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### **STATEMENT BY THE HON. DR. OMAR DAVIES, MINISTER OF FINANCE AT THE PRESS CONFERENCE HELD AT THE MINISTRY OF FINANCE AND PLANNING ON FRIDAY, 14 MARCH 1997**

I have asked members of the media to attend this briefing for two reasons. First, I want to share with you, a number of initiatives which are being taken to deal with some of the areas in the financial sector which are in need of improvement and second, I want to update you on recent developments at FINSAC (The Financial Sector Adjustment Company), the Government agency specifically designed to bolster the financial sector.

Before doing so, however, I acknowledge that the issue of Century National Bank is very much at the forefront of people's minds.

You will recall that, at the time of the supplementary estimates debate, I stated that once there was a determination on the ownership of the Jamaica Grande, a scheme of arrangement would be proposed to the court to allow for an improved payout to CFE creditors. As you are aware, the court ruled that the shares in the Jamaica Grande, one of the major assets of the Century group, was indeed owned by the Century National Bank.

The Government is now in a position to approach the court to establish a scheme of arrangement which would assist the depositors and the unsecured creditors to maximize the recovery of the balances owed to them by the CFEs. We shall thereafter be processing the invitations in order to select the best one.

We have taken the decision to go this route because we are anxious to ensure the highest payouts to CFE's creditors in the shortest possible time, and to reduce the short-term demand for public sector resources. I want to assure depositors that once we receive the proposals and the best one has been selected, it will be presented to the court which will then order us to convene a meeting of the creditors. If the creditors approve the scheme of arrangement, the court will sanction the scheme.

Turning now to FINSAC. That organization is ably represented here today by its Chairman, Dr. Gladstone Bonnick, who is a well-known Jamaican public servant. I am sure that there are a lot of questions in your minds about what FINSAC has been doing since it started operations. The short answer is... a great deal. The longer and more detailed answer will be given to you by Dr. Bonnick.

A board of highly competent and independent-minded professionals has been assembled to guide FINSAC's operations. The members are:

- Dr. Bonnick, Chairman
- The Governor of the Bank of Jamaica, Mr. Derick Latibeaudiere - Deputy Chairman

- Financial Secretary, the Hon. Shirley Tyndall
- The Hon. David Coore, a distinguished Attorney-at-Law and former Minister of Government
- Mr. Wilberne Persaud, Senior Lecturer of Economics at the University of the West Indies
- Trade Unionist, Mr. Lascelles Perry
- The Deputy Governor of the Bank of Jamaica with responsibility for financial institutions supervision, Mrs Audrey Anderson
- Mr. Patrick Hylton, Managing Director of Financial Institutions Services Ltd.
- Mr. Dennis Boothe, Managing Director, FINSAC
- Mr. Wayne Whittingham, Company Secretary

FINSAC is an essential part of the Government's response to the issues that have been concerning the financial sector. You will recall that recently, representatives of some of the major life insurance companies approached the Government for assistance to strengthen the insurance industry. These companies are all conglomerates, and it was Government's view that if these issues were not addressed, the entire financial sector would be held back.

Further, although we were initially concerned with certain issues in the insurance industry, it soon became clear that we would also need to widen the scope of our attention, to deal with the banking sector as well, in view of the interlocking nature of the two sectors.

Government was faced with three options:

- It could take the position that market forces should be allowed to take its course and that the issues with which we are grappling are entirely due to bad management and should therefore be ignored by Government.
- It could provide liquidity support on a company by company basis over the short-term.
- It could take a comprehensive approach involving financial assistance, restructuring of companies and introduction of new management, together with appropriate regulatory legislation.

Our decision to take a comprehensive approach stemmed from the fact that historically, Jamaica's life insurance industry has played a pivotal role in capital formation. It has served as an invaluable vehicle for mobilizing long-term savings and contributing to national economic growth and development, through significant investments in various productive sectors, and in many and varied investment instruments.

