rate a Full Point

Colombia's central bank on Feb. 27 cut a benchmark interest rate a full point, from 9 to 8 percent, Bloomberg News reported. The move was the third straight monthly cut, which followed 16 straight increases.



Jose Dario Uribe

File Photo:
Colombian Central Bank.

Last year's rate increases pushed costs of borrowing up to a seven-year high, which kept inflation—but also consumer lending, retail sales and industrial production—down. After the bank's rate cut Feb. 27, Central Bank Governor Jose Dario Uribe said that in the midst of the global financial crisis, falling production has become a significant concern. "The new information available confirms the weakening of productive activity in

Featured Q&A

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investors and may very well subject the West Indies island to lawsuits for failure to diligently supervise and regulate SIB. Antigua at minimum should bear some of the burden of bailing out the victims of this fraud, which took place right under their nose or, worse, under their blind eye."

A Board Comment: Earl Jarrett: "Over the past decade, the member countries in CARICOM have enacted laws to modernize and tighten the governance of the financial sector in the region. The countries in the region have also

"The region has not experienced the massive banking failures of Europe and North America."

— Earl Jarrett

improved the capacity of the regulatory agencies to supervise the entities that they are required to monitor. Most coun-

Colombia," Uribe said after the decision. "The most recent industrial production and retail reports continue to show significant declines." A bank statement said the rate cut does not necessarily foretell similar cuts in the near future. Spurred by more bank lending since President Alvaro Uribe took office in 2002, Colombia's economic growth rose to 7.5 percent in 2007, its fastest rate in nearly 30 years. However, the current world economic turmoil, which for Colombia has meant fewer exports to the United States and Venezuela, has curbed the country's growth. In December, industrial production dropped 9.2 percent from the same month the previous year. In November 2008, it fell 13 percent from the year-ago period. The November decline was the largest drop since June 1999 during a banking crisis that led the government to

tries have adopted international best practice and to date, the region has not experienced the massive banking failures of Europe and North America. It is evident however, that closer attention may be required in the regulation of International Financial Entities. Based on published reports, it is apparent that Stanford operated a complex structure spanning many countries. The group owned the Antiguan domestic bank, the Bank of Antigua, which was supervised by the Eastern Caribbean Central Bank. The bank is reported to be sound but has experienced a liquidity problem due to the levels of customer withdrawals, which followed media reports of Stanford's problems. During this week, a consortium of banks supervised by the Eastern Caribbean Central Bank has taken control of the entity. The banks regulated by CARICOM member states have demonstrated soundness."

A Guest Comment: Bernardo Vega: "For some time now, first the European Union and later the United States have pressured the Caribbean to curtail offshore banking. First it was for tax reasons and later because of money laundering

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nationalize many financial institutions. The president also added two new directors to the Central Bank's board. He appointed former deputy finance minister Juan Pablo Zarate and former National Planning Department director Cesar Vallejo to replace directors Leonardo Villar and Juan Mario Laserna.

Poor Weather in India Could Help Brazilian Sugar, Ethanol Industries

Bad weather in the region that produces the bulk of India's sugar cane is expected to translate into more sugar cane exports to the Asian country from Brazil, giving a boost to Brazil's sugar and ethanol industries, *The Wall Street Journal* reported Feb. 26. Untimely rains in India will likely lead to a decline of between 17.5 million and 18 million metric tons of sugar for the

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involving drugs and perhaps terrorism. Antigua, in particular, has been pointed out not only because of banking, but also because of offshore betting and the involvement of local politicians in these activities. The communique from the last G-20 meeting made reference to the need to curtail offshore banking, linking its activities to the international banking crisis. After the Stanford scandal, it is foreseeable that more outside pressure will be applied to the region. The smaller the island and the bigger its financial sector, the more difficult it will be for its authorities to regulate banking, given human resources constraints. Caribbean overseas territories like the Turks and Caicos Islands have also been affected recently by scandals involving investment schemes. In the Dominican Republic, financial regulation, which was very loose, became and still is very strict after three banks committed fraud and became insolvent in 2003. Subsequently, under IMF supervision, new and ample controls were imposed and thanks to that, Dominican banks have not been affected by the international crisis."

A Guest Comment: Ronald Sanders: "The matter of the SEC prosecuting a civil suit for alleged fraud against R. Allen Stanford points to the absolute need for stricter regulation not only in Antigua and Barbuda but also in the United States. Court documents about this matter claim that the alleged fraud relates to the sale of products by the Stanford International Bank (SIB) in Antigua and by the Stanford Financial Group in Houston. The regulators in both jurisdictions are, therefore, culpable. While the smallness of its resources does not absolve the Antigua regulators of responsibility, the vastness of the resources available to the US regulators condemns their failure to recognize the danger signals in the operations at a much earlier stage. The Stanford allegation should not be used to stain

Caribbean regulators while ignoring the fact that deficiencies also existed in the US system. No Caribbean jurisdiction should wish to remain in the business of hosting companies that offer financial services without strong, relevant and appropriate legislation and supervision

“Deficiencies also existed in the US system.”

— Ronald Sanders

that protects the interests of customers. In this regard, independent statutory bodies that are free of political interference and are overseen by bipartisan committees drawn from the legislature should be established to raise their credibility and give confidence to domestic and international clients. So there is a need for stricter and fearless regulation of financial services as much in the US as in the Caribbean.

Michael Diaz is a member of the Financial Services Advisor board and Managing Partner at Diaz, Reus & Targ, LLP.

Earl Jarrett is a member of the Financial Services Advisor board and General Manager of the Jamaica National Building Society.

Bernardo Vega is President of Fundación Cultural Dominicana and served as Dominican Ambassador to the United States from 1997 to 1999.

Ronald Sanders is an International Relations Consultant and former Chairman of the Caribbean Financial Action Task Force against money laundering and drug trafficking.

The Inter-American Dialogue's Financial Services Advisor

is published biweekly. Copyright © 2009

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The Inter-American Dialogue's **Financial Services Advisor** is published biweekly, with the exception of major holidays, from 1211 Connecticut Avenue, Suite 510 Washington, DC 20036
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