THE EASTERN CARIBBEAN CENTRAL BANK

ANNUAL FINANCIAL STABILITY REPORT

JUNE 2024

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The Financial Stability Report is a publication of the Eastern Caribbean Central Bank. It aligns with the Eastern Caribbean Central Bank's financial stability objective by identifying, monitoring and communicating on systemic risks. The view is to enhance the resilience of the ECCU financial system by taking action to reduce or remove any threat to financial system stability. This is a key strategic priority of the Eastern Caribbean Central Bank and supports the Bank's objectives as it relates to growth, sustainability and employment.

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Preface by Governor Timothy N.J. Antoine

In the ever-evolving global and regional financial landscape, safeguarding the stability of our financial system remains a cornerstone of the Eastern Caribbean Central Bank's mission. The Annual Financial Stability Report 2023 stands as a testament to our unwavering commitment to preserving the resilience and robustness of the Eastern Caribbean Currency Union (ECCU) financial system. This publication highlights our dedication to identifying, monitoring, and mitigating systemic risks, thereby ensuring the continued confidence of the citizens of the ECCU.

The ECCU has weathered numerous challenges over the past year, including the persistent impacts of global inflation, heightened geopolitical tensions, and the ongoing threat of climate-related disruptions. Yet, despite these hurdles, our financial system has demonstrated remarkable resilience. Strategic regulatory interventions, prudent risk management, and the concerted efforts of financial institutions across the ECCU have played pivotal roles in reinforcing this stability.

This year's report emphasizes key developments, including disinflationary trends, strengthened capital and liquidity buffers in the banking sector, and the progressive recovery of critical economic sectors such as tourism. It also underscores emerging vulnerabilities, particularly in areas like cyber resilience, which demand urgent attention and collective action.

As the world becomes increasingly interconnected, the risks to financial stability grow more complex. Our ability to navigate these risks hinges on the strength of our partnerships, the agility of our policies, and the vigilance of our regulators and financial institutions. I commend the contributors for their diligent efforts in producing this comprehensive report, which provides valuable insights for policymakers, financial institutions, and the public.

Looking ahead, the ECCB remains resolute in its mission to support sustainable growth, employment, and development in the ECCU. Together, let us continue to fortify our financial system, ensuring it serves as a bedrock for resilience and prosperity across our region.

Timothy N.J. Antoine
Governor
Eastern Caribbean Central Bank

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List of Acronyms and Abbreviations

BASEL	Basel Committee on Banking Supervision
BSI	Bank Stability Index
DTI	Deposit-Taking Institutions
ECACH	Eastern Caribbean Automated Clearing House
ECCB	Eastern Caribbean Central Bank or the Bank
ECCU	Eastern Caribbean Currency Union
FMC	Financial Market Conduct
GDP	Gross Domestic Product
HHI	Herfindahl-Hirschman Index
ICAAP	Internal Capital Adequacy Assessment Process
IMF	International Monetary Fund
LFI	Licensed Financial Institution
LNBFI	Licensed Non-Bank Financial Institutions
M2	Total Monetary Liabilities (Currency with the Public plus Deposits)
MSME	Micro, Small and Medium Enterprises
MT103	Single Customer Credit Transfers
MT202	Interbank Transfers
NBFI	Non-Bank Financial Institutions
NFA	Net Foreign Assets
OFCI	Office of Financial Conduct and Inclusion
PEARLS	**P**rotection, **E**ffective Financial Structure, **A**sset Quality, **R**ates of Return, Signs of **G**rowth
RGSM	Regional Government Securities Market
RTGS	Real Time Gross Settlement System
SREP	Supervisory Review and Evaluation Process
WAIR	Weighted Average Interest Rate
WEO	World Economic Outlook
US/USA	United States of America

Executive Summary

The Annual Financial Stability Report June 2024 evaluates the financial stability dynamics of the Eastern Caribbean Currency Union (ECCU), identifying systemic risks and assessing the resilience of financial institutions in the face of significant global and regional challenges. This report emphasizes the macro-financial developments, institutional performance, and policy measures critical to safeguarding the region's financial stability.

Global and Regional Macro-Financial Developments

Global economic conditions in 2023 were shaped by elevated inflation, geopolitical uncertainties, and tightening financial conditions, contributing to slower growth in advanced economies and heightened vulnerabilities in emerging markets. These dynamics were mirrored in the ECCU, where economic activity decelerated following a robust post-pandemic rebound.

Tourism-led recovery persisted as a key driver of growth, although challenges such as moderating visitor arrivals and inflationary pressures dampened the pace of expansion. Inflation within the ECCU eased to 1.9 per cent by mid-2024, reflecting disinflationary trends in advanced economies and declining food prices. Nonetheless, rising fuel costs posed challenges to price stability. Public sector debt increased slightly to $17.6 billion, with varying debt trajectories across member states, reflecting differences in fiscal policy responses.

Financial Sector Stability

The ECCU's financial system demonstrated resilience amidst these headwinds. The banking sector maintained robust capital adequacy (16.8 per cent) and liquidity buffers (55.7 per cent), well above prudential thresholds. Credit growth was driven by household borrowing, particularly in real estate, while the non-performing loan (NPL) ratio improved modestly to 11.2 per cent. The resolution of a systemically important institution, First St. Vincent Bank, underscored the ECCU's commitment to financial stability and effective crisis resolution mechanisms.

Non-bank financial institutions also contributed to financial system stability. The credit union sector, with assets growing to EC$6.2 billion, played a critical role in private sector credit provision, despite persistent credit risks. The insurance sector remained stable, with improved liquidity and underwriting profitability, though slower growth in gross premiums highlighted challenges in market demand.

Emerging Risks and Vulnerabilities

Key risks to financial stability include cyber threats and climate-related disruptions. The frequency and sophistication of cyberattacks on ECCU financial institutions underscore the urgent need for strengthened cybersecurity frameworks. Concurrently, climate-related shocks continue to pose risks to economic stability, necessitating enhanced disaster resilience planning and green finance initiatives.

Policy Actions and Outlook

The ECCB has taken decisive regulatory measures to mitigate systemic risks and reinforce financial stability. The implementation of the Prudential Standard on Technology Risk Management represents a significant step in addressing cyber vulnerabilities. Meanwhile, regional collaboration and capacity-building efforts remain critical to enhancing financial sector resilience.

Looking ahead, the ECCB aims to navigate a complex risk environment by prioritizing climate adaptation and digital transformation. Strengthening institutional resilience and maintaining sound macroeconomic policies will be essential to mitigating vulnerabilities and supporting sustainable growth.

Conclusion

The Annual Financial Stability Report 2023 underscores the ECCB's progress in reinforcing financial stability while identifying areas requiring further action. Policymakers and financial institutions in the ECCU must sustain efforts to address emerging risks and ensure that the financial system remains a cornerstone of economic resilience and growth.

Chapter 1
International and Regional Macro-Financial Developments

Global Macro-Financial Environment

Key Global Risks

The global financial environment in 2023 was defined by elevated levels of inflation, heightened geopolitical tensions, tightening financial conditions, and uneven economic recovery. Advanced economies continued to grapple with the effects of aggressive monetary tightening, while emerging markets and Developing Economies (EMDEs) faced capital outflows, sovereign debt vulnerabilities, and climate-related disruptions.

In addition to these international financial market risks, the protracted War in Ukraine remained a major source of global instability, disrupting energy markets and trade flows. Additionally, tensions were significantly escalated in the Middle East due to the Israel-Palestinian conflict. These further geopolitical disruptions contributed to higher oil prices and greater volatility.

Despite the elevation in commodity prices, global inflation moderated somewhat with headline inflation in advanced economies averaging 6.4 per cent in 2023, down from 7.8 per cent in 2022.

Core inflation, maintained some stickiness due to wage pressures and structural supply bottlenecks. Inflation in EMDEs remained more volatile, driven primarily by currency depreciations and higher import prices.

Central banks globally continued aggressive monetary policies to combat inflation. The U.S. Federal Reserve maintained rates at 5.25 per cent, the European Central Bank at 4.0 per cent, and other advanced economies followed similar paths. These high policy rates have contributed to the lowering of domestic demand, leading to an expected reduction in global growth from 3.6 per cent in 2022 to 3.2 per cent in 2023. Consequently, the IMF projects a slower recovery in 2024.

Climate and Cyber Risks

Climate Disruptions

The frequency and severity of climate events intensified in 2023, with floods, droughts, and storms causing an estimated US$345 billion in economic damages globally. These disruptions strained food supply chains and heightened food insecurity in low-income countries. This was evidenced by the decline in the FAO Food Price Index to 118.5 at the end of December 2023. These climatic events would have also led to rising reinsurance costs for property insurers in the Caribbean – and by extension the ECCU. Reinsurance costs are expected to increase in 2023 and into 2024 given the increased risks of natural disasters in the Atlantic Basin during the North Atlantic Hurricane Season. Consequently, property insurance costs are expected to remain elevated and may potentially contribute to a higher share of uninsured assets within the ECCU.

