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About Finsac...

Historical Background

In the early 1990s, dangerous symptoms of a possible collapse of Jamaica's financial system began to show themselves. Consequently in December 1992, new legislation was enacted to strengthen and restructure the country's banking and insurance industries.

But, with hindsight, it was "too little, too late", and the next five years saw the Government of Jamaica assuming management or control of a number of failed financial institutions notably the Blaise, Century and Eagle financial entities.

By late 1996, the Jamaican Government recognized that the whole indigenous financial system had reached a state of such considerable distress, that the investments of Jamaican depositors, policyholders and pensioners were now at risk. Urgent action needed to be taken.

The historical sources of the crisis can be summarized as follows:

- ❖ In the years surrounding independence, Jamaica's financial system was dominated by foreign-owned financial institutions operating with the prudential regulations and standards of their home countries.
- ❖ Specific Jamaican regulations and standards did not seem critical.
- ❖ Jamaicanisation of financial institutions in the 1960s and 1970s saw no new regulatory structures. As new managers took over, the old rules were soon abandoned.
- ❖ Changing market conditions in the 1980s saw the divestment of the state-owned National Commercial Bank, an opening up of the country to foreign capital, and a rapid proliferation of new financial institutions. These were often run by staff unaware of the need for proper risk management.
- ❖ A booming stock market, expansionary government policies and the issuing of high-interest debt securities, increased profitability but masked inherent weaknesses in Jamaica's financial sector.
- ❖ High inflation encouraged the overvaluation of real assets, especially property, which often served as a guarantee for bank loans.
- ❖ The high inflation consequently caused the Government of Jamaica to take anti-inflationary measures, which quickly exposed the sector's fundamental instability, as after inflation reached its peak, asset values plummeted.

It was against this background in mid 1996, that there arose a severe liquidity and solvency crisis in several large companies in Jamaica's insurance sector. The companies approached the Government for assistance.

The crisis was not confined to insurance companies. The banking industry was also ailing. This was largely because the insurance and banking sectors had, over the preceding years, become inextricably interconnected. Complexly structured conglomerates owned multiple financial institutions, as well as all types of other non-financial businesses. Banks, insurance companies and other enterprises were all linked together in a web of related party transactions.

The country's whole indigenous financial system was a weak and vulnerable "house of cards" ready to fall to the ground. To rescue the sector, and to provide a solid foundation for return to a healthy financial environment, an important new Government body was quickly formed.

On January 29, 1997, FINSAC Limited, (the Financial Sector Adjustment Company Limited) was established.

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