

## ROPOSED QUESTIONS FOR DR SHIRLEY TYNDALL

1. It has been argued that strategic policy decisions made by the Administration played a significant role in the collapse of the financial sector in the mid 1990s. How do you respond?
2. Was legislative deficiency a factor in the effective supervision of the financial sector during the 1990s?
3. What was the role of the Ministry of Finance in the Licensing, Supervision and Regulation of insurance companies?
4. It had been argued that the supervision and regulation of insurance companies was almost non-existent. Can you explain why supervision and regulation of insurance companies was almost non-existent?
5. What are the factors which caused the financial crisis of the 1990s?
6. The Bank of Jamaica in its submission identified the insurance companies as a major factor in contributing to the financial crisis. Would you agree with this finding? Would you explain how such a situation could have been avoided?
7. For the period 1990 – 1995:

Money Supply: averaged 33.2 percent

Inflation: averaged 38.9 percent

Interest rates: averaged 49.2 percent

- a. Would you characterize these outcomes as extraordinary by global standards?
  - b. What informed the policy choices at the time which occasioned these outcomes?
  - c. What was the impact of these outcomes on the business community at the time particularly within the context of the debt / equity ratios?
8. In 1996 government drastically reduced the growth in money supply to 10.7 percent.
    - a. What occasioned this policy reversal at the time and was the magnitude of the adjustment injurious to the economy?
    - b. What was the impact of this reduction on consumer spending, business turnover and cash flow?

- c. Did it lead to increases in losses in the private sector and ultimately to an increase in bad debts and overall extraordinarily high levels of loan loss provisioning?
  - d. What if any, do you perceive as the role of government policy in the difficulties experienced by the financial sector in Jamaica in the mid 1990s and beyond?
9. Former Executive Chairman of FINSAC Dr Gladstone Bonnick in a paper entitled “Storm in a Teacup or Crisis in Jamaica’s Financial Sector” presented at the Caribbean Centre for Monetary Studies in 1998 opined that the principal causes of the problems in the sector were:

“too many small banks and insurance companies, poor credit management, diversification into non-banking areas, poor portfolio management and flaws in the investment mindset of domestic entrepreneurs in the sector”

- a. Is this perspective too myopic in assessing the true import of the confluence of factors which occasioned the difficulties experienced by the financial sector in the mid nineties and beyond or is it reflective of your own thought processes?
10. One factor routinely advanced to explain the genesis of the crisis was a weak legislative framework for the sector. Such weakness was manifested not only in terms of limited control over entry into the sector but also in terms of inadequate institutional support to monitor and regulate players.
- a. What were the reasons which in your judgment precluded a more proactive legislative intervention?
  - b. What in your judgement was the impact of the failure to adequately develop the appropriate institutional framework to monitor and regulate the system?
11. As the financial sector continued to experience unprecedented growth, it became increasingly apparent that the Ministry of Finance had a serious capacity shortfall in terms of its supervisory responsibilities. This manifested itself in woefully supervisory on insurance companies.
- 12.
- a. Why wasn’t this capacity shortfall addressed in a timely manner?
  - b. How would you assess the role of the Ministry of Finance as the Supervisor of insurance companies? What is your view of the charge that the Ministry of Finance was guilty of breaches of its Statutory Duty as the Supervisor of insurance companies and that such conduct reflected administrative ineffectiveness?