Cybersecurity Threats

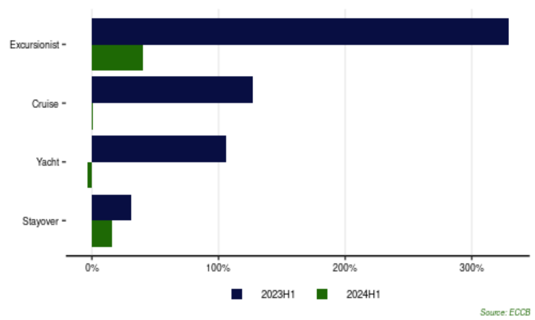
The global financial sector saw a 30.0 per cent increase in cyberattacks, with ransomware incidents rising sharply. Further, weak cybersecurity frameworks in EMDEs exacerbated risks, threatening the stability of critical financial infrastructure.

ECCU Economic Developments Macroeconomic Growth

Following a robust post-pandemic recovery, regional economic activity expanded at a moderate pace in the first half of 2024. This slowdown was broad-based but was especially evident in tourism and other services, which had previously benefitted from strong pent-up demand immediately after the post-pandemic reopening. Several member countries maintained a strong pace of growth, driven by factors such as new hotel openings, the celebration of milestone festivals, greater air connectivity, and the ICC T20 World Cup that contributed to sustained economic activity.

There was a slowdown in the growth of total visitor arrivals with a notable moderation across visitor segments. Total arrivals increased by 4.8 per cent, relative to the robust growth rates observed in 2023 during which the sector benefitted from global pent-up demand **(**Figure 1**)**. High demand, combined with continued investments by international hotel brands and in cruise ports, have contributed significantly to the recovery in regional economic activity following the pandemic.

Figure 1: ECCU Tourist Arrivals

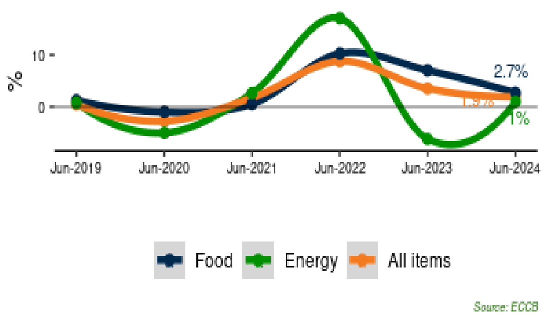


Despite the recent deceleration, the number of stayover arrivals in the first half of 2024 has now surpassed its comparative 2019 level and secured its recovery from the pandemic. The number of stayover arrivals in the first half of the year increased by 7.0 per cent compared to the comparative period in 2019, but 15.6 per cent higher than its level in the previous year. This expansion was facilitated by resilient economic activity in the USA in the first half. The recovery of the other visitors' segments was mixed with yachting segment showing the slowest growth from its pre-pandemic level (Figure 1).

Inflation

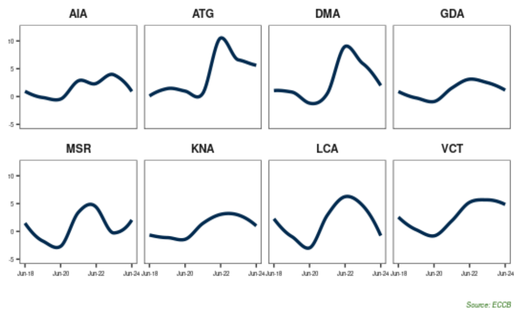
Disinflationary trends continued across the ECCU, mirroring the deceleration in the US and other advanced economies. Consumer price inflation in the ECCU eased to 1.9 per cent in the twelve months to June 2024 from 3.5 per cent in the year ended June 2023 (Figure 2). The disinflationary trend was primarily due to lower food prices although rising fuel costs partially offset this downward trend. Food price inflation slowed to 2.7 per cent compared to a rate of 7.0 per cent at the end of June 2023. Food price inflation eased as the food index declined from its peak in immediate aftermath of the Ukraine war. During the period, crude oil prices were volatile, driven by heightened geopolitical tensions, production cuts by the OPEC+, and episodes of weakening global demand, particularly in China, where growth remained modest.

Figure 2: ECCU Inflation and Sub-Indices



The extent of price easing was broad-based across member countries with a few exceptions. While six of the countries experienced a more prominent moderation in inflation, Antigua and Barbuda and Montserrat were two notable exceptions, where average inflation rates were higher relative to the rates of the previous period (see Figure 3).

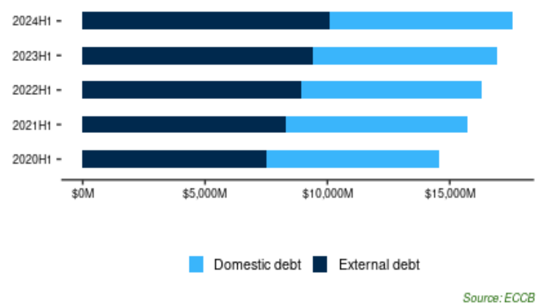
Figure 3: Headline Inflation by ECCU Member Country



Debt

The deterioration in fiscal balances led to an increase in the ECCU's aggregated stock of public debt (Figure 4). Outstanding public sector debt stood at $17,567.6m as at end-June 2024, a 3.6 per cent increase from the end of June 2023 and negligible 0.1 per cent from end of December 2023. Of this total, external debt rose by 7.5 per cent from one year ago to $10,089.3m, while domestic debt declined slightly by 1.2 per cent to $7,478.2m, primarily due to net payments to local suppliers.

Figure 4: ECCU Domestic Debt

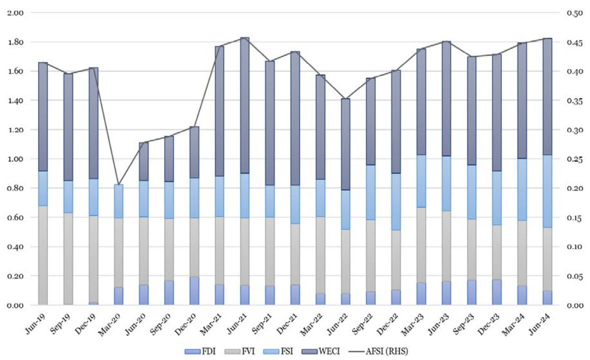


Risks and Vulnerabilities

During the 2023 - 2024 period, ECCU member countries faced several key risks and vulnerabilities. These risks included solvency risks, default risks, liquidity risks, cyber risks and climatic events. Despite these risks, and risk events, the financial system remained broadly resilient.

In examining the overall stability of the ECCU's financial system to these risks, it was noted that the Aggregate Financial Stability Index (AFSI) rose to 0.43 at the end of December 2023, and then to 0.46 at the end of June 2024, indicating improved broad financial stability in the ECCU (Figure 5).

Figure 5: ECCU Aggregate Financial Stability Index (2019 - 2024)



Solvency Risks

The capital adequacy ratio (16.8 per cent) and liquidity levels (55.7 per cent) for the financial sector remained well above the prudential benchmark of 8.0 per cent and 20.0 per cent respectively. The capital adequacy ratio among banks identified as systemically important (ten (10) as at 2023) was on average 10.3 percentage points above the prudential limit; up from the average of 9.5 percentage points in 2022.

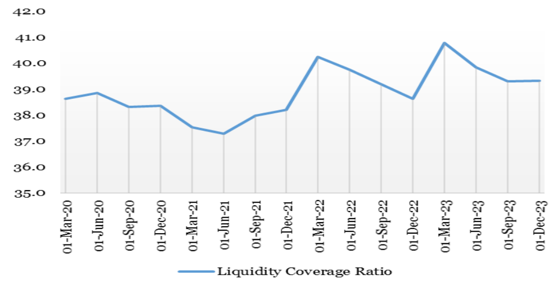
Default Risks

Credit risk remained relatively low across the commercial banking sector during the 2023 period. The NPL ratio, a proxy for credit risk in the ECCU declined slightly in 2023, despite the presence of elevated levels of NPLs in specific institutions.

Liquidity Risks

Liquidity risks in the ECCU continue to remain low, as commercial banks maintained high levels of liquidity, and economies continued their recovery from the COVID-19 pandemic.