Additionally, through its investment of the savings of shareholders, policyholders and pension funds which it manages on behalf of hundreds of thousands of clients, the industry holds a special place in the country's financial sector. A number of factors have, however, led to a growing mismatch

of assets and liabilities. Notwithstanding the situation, it is Government's policy to do what is necessary to protect the investments of our citizens.

It is for this reason that the Financial Sector Adjustment Company was established. FINSAC's primary objectives were to resolve the financial challenges which have held back the development of the banking and insurance companies operating in Jamaica.

FINSAC was also charged with enhancing the viability and profitability of the sector by restructuring the conglomerate and firms operating within it. It should also create a desirable environment for investors to recapitalize the institutions by keeping the public sector role to a minimum and of short duration.

I should note further that proposals to enhance the prudential and legal framework to more effectively monitor the financial sector are presently being developed. The organizations responsible for carrying out bank supervision and insurance supervision are being looked at with a view to making them even more effective in the tasks for which they are responsible.

As stated in the supplementary estimates, an amount of \$6.3B has been allocated to capitalize FINSAC, in order that it can carry out its most important work of stabilizing the financial sector.

I wish to state emphatically that the resources which are being made available to FINSAC are not a hand-out. As Dr. Bonnick will elaborate, each company will be required to enter into agreement with FINSAC which sets out prior action for qualification of assistance and specific conditions tied to disbursement.

FINSAC will work closely with the regulatory arms of Government - the Bank of Jamaica, the Superintendent of Insurance and the Securities Commission - to streamline the operations of the financial sector, in order to ensure its health.

I must also emphasize that some financial institutions are themselves undertaking, on their own initiative, extensive financial and managerial restructuring. Several have cut staff, reorganized systems and sharpened credit management.

In some cases, mergers have been or are about to be undertaken. This is a very encouraging trend, and it is our hope that the sector itself will maintain vigilance to ensure that it regains and maintains good health.

I now turn to the matter of the Eagle Financial Entities which, as everyone knows, have been the subject of much speculation over the past several weeks. Dr. Bonnick, in his remarks, will provide further details on the matter, but I wish to state at this point, that after long discussions between representatives of the Ministry of Finance, FINSAC and the Bank of Jamaica, on the one hand, and the principal shareholders in the Eagle network, on the other, an agreement has been reached and signed, whereby FINSAC will acquire the majority of shares in those entities.

The intention is that FINSAC would retain the shares only for as long as it takes to restore viability to the component entities that emerge after restructuring. It will, at that time, immediately sell its shares and cede control to the private sector and/or members of the public. This could occur as soon as private sector

interests can be identified which have the ability to recapitalize the various entities.

The Government of Jamaica recognizes that, apart from the financial support which is being provided to the Eagle Financial Entities through FINSAC, it is important that for the restoration of confidence, a management team of established excellence be given responsibility for the restructuring exercise which is necessary.

I am pleased to announce that the Government will be entering into an agreement with the Bank of Nova Scotia (BNS) of Canada to manage the Eagle Financial Entities and be in charge of the restructuring programme which will return them to economic viability in the context of the Government's explicit guarantee to depositors, policyholders and pensioners whose pension funds are managed by the group.

We have deliberately chosen BNS Canada, as that entity's track record, not only in terms of the performance of its subsidiary in Jamaica, but worldwide, demonstrates its eminent capability in financial management. The point to be made here is that all savers, depositors, policy holders or pensioners will be 100 per cent protected.

At this point, I want to raise the issue of Government's involvement in private sector activity, which I know has been engaging the minds of some people. I want to make it quite clear that we have not invited ourselves to be a player in this crucial sector. In every instance, we have either been invited to come in or, if we did not intervene, it would mean severe hardships for depositors and policyholders.

I can promise you categorically that the first indication we see that the institutions which have asked for our support are able to demonstrate that they have rectified the situation which led to our intervention, we want to make an exit.

Government is determined to ensure that the financial sector is healthy and stable. We are committed to working hand in hand with leaders of the sector to ensure this. We look to the future with a great deal of confidence.

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