13. With the phenomenal growth experienced by the financial sector, were policy adjustments made to regulate a myriad of activities that were being concealed in the unsupervised institutions at this time?  
Do you consider the policy response so muted and protracted particularly in an environment where the non-regulation of such entities had the potential to undermine the efficiency and longevity of the financial sector and necessitated an urgent policy intervention? What were the reasons for the protracted policy response?
14. Despite the acknowledged weak legislative and supervisory environment which existed, the Government of Jamaica as a matter of policy supported the more direct involvement of the Banking sector in the productive sector arguing that such involvement was vital for investment and growth.
- a. What were the policy imperatives that informed this view?
15. During the stewardship of then BOJ Governor G Arthur Brown, limits of 20 percent of capital in any one entity other than financial institutions and 40 percent of capital for all investments were set. Nonetheless you have argued that the banks were reckless by spreading themselves too thinly and becoming involved in a range of activities outside their basic area of competence, suggesting that they should have maintained their focus on core business. However the model adopted by the GOJ was not novel and has been used successfully in Germany, Japan and France.
- a. How would you characterize the role of these financial conglomerates in the period immediately preceding the financial sector collapse and in the immediate aftermath?
- b. What in your view was the reason for its failure in Jamaica and to what extent could this be reflective of inadequate supervision of insurance companies by the Ministry of Finance and protracted non-action on recommendations made by the Bank of Jamaica?
16. How would you assess the tenure of Jacques Bussieres as Central Bank Governor and could you discuss the possible impact of his repeated and oft public criticism of and opposition to financial conglomerates?
17. To what extent do you believe that these criticisms helped to undermine confidence levels in the domestic financial sector?
18. c. Further did his oft expressed wish for a substantial reduction in the quantum of financial institutions reflect a deliberate policy of contraction to facilitate the existing supervisory capacity at the Central bank and the Ministry of Finance or was it truly reflective of a crisis of confidence occasioned in the first instance by the closure of Century National Bank in July 1996?
19. As a response to the crisis, the Administration guaranteed all liabilities, replaced bad loans with government debt and assumed control over institutions and

collateral on loans. This ultimately led to the financial crisis costing between 20 – 40 percent of GDP.

- a. What was the degree of involvement of the multilateral agencies in the resolution of the financial crisis?
- b. To what extent was GOJ concerned about the potential cost of the proposed intervention as well as the possibility of moral hazard such an intervention strategy would engender?.
- c. Was there an underestimate of the nature and cost of the crisis?
- d. In retrospect do you believe that this strategy of intervention was appropriate and is the long term fiscal impact a necessary price to pay for such an intervention?

20. Part of the FINSAC intervention policy was to restore solvency to troubled financial institutions by way of the issuance of bonds and the transfer of a large portfolio of non-performing loans to FINSAC. However, several entities had found themselves in an illiquid position and were forced to encash their bonds at severely discounted rates with a few willing financial intermediaries. This effectively meant that the issuance of the bonds which limited only a part of the request for assistance submitted by the entities were being redeemed at a fraction of its face value thereby compounding an already troublesome scenario. Further in 2001/2 these non-interest bearing bonds were replaced with interest bearing Government securities coupled with reductions in the cash reserve and liquid assets ratio. Nevertheless, most of the liquidity released is still being channeled into government debt instruments, rather than productive lending.

- a. How would you in retrospect assess the efficacy of this intervention strategy?
- b. In your judgment, if the mechanism was more efficiently administered could some of the troubled financial institutions have been saved?

21. There were 15 deposit taking institutions under the supervision of the BOJ in 2005, down from 46 in 1997. This has been adjudged by critics as being reflective of the demise of the indigenous financial sector entrepreneur.

- a. What are your views on this contraction / consolidation of the deposit taking institutions and how would you respond to your critics?
- b. Do you regard this as being a success?
- c. Do you consider this the Bussieres vision being realized?

22. In 2002, the bad debt portfolio under the control of FINSAC was sold to Jamaica Redevelopment Foundation, a subsidiary of Beal Bank, a wholesale bank specializing in the secondary market of the US. This has been a source of considerable controversy with accusations of punitive rates of interest being used to drive several persons and businesses into bankruptcy or other forms of financial distress