Figure 6: ECCU Commercial Bank - Liquidity Coverage Ratio (2020 - 2023)



Source: ECCB

Liquidity in the ECCU banking system, proxied by the liquidity coverage ratio, rose to 39.3 per cent at the end of December 2023 from 38.6 per cent at the end of December 2022 (Figure 6). This points to the presence of adequate liquidity buffers to support banking system activity.

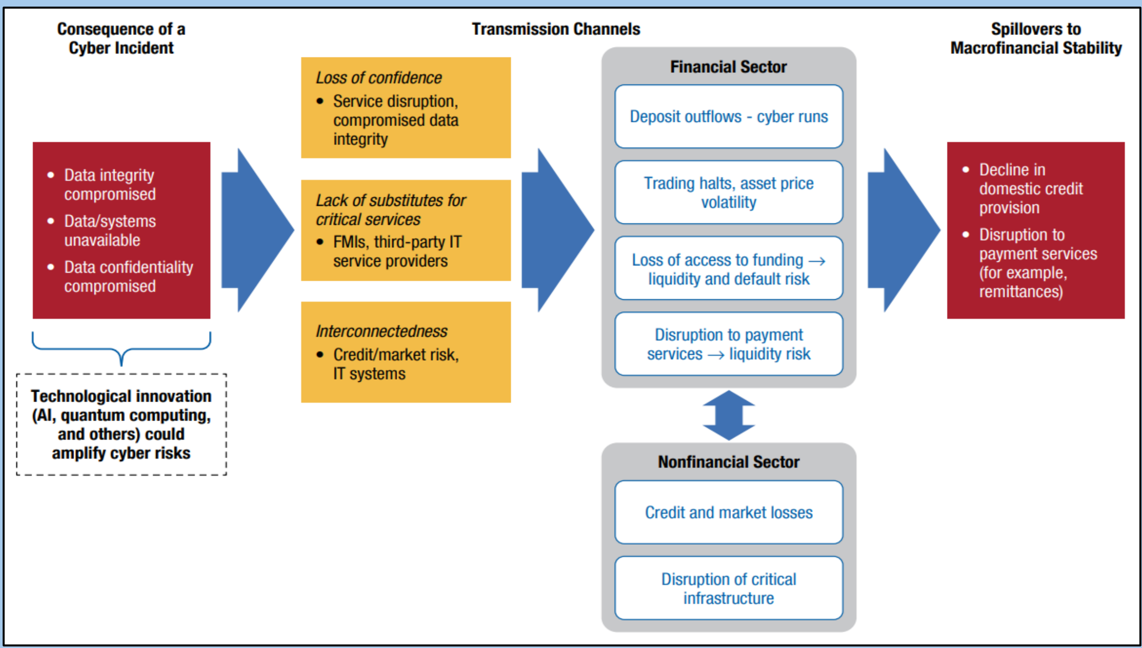
Box 1: Cyber Risks and Financial Stability: A Critical Nexus

Cyber risks have emerged as a significant threat to financial stability, increasingly recognised by major institutions such as the International Monetary Fund (IMF), the European Central Bank (ECB), and academic researchers. These risks, which stem from malicious cyberattacks, data breaches, and system vulnerabilities, have profound implications for financial institutions and broader economic systems.

Financial Stability Channels and Cyber Risks

Cyber risks have grown in tandem with the digitalisation of financial services, as institutions integrate advanced technologies like cloud computing, artificial intelligence, and block-chain. The IMF highlights in its Global Financial Stability Report (2023) that cyberattacks on financial institutions have increased by 30 per cent annually over the past five years, with ransomware incidents and data breaches being the most prevalent forms of attacks. The Financial Stability Review also warns that cyber incidents have become more sophisticated, targeting not only individual institutions but entire financial networks, potentially triggering systemic disruptions.

Figure 7: Transmission Channels for Cyber Risks



Cyberattacks can disrupt the core operations of financial institutions, including payment systems, trading platforms, and data management. A significant example is the 2016 Bangladesh Bank heist, where hackers stole $81 million by exploiting vulnerabilities in the SWIFT interbank messaging system. Such incidents expose operational fragility and can undermine trust in the financial system.

Cyberattacks on interconnected institutions can lead to cascading failures across the financial ecosystem. The ECB identifies payment systems and central clearinghouses as critical nodes susceptible to contagion. A targeted attack on these hubs could halt liquidity flows, amplifying systemic risks. Repeated cyber incidents can erode public confidence in financial institutions, leading to panic withdrawals and liquidity crises.

According to academic research by Kaffenberger and others (2020), even small-scale cyber incidents can generate disproportionate market reactions, with adverse effects on equity prices and interbank lending. Financial institutions face increasing regulatory scrutiny following cyber incidents, resulting in higher compliance costs. The General Data Protection Regulation (GDPR) in the European Union imposes heavy fines for data breaches, further straining institutions already impacted by cyberattacks.

The Role of Policy and Regulation

Central banks and financial regulators are taking steps to address cyber risks. The ECB has implemented the Threat Intelligence-Based Ethical Red Teaming framework (TIBER-EU), a programme designed to test the cyber resilience of financial institutions through simulated attacks. Similarly, the IMF underscores the importance of global coordination in its 2022 publication Cyber Risk Surveillance: A Framework for Financial Stability. Globally, the Basel Committee on Banking Supervision (BCBS) has issued principles on operational resilience, urging institutions to adopt robust cybersecurity measures. Researchers such as Gleeson and Steinhardt (2021) however, caution that regulatory measures often lag behind the evolving nature of cyber threats.

Strengthening Resilience

Financial institutions are prioritising investments in cybersecurity, such as adopting AI-driven threat detection systems and enhancing employee training, to mitigate cyber risks. Public-private partnerships are also critical. The ECB, as an example, collaborates with private banks to share threat intelligence, promoting a unified response to cyberattacks. Additionally, stress-testing frameworks that incorporate cyber risk scenarios are gaining traction. The U.S. Federal Reserve's recent initiatives to integrate cyber resilience into financial stability assessments highlight the need for forward-looking approaches.

Conclusion

Cyber risks represent a growing and multifaceted threat to financial stability. The IMF, ECB, and academic experts emphasise that mitigating these risks requires robust regulatory frameworks, international collaboration, and technological innovation. By strengthening resilience, the financial system can better withstand the complex challenges posed by an increasingly digital and interconnected world.

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Cyber Risks in the ECCU

Several cyber risk events were recorded between January 2023 and March 2024. Licensed financial institutions (LFIs) within the Eastern Caribbean Currency Union (ECCU), including commercial banks and one credit union were affected by a series of cyber incidents. These events continue to underscore the increasingly dynamic and sophisticated nature of the cyber threat landscape, with cyber actors leveraging different tactics to exploit potential vulnerabilities in financial systems. Despite these cyber risk events the ECCU's financial system remained broadly stable.

Cyber risk incidents involved network disruptions, data breaches, and phishing attacks. These events led to disruptions to websites, email servers and online banking services and raised concerns of potential data breaches. In another case, there were breaches of a third-party vendor that led to the exposure of data related to a financial institution.

In addition to this, there were phishing attacks targeting customers of two commercial banks which led to the compromise of online banking accounts and fraudulent transactions, with reported financial losses estimated at EC$765,000 or higher. These attacks involved credential theft rather than direct breaches of the banks' systems, reflecting the need for strengthened customer-focused security measures.

Incidents related to financial market infrastructure (FMI) during the period were primarily operational in nature, and were connected to system errors, network disruptions, and configuration issues rather than cyber risk events. Among LFIs subjected to IT examinations, 35.7 per cent reported having invested in cyber insurance, signalling growing recognition of the need for financial safeguards against cyber risks.

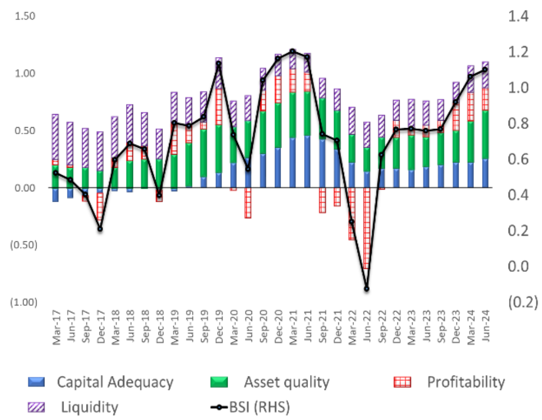
Chapter 2

ECCU Bank and Near-Bank Financial Institutions

The Commercial Banking Sector

The commercial banking sector remained stable in 2023, with adequate levels of capital, and liquidity, and lower credit risk. The ECCU Banking Stability Index (BSI)[1] which is used to assess overall stability of the financial system, improved in 2023 compared with 2022 (Figure 8), and continued improving into the first half of 2024. This continued improvement signals increased banking sector resilience. Additionally, all the sub-indices registered improvement (Figure 8). This indicator becomes even more important as the ECCU's banking sector is regulated under an augmented Basel II/III framework as at June 2024.

