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The Role Of FINSAC

MANDATE:
FINSAC Limited was incorporated with a specific mandate from Government:

To resolve the problems of solvency and liquidity being experienced by the financial sector.

OBJECTIVES:
In pursuance of this mandate, FINSAC developed eight broad objectives to guide its activities. These objectives are as follows:

- � to protect the investments of policyholders, depositors and pensioners;
- � to restore liquidity and solvency to distressed institutions (in pursuit of the first objective);
- � to strengthen the financial management capability of intervened institutions;
- � to improve the efficiency of the sector in mobilizing and allocating financial resources;
- � to create an attractive environment for investors to recapitalise financial institutions;
- � to minimize moral hazard and promote prudent behaviour;
- � to promote strong corporate governance, managerial accountability and shareholder oversight;
- � to strengthen the sector through the establishment of appropriate institutional frameworks and regulatory structures.

In pursuit of these objectives, FINSAC was established with the following Terms of Reference, Financing and Exit Strategy (These are based on a Budget Presentation made by the Minister of Finance and Planning on March 27, 1997):

TERMS OF REFERENCE:

1. FINSAC serves as the vehicle through which realignment and restructuring of the financial sector will take place.
2. FINSAC serves as the executive arm of the Ministry of Finance and Planning in which Government strategy will be planned and through which the interventions of various agencies (specifically the Bank of Jamaica (BOJ) and the Superintendent of Insurance) will be co-ordinated.

3. Through FINSAC, the Government will provide financial assistance to the sector and, therefore, FINSAC will have the accountability for the spending of such resources provided to it directly or guaranteed by the Government.

4. Through FINSAC, the Government will provide guidance and technical assistance to the financial sector. It may mobilize and deploy external technical and managerial support for the restructuring of intervened institutions.

5. FINSAC will sponsor and/or undertake diagnostic studies of the overall health of the financial sector with specific focus on the institutions which require assistance.

6. FINSAC will assist institutions in developing workout plans, where necessary, to return them to viability. Such plans will form the basis for the conditions which FINSAC will attach to financial assistance. FINSAC will monitor the implementation of such plans on a continuing basis and will evaluate their effectiveness in achieving their specified objectives. It will inform and co-ordinate the inputs of FINSAC's board members of intervened institutions on issues considered essential to the viability of the financial sector.

7. Based on the experience gained in its work, FINSAC will advise the Government on the prudential regulation of the sector and on the renewal, suspension and revocation of operating charters of individual institutions within the sector.

FINANCING OF FINSAC

FINSAC was initially financed by the Government through borrowing in the domestic market from funds raised through the sale of long-term registered stock and through government-guaranteed facilities from the Bank of Jamaica out of certain sterilized government deposits.

Since then, FINSAC has funded its intervention through the issue of FINSAC notes guaranteed by the Government.

FINSAC's debt servicing will be offset by the proceeds from the liquidation of assets, including real estate, recoveries against non-performing loans acquired from the financial institutions and disposal proceeds of rehabilitated banking and insurance institutions.

It is anticipated that there will be a funding gap which is not yet quantifiable. The Government of Jamaica backs FINSAC notes; accordingly this shortfall will be funded by government.

EXIT STRATEGY FOR FINSAC:

FINSAC is expected to have an active life of about five to seven years. Support is provided to companies on the basis of rehabilitation plans to be implemented over five years. Interventions leading to the temporary acquisition of institutions will be short-lived. All the necessary interventions took place within the first 12 to 18 months of FINSAC's existence. Components which could be restored to viability was rehabilitated and returned to private ownership within the shortest possible time, while other components are being liquidated or sold for merger with other institutions.

After the initial period of intervention, implementation and rehabilitation activities, the role of FINSAC will be narrowed to primarily supervision and monitoring of work-out plans of institutions that have been financially assisted by FINSAC and the management of the investment portfolio arising out of assistance activities. Supervision and monitoring should end in six years as the workout plans are completed. By year seven, FINSAC's only responsibility is expected to be the collection of repayments from assisted institutions.

NEXT **Finsac Strategic Workplan**

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