- a. What were the factors that informed this strategy of selling the bad debt portfolio to Beal Bank?
  - b. Why weren't mechanisms employed which could have afforded the delinquent borrowers the opportunity to seek to discharge the debt?
  - c. Do you have any regrets or reservations about the strategy employed? Why were no mechanisms instituted to protect unsophisticated debtors from persons seeking to collect statute barred debt?
  - d. Was it a mistake for FINSAC not to have embarked on any restructuring of the troubled financial sector but to simply sell them to overseas interests, including business and personal debts?
  - e. Why was the approach adopted in Jamaica out of step with what obtains in many countries that experienced similar problems and where the strategy employed was to arrange mergers, joint ventures and new capital for troubled financial entities?
23. Despite the legislative reforms that were enacted in the aftermath of the crisis in the financial sector, in recent times the authorities seemed impotent in dealing firmly and promptly with the unregulated investment schemes, with claims being made by the FSC about "grey areas" in the legislative framework.
- a. Did the failure of the State to effectively respond truly reflect deficiencies in the legislative framework or merely an unwillingness to engage for fear of a public backlash? b. If indeed there were legislative deficiencies why weren't the requisite changes anticipated?
  - b. What were the principal lessons learned from the collapse of the financial sector in the mid 1990s and did the advent and relative longevity of these unregulated financial schemes reflect a soft underbelly of the financial sector which can be indicative of the possibility for the experiences of the mid 1990s to be replicated?
24. There have been repeated references in the past to fraudulent conversion being part of the explanation for the collapse of some of the entities in the financial sector. These matters are now statute barred.
- a. What are the reasons for the failure to prosecute?
  - b. Is it that incidences of alleged fraud were exaggerated or was political pressure brought to bear so that the process was essentially stymied?
  - c. In your judgment does this failure to act compromise the integrity of the process?
25. While the problems faced by the banks were essentially that of bad debts, those faced by the life insurance companies were caused by investment in equities, real estate and hotels. Indeed consequent on the collapse of the equities market, the insurance sector relied extensively on high cost short term funds to make long term investments.

- a. What is your assessment of the failure of the local life insurance sector at that time?
  - b. What was the role of the Superintendent of Insurance and why were matters allowed to get to the point of industry collapse?
  - c. What was the policy response to substantial increase in the short term investments in the Life Insurance Companies?
  - d. To what extent do you believe that the decision to freeze all investment funds in the Insurance companies for 7 years, factor in the crisis of confidence manifested by frequent “runs” on these institutions which arguably led to their ultimate demise?
26. The treatment of troubled financial entities has been characterized as arbitrary. Detractors point to the perceived differential treatment accorded for example to the shareholders of the National Commercial Bank versus those in Island Victoria bank. Both had similar antecedence and both were insolvent. However the investments by shareholders in IVB were wiped out and the bank folded whereas NCB received \$19.5B in FINSAC support and its shareholders reaped windfall gains after its divestment.
27. What were the reasons for the differential treatment of troubled entities in the financial sector?
28. Why was Mutual Life allowed to fail?
29. The Central Government Expenditure increased from \$13.018 billion in the fiscal year 1991/1992 to 102.947 billion in 1999/2000. Over the period GDP grew marginally between .05% and 2.5% per annum becoming negative in the years 1996, 1997, and 1998. Growth in Private Sector credit moved from 16.45 in 1990 to -16.9% in 1998. How do the authorities justify the increase in Central Government expenditure by some 800 plus percent over the period in the context of marginal or negative growth in GDP and the massive decline in credit to the Private Sector?
30. To what extent were the increases in the fiscal expenditure financed through borrowing both in local currency and in foreign currency?
31. How did the actual increase in Central Government expenditure impact liquidity in the system and how did it influence the monetary policy pursued by the Bank of Jamaica?
32. The joint IMF, IADB and World Bank mission expressed the view that-

“It has been our experience that no resolution strategy can be successful in restoring a consistent with achieving a sustainable and low rate of inflation as well as external viability. Jamaica’s current policy mix of fiscal laxity, monetary restraint, and

exchange rate stability is, in our view, not consistent with achieving such macroeconomic objectives”. Do you agree with this view? If not could you explain?