Figure 8: ECCU Banking Stability Index



Source: ECCB

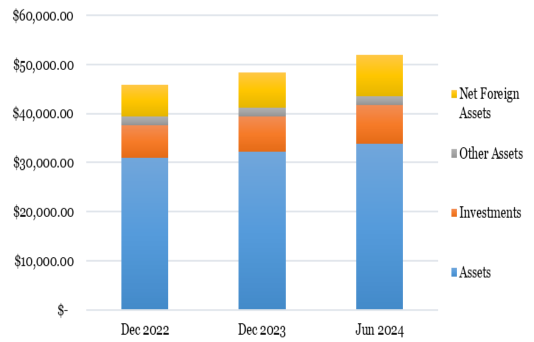
The financial position of commercial banks expanded in 2023 relative to 2022, amid improvements in the domestic and global economies. Total assets of the banking sector grew at a faster pace in 2023 (3.7 per cent) to EC$32.2 billion compared with 2022 (2.7 per cent) or EC$31.1 billion and accounted for 192.2 per cent of GDP in 2023 (slightly down from 193.5 per cent in 2022). The growth in commercial bank assets was mainly driven by expansions in foreign assets (5.4 per cent), and loans and advances (3.3 per cent). Additionally, total assets expanded to EC$33.8 billion in June 2024 when compared with its December 2023 value.

Loans and Advances continued to be the dominant banking asset, accounting for 43.9 per cent (EC$14.9 billion) of the share of total assets – slightly down from 44.3 per cent (EC$14.3 billion) of the share of assets in 2023, and from 44.5 in 2022 (Figure 9). Conversely, investments continue to increase in their importance as a key source of income for the banking sector. This is evident by modest growth in the share of investments to total assets over time relative to the share of loans (Figure 10). With the higher levels of investments and the regulatory shift from Basel I to an augmented Basel

[1] The BSI is a weighted composite index constructed using a combination of financial soundness indicators namely asset quality, liquidity, capital adequacy and profitability (ROA).

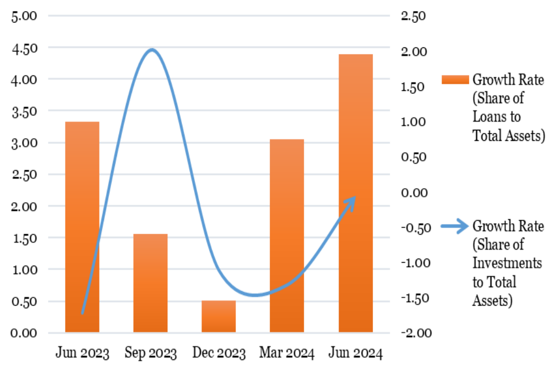
II/III framework, market risk emanating from these portfolios are likely to have a direct impact on capital positions, provisioning and the overall soundness and stability of the financial system.

Figure 9: Asset composition of the Banking Sector (in per cent)



Source: ECCB

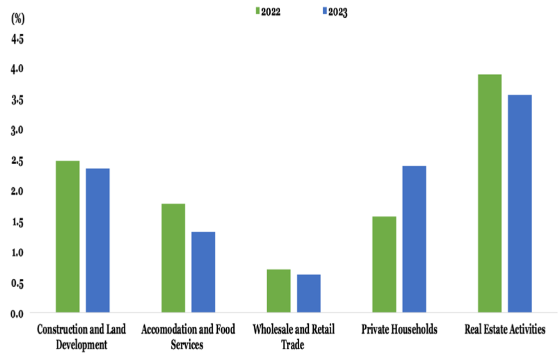
Figure 10: Rate of Growth in the Share of Loans and Investments to Total Assets



Source: ECCB

The NPL ratio decreased from 11.9 per cent in 2022 to 11.2 per cent in 2023; implying a slight decline in credit risk. Declines in the NPL ratio were evident for all major economic sectors except households (Figure 11).

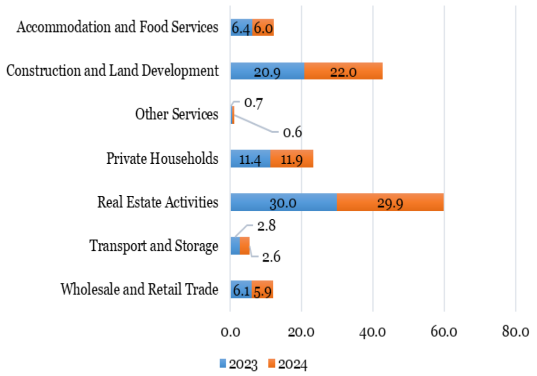
Figure 11: NPL ratio by Sector (in per cent)



Source: ECCB

Credit growth to the household sector increased while credit extended to other major sectors declined. Loans and advances to the private sector grew by EC$0.4 million (3.3 per cent) in 2023, while credit to the public sector rose by EC$0.1 million. The increase in lending to the private sector was mainly driven by credit to households for real estate activities. This was likely a consequence of declining inflationary pressures on real income and the rebound in tourism-related services. Meanwhile, credit to other sectors declined relative to 2022; likely a result of commercial banks' decreased appetite for granting long-term loans amid uncertainty about global economic growth prospects (Figure 12).

Figure 12: Sectoral Distribution of Loans to the Private Sector



Source: ECCB

Private sector loans continue to be driven mainly by real estate activities and construction and land development in 2024, similarly to 2023 (Figure 12). In the period ended June 2024, credit extended to the real estate sector expanded in all subsectors except non-house purchases when compared to the previous period (Figure 13).

A country-by-country analysis shows that the growth of the ECCU's real estate sector is largely credited to a boom of house purchases in Antigua and Barbuda (14) and St. Kitts and Nevis (12) (Figure 14 and Figure 15), which are likely associated with housing initiatives sponsored by their respective governments.

Figure 13: Real Estate Loans issued in the ECCU

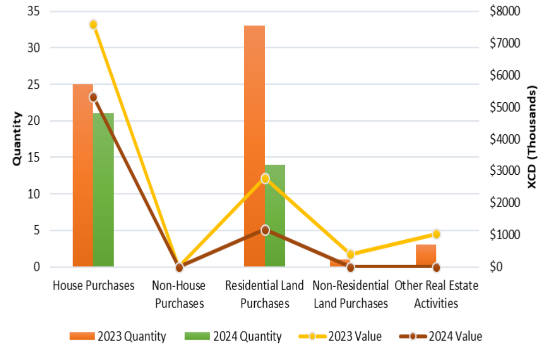


Figure 14: Credit Extended for Real Estate Activities (Antigua and Barbuda)

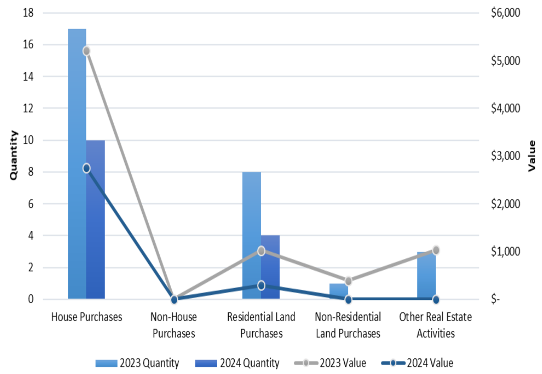
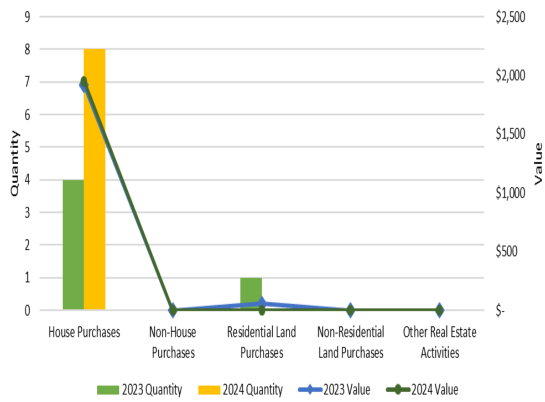


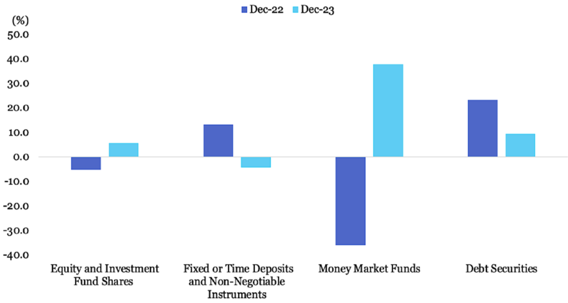
Figure 15: Credit Extended for Real Estate Activities (Saint Kitts and Nevis)



Source: ECCB

The investment portfolio of the banking sector contracted. Investment grew at a rate of 9.2 per cent in 2023, slower than in 2022 (11.7 per cent). The slowdown was largely driven by declines in the growth rate of debt securities, and fixed/time deposits and non-negotiable instruments (Figure 16).

Figure 16: Change in Investment by Type (in per cent)



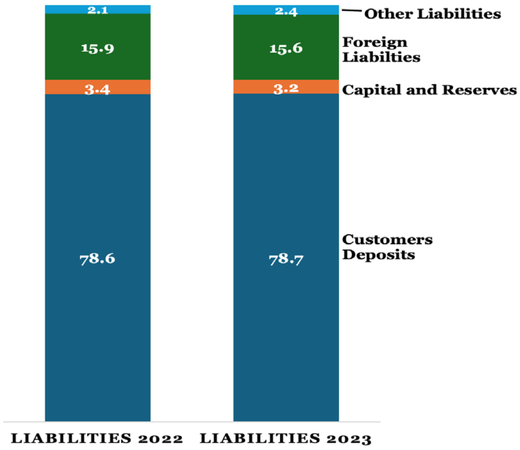
Source: ECCB

The slower rate of growth in debt securities, which accounted for the largest portion of the investment portfolio of the banking sector (70.7 per in 2023, slightly up from 70.5 per cent in 2022), was largely evident in declines in holdings of government securities including treasury bills, and corporate bonds.

Total corporate bonds, which comprise the largest share of debt securities, grew by 13.0 per cent in 2023, down from 27.9 per cent in 2022. The slowdown in the pace of growth was mainly reflected in US bond holdings, indicating reduced exposure to the US market.

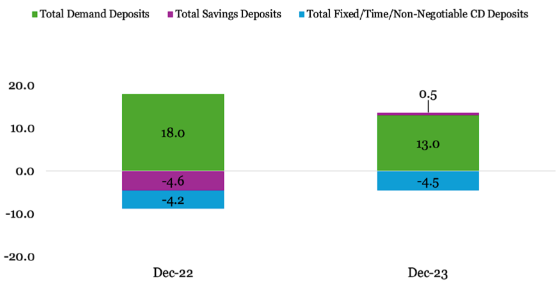
Deposits increased during 2023. Deposits grew at a faster rate in 2023 (3.9 per cent compared with 3.1 per cent in 2022) and remained the primary funding source for the banking sector (78.7 per cent of total liabilities in 2023, slightly up from 78.6 per cent in 2022) (Figure 17). Private sector deposits increased by 4.5 per cent in 2023, up from 2.3 per cent in 2022. The increase was driven by savings deposits, which rose by 0.5 per cent after falling by 4.6 per cent in 2022.

Figure 17: Liabilities Composition of the Banking Sector (in per cent)



Source: ECCB

Figure 18: Change in Commercial Banking Deposits by Type (in per cent)

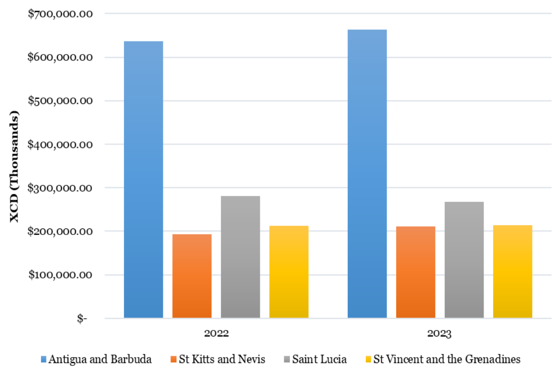


Source: ECCB

Licensed Non-Bank Financial Institutions

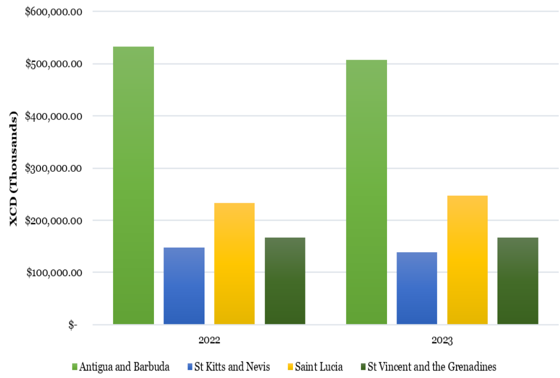
The licensed non-bank financial institutions within the ECCU were broadly stable in 2023. Total assets of these firms in 2022 were estimated at EC$1.36 billion in 2023, a marginal increase of EC$34.5 million over the year. Growth in the asset base of these institutions were driven primarily by an increase in assets in Antigua and Barbuda (EC$26.9 million) and offset by a decline in assets of EC$12.2 million in Saint Lucia (Figure 19).

Figure 19: Total Assets of ECCU Licensed Non-Bank Financial Institutions (2022 and 2023)



In contrast, total deposits of licensed non-bank financial institutions declined by EC$21.1 million to EC$1.1 billion in 2023. This decline in deposits was driven mainly by firms in Antigua and Barbuda, and offset by deposit increases in Saint Lucia (Figure 20).

Figure 20: Total Deposits of ECCU Licensed Non-Bank Financial Institutions (2022 and 2023)



Payment & Settlements System

The ECCU's payment and settlement system continues to function effectively and was assessed as safe and stable. During 2023 all market participants in both the ECACH (for settlement of retail payments) and RTGS (for settlement of large payment transactions) systems facilitated the clearance and settlement of financial services in a timely manner. The smooth and stable operation of the payment and settlement system continued despite a 36.0 per cent (191) increase in volume and 38.9 per cent (0.14m) increase in value of reported cases of fraud compared to the previous quarter.

The total volume of transaction on the RTGS system increased in 2023 (44,067 compared with 41,977) though the value of the transactions were lower than in 2022 ($15.8m in 2023 compared with $16.0m in 2022). MT103 recorded the highest volume transaction while MT202 recorded the highest transaction value.

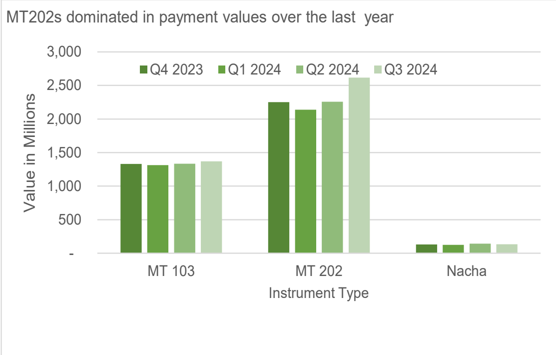
Regarding the ECACH system, the volume and value of Electronic Fund Transfers (EFTs) decreased in 2023 relative to 2022 and declines in the value of cheques processed by the ECACH.

Further assessments of the payment and settlement system showed that during the first nine months of 2024 all market participants in both the Eastern Caribbean Automated Clearing House (ECACH) which is used for the settlement of retail payments and RTGS were judged as adequate relative to the regular transaction processing needs of the system participants.

The total volume of transactions on the RTGS System decreased by approximately 2.8 per cent or 10,025 to 9,740 payments, over Q3 2023. Single Customer Credit Transfers (MT 103), the dominant payment type processed in the RTGS System, decreased by 1.2 per cent over the prior quarter (Figure 21).

A total of 5,792 MT 103 payments, valued at EC$1.4 billion was processed and Interbank Transfers (MT 202) recorded a total of 777 payments, valued at EC$2.6 billion. When compared to the corresponding period in 2023 the RTGS System recorded a slight contraction of 1.4 per cent (144) in the volume of payments processed.

Figure 21: Payments by Instrument Type in the ECCU (Q4 2023 - Q3 2024)

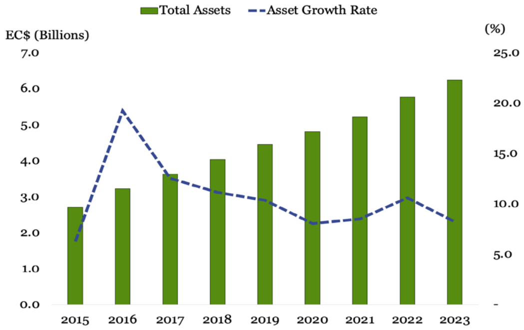


Regarding the ECACH system, the number of transactions processed through the ECACH was 1,514,763 and valued at EC$7.5 billion in 2024. This represented a 3.1 per cent (48,976) decrease in transaction volume and a 1.4 per cent (EC$78.4m) increase in value compared to corresponding period in 2023. Cheques and EFT transaction volumes and values respectively, indicate that both the number and value of cheques remained relatively unchanged in the period while the volume of EFT transactions increased in June 2024 by 10.8 per cent (69,816), indicative of increased market acceptance.

The Credit Union Sector

The credit union sector expanded in 2023. Total assets increased in 2023, albeit at a slower rate of growth, following the trend of previous years (Figure 22). Assets rose by 7.6 per cent to EC$6.2 billion in 2023 when compared with growth of 10.6 per cent in 2022. (Figure 22).

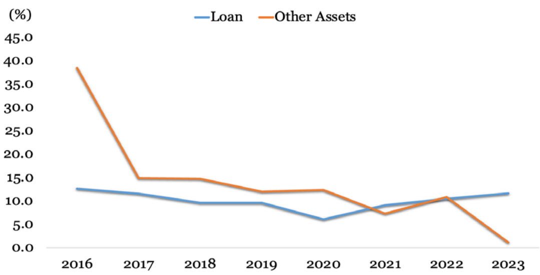
Figure 22: Trends in Credit Union Sector Assets



Source: SRUs

The slower growth in assets was driven by assets other than mortgage loans, which grew by 1.2 per cent in 2023 after growing by 10.2 per cent in 2022 (Figure 22).

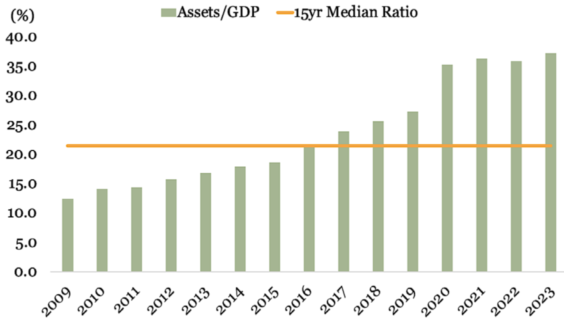
Figure 23: Growth in Credit Union Sector Assets by Type



Source: SRUs

Despite the slowdown, asset contribution to GDP continued to rise. Credit union assets as a percentage of GDP rose slightly in 2023 relative to 2022 (37.2 per cent to GDP, up from 35.9 per cent in 2022), but grew at a faster rate than its 15-year median percentage contribution to GDP (21.5 per cent) (Figure 23). The continued growth in the asset contribution to GDP signifies that the sector plays a significant role in the domestic macroeconomy.

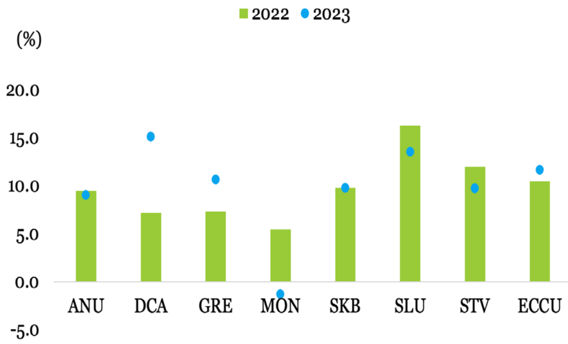
Figure 24: Credit Union Sector Total Assets as a Percentage of GDP



Source: SRUs

Lending to the private sector particularly for non-mortgage related purposes, continued to drive loan growth. Loans to the private sector by credit unions grew by 11.6 per cent to EC$4.3 billion, up from 10.5 per cent in 2022. The growth in loans was evident in two of the countries (Figure 24).

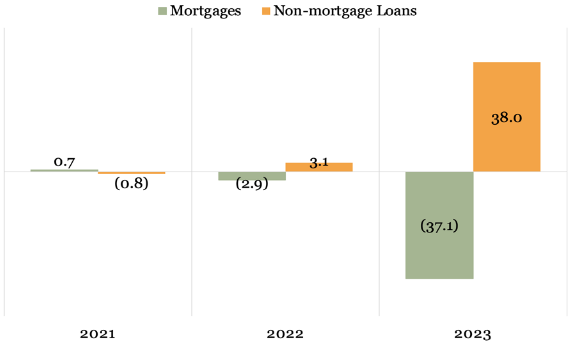
Figure 25: Credit Union Sector Loan Growth by Country



Source: SRUs

Most of the loan growth in 2023 was influenced by non-mortgage loans which grew significantly faster than in 2022 (38.8 per cent in 2023 compared with 3.1 per cent in 2022) (Figure 25). Meanwhile credit union exposure to mortgage loans declined; continuing the trend observed in 2022.

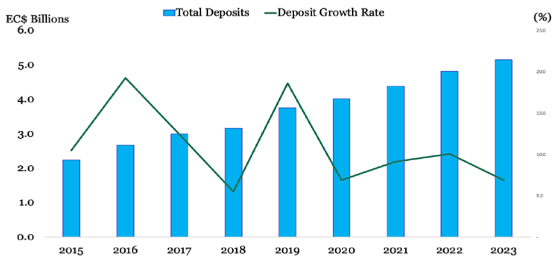
Figure 26: Growth of the Credit Union Sector Loan Composition by Category (in per cent)



Source: SRUs

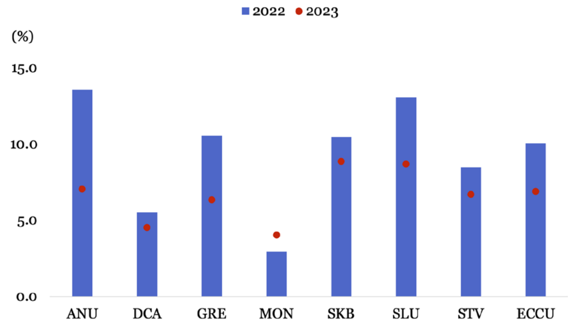
Despite a slowdown in growth, deposits remained the primary source of funding for the credit union sector. Deposits grew at a slower pace in 2023 (6.9 per cent) relative to 2022 (10.6 per cent) (Figure 27). Nevertheless, the value of deposits in 2023 was higher than in 2022 (EC$5.2 billion in 2023 compared with EC$4.8 billion in 2022) (Figure 27). The deposit growth rate slowed in all countries except Montserrat (Figure 28).

Figure 27: Trends in Credit Union Sector Deposits



Source: SRUs

Figure 28: Growth rate of Credit Union Sector Deposits by Country

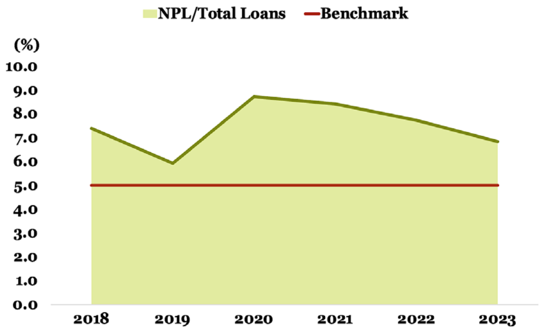


Source: SRUs

Credit risk as proxied by the NPL ratio (delinquencies) declined in 2023 but remains a major risk for the credit union sector. The ratio of non-performing loans to total loans (NPL ratio) registered a lower rate in 2023 (6.8 per cent) compared with 2022 (7.7 per cent). This continued the decline observed in 2021 following the rate of 8.7 posted in 2020 during the coronavirus pandemic. Despite the decline, the ratio remains above the 5.0 per cent prudential benchmark (Figure 29).

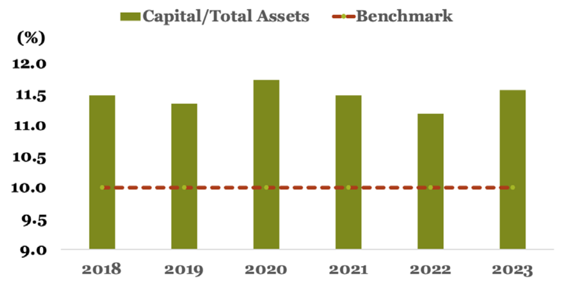
Under the PEARLS regulatory regime, the capital position of the credit union sector was adequate. Capital adequacy, namely institutional capital to total assets, was above the benchmark (10.0 per cent) in 2023, and 0.4 percentage points higher than in 2022 (Figure 30).

Figure 29: Trend in the Credit Union Sector Non-Performing Loan Ratio



Source: SRUs

Figure 30: Trend in the Credit Union Sector Capital Position



Source: SRUs

Chapter 3

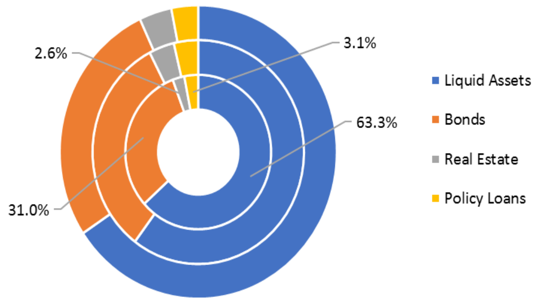
Non-Bank Financial Institutions

The Insurance Sector

The insurance sector in the ECCU remained broadly stable under the Solvency I framework. This stability in the insurance sector is driven primarily by improving underwriting profitability in the life insurance segment of the industry, increasing investment income, and improving capital to total assets ratios.

With the strengthening of economic activity in the ECCU, the insurance sector recorded marginally higher levels of liquidity and lower levels of gross premiums written. Insurance sector claims are estimated to have grown at a slower pace in 2023 and matched by lower levels of net premiums which elevated underwriting expenditure in the industry and lowered the expense ratio and increased the combined ratio in the industry. The sector remains stable and sound as it continues to maintain sufficient liquid assets in the industry – which increased to 29.4 per cent in 2023. Moreover, the exposure of the insurance industry to government instruments declined to EC$892.1m from EC$970.5m in 2022. Further, real estate portfolio exposure is estimated to have decline in 2023 (Figure 31).

Figure 31: Asset Composition of the Insurance Industry in the ECCU



Gross premiums in the ECCU insurance industry grew at a slower pace in 2023 relative to previous years[2]. At the end of 2023, premiums written were estimated at EC$674.9m. This lower level of premiums written were reflected across the life, non-life and composite lines of business. The decline was steepest on the life insurance segment - owing mainly to a reduction in the life insurance business segment in Saint Lucia during 2023 (Figure 32).

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Figure 32: Gross Premiums - ECCU Insurance Industry (2020 to 2023)

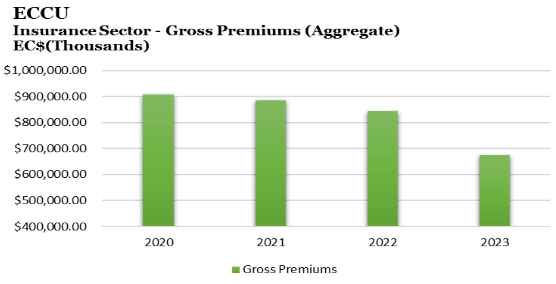
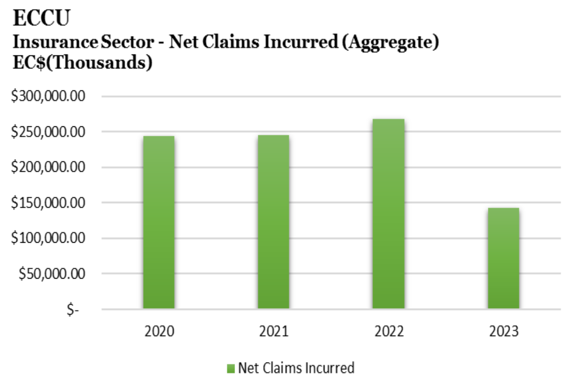
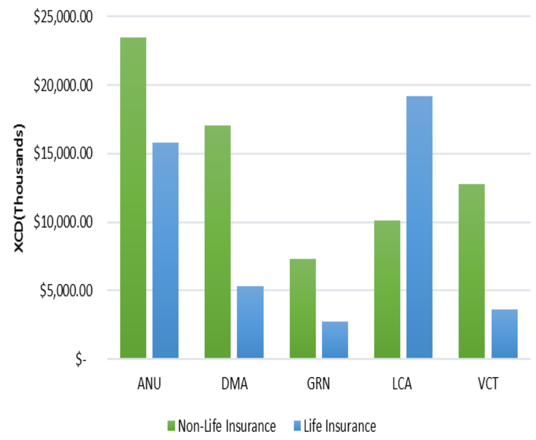


Figure 33: ECCU Insurance Sector – Net Claims Incurred (EC$ Thousands)



Similarly, net claims incurred for the industry fell to their lowest levels in four (4) years, with higher levels of underwriting expenses for the industry. Given the nature of the insurance market in the ECCU, claims are and remain primarily driven by activity in the non-life insurance segment (Figure 33). Claim expenses were especially elevated in Antigua and Barbuda and Dominica in 2023. These two countries recorded increased claims due to a trough system that affected both islands during the October/November 2022 period.

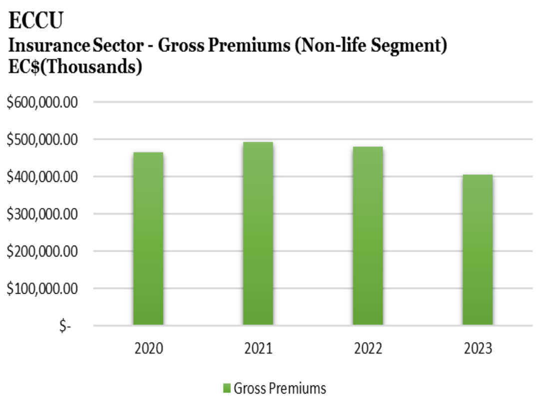
Figure 34: Net Claims Incurred by Country and Insurance Segment



Non-Life Insurance

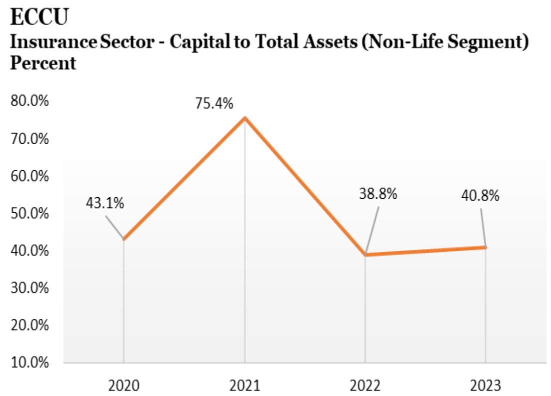
The non-life insurance segment of the industry is estimated to have recorded a decline in gross premiums written to EC$404.8m at the end of 2023 from EC$480.3m at the end of 2023 (Figure 35). Business performance maintained its general heterogeneity as seen in previous years. Increases in gross premiums written were recorded in Antigua and Barbuda, Dominica and Saint Vincent and the Grenadines.

Figure 35: Gross Premiums Written (EC$Thousands)



The heterogeneity in performance was also seen in the capital to total assets ratio in the various countries during the 2020 to 2023 period. Capital to Total Assets were elevated in Antigua and Barbuda (56.3 per cent) and Saint Vincent and the Grenadines (51.9 per cent) while levels were lower in Saint Lucia (36.6 per cent) and Grenada (14.7 per cent) (Figure 36).

Figure 36: Capital to Total Assets Ratio - 2020 to 2023



Risk retention ratios in the ECCU were estimated to have declined to 36.0 per cent in 2023 from 45.0 per cent in 2022, as non-life insurance companies ceded more risks to reinsurers during 2023. Risk retention ratios varied across ECCU member countries, with the highest ratio being recorded in Saint Lucia (46.2 per cent), and the lowest being recorded in Antigua and Barbuda (27.1 per cent) (Figure 37).

Figure 37: Non-Life Insurance - Risk Retention Ratio (2020 to 2023)

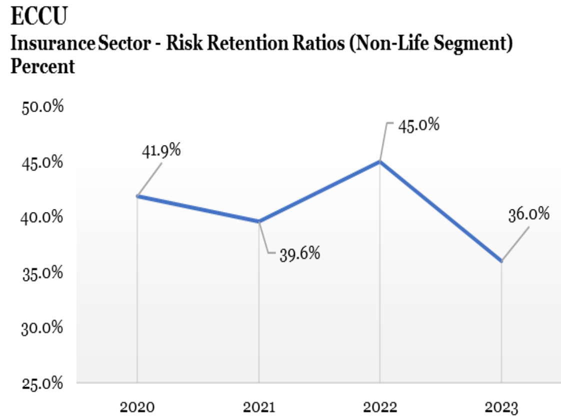
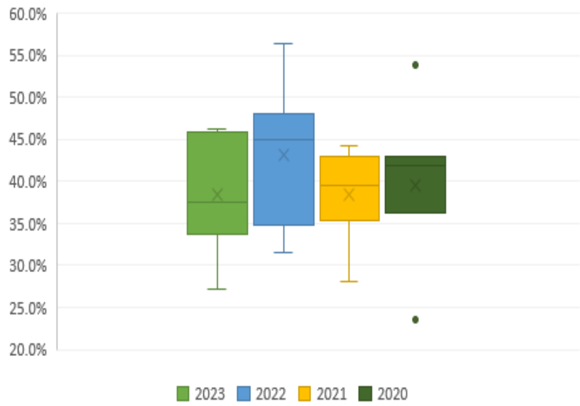
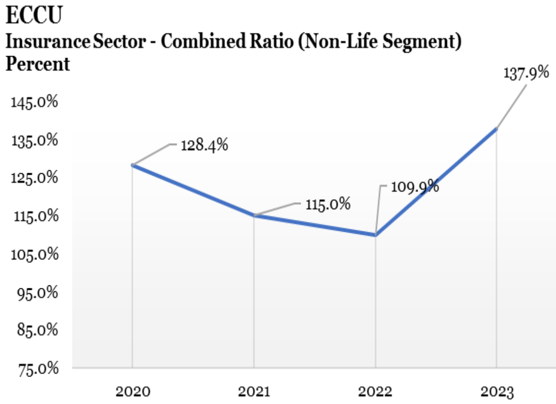


Figure 38: Distribution of Risk Retention Ratios in the ECCU (2020 - 2023) - Non-Life Insurance Segment



The combined ratio for the non-life insurance segment increased to 137.9 per cent pointing to lower levels of underwriting profitability. This decline in profitability was driven primarily by higher expenses in most ECCU countries including, Antigua and Barbuda and Dominica at the end of December 2023 (Figure 39).

Figure 39: Combined Ratio (Non-Life Insurance) - 2020 to 2023

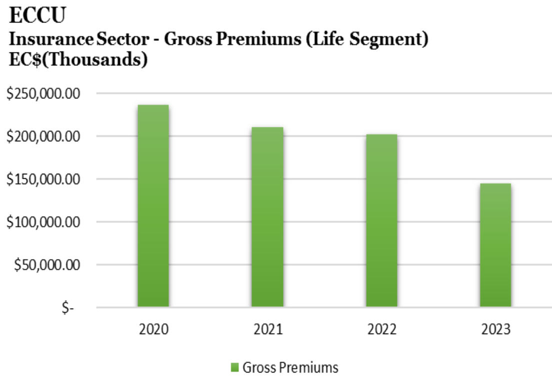


Liquidity within the non-life insurance segment remained strong at the end of December 2023, with both the liquid assets to technical reserves ratio and the liquid assets to current liabilities ratio estimated at 173.0 percent and 162.0 percent respectively. A high liquid asset to technical reserves ratio across the ECCU, indicates that firms have sufficient assets that can be sold to meet claims when they arise.

Life Insurance

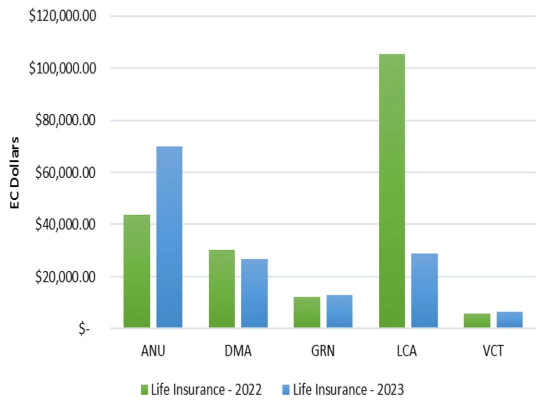
Gross premiums written for the life insurance segment of the insurance industry, declined to EC$144.9m at the end of December 2023, when compared with EC$201.9m at the end of December 2022 (Figure 40).

Figure 40: ECCU Life Insurance - Gross Premiums, 2020 to 2023



The declines in premium written was driven by weaker revenue in Saint Lucia and Dominica and offset by increases in Antigua and Barbuda and Grenada (Figure 41). Given the nature of the life insurance business, risk retention ratios in the ECCU averaged 95.1 percent over the 2023 and 2022 period. This indicates that life insurance companies in the region maintain a major portion of their risks on their balance sheets.

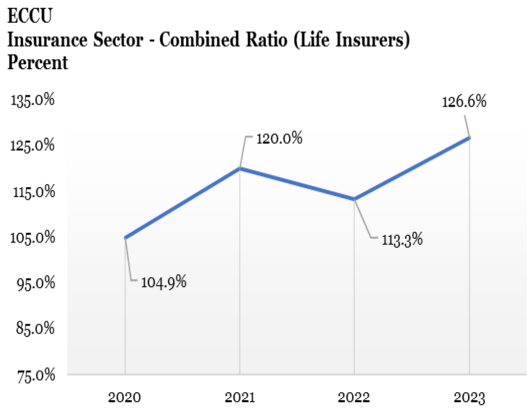
Figure 41: Gross Premiums for Life Insurance amongst selected ECCU Countries



Underwriting profitability remained robust as at the end of December 2023 when measured using the combined ratio – increasing to 126.6 per cent from

113.3 per cent in 2022. This change is reflective of lower net claims incurred during the 2023 and 2022 period (Figure 42).

Figure 42: Insurance - Combined Ratio (Life Insurers) - 2020 - 2023



Finally, liquidity in the life-insurance industry rose to 114.6 percent at the end of 2023 from 102.7 percent at the end of 2022. This higher level of liquidity is reflective of increased liquid assets in Antigua and Barbuda, Dominica and Saint Vincent and the Grenadines.

Chapter 4

Macroprudential Policy and Other Regulatory Developments

The Office of Financial Conduct and Inclusion (OFCI)

Financial Market Conduct (FMC) is the regulation of the business conduct of financial firms. The Eastern Caribbean Central Bank, in consideration of the increasing need to protect consumers from unscrupulous business practices by financial sector institutions', high and at times opaque fees, charges, and financial covenants, has proposed the development of the Office of Financial Conduct and Inclusion.

The Office of Financial Conduct and Inclusion (OFCI), will seek to establish clear rules/frameworks that govern engagement of financial firms with their customers. Additionally, the OFCI will:

1. Allow for the appropriate disclosure of information on products and services to the market;
2. Ensure that market participants are not subject of unfair business practices;
3. Provide access to mechanisms for dispute resolution and redress;
4. Build awareness and financial literacy;
5. Improve access to basic financial services, and
6. Maintain a competitive environment within the financial sector.

The proposed model of the OFCI envisions the establishment of this conduct authority within the ECCB featuring work streams for alternative dispute resolution and redress, policy development, financial literacy and examination of licensed financial institutions. It is expected that the OFCI will be established within the next 36 – 48 months.

Crisis Resolution Fund

Critical to maintaining financial stability and designing a macroprudential framework is a crisis resolution fund. In the design of a Crisis Resolution Fund, the core components should be structured on the areas of liquidity, solvency, and systemic stability.

The key components include the Funding Structure, which allows for **ex-ante contributions** from the financial sector and a **loss absorption** and **recapitalization mechanism,** which may include bail-In, equity support and liquidity support (if necessary). Additionally, bail-in provisions can be incorporated to ensure that shareholders and creditors bear losses before the fund is accessed. Further, as the fund and the financial system evolves it will become necessary to **identify eligible institutions** which may access the fund or categorize and differentiate the contributions of these institutions according to risk and size.

Additionally, the **target level of the fund** should be identified, either as a nominal value or a target level of covered deposits. It also becomes necessary to ensure that **resolution planning and oversight** is well executed and where possible cradled within a single independent institution or **well-coordinated with other regulators** with an appropriate **recoupment mechanism –** which ensures that the financial sector covers the cost of the resolution.

Microprudential Policy

Cyber Risks, Impact and Regulatory Response

The types and severity of these cyber incidents underscore the significant threats faced by the financial sector, impacting operations, reputation, and customer trust. Inadequate cyber resilience at key LFIs can erode consumer confidence in the broader financial system. Concerns include increasing threat actor sophistication; third-party risks as more institutions transition to outsourced services and cloud technologies; and limited cyber security skills at smaller LFIs.

The ECCB's Prudential Standard on Technology Risk Management for Institutions Licensed Under the Banking Act, 2015 (TRM Standard), which came into effect on 3 January 2023, aims to address these issues by enhancing cyber resilience through measures including threat monitoring, intelligence sharing, and robust risk management. Financial institutions should expect heightened regulatory scrutiny and enforcement for non-compliance or unpreparedness.

Although financial losses were limited in most cases, the incidents reveal vulnerabilities in the ECCU's financial sector, highlighting the urgency of enhancing cyber resilience. Regulatory authorities and LFIs must continue to remain vigilant, investing in advanced cybersecurity measures and fostering a culture of proactive risk management to mitigate emerging